FAB Q1’22 Earnings Call Transcript*

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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 first quarter of 2022. The webcast today is hosted by our 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.

They're all here to answer your questions at the end of this presentation. Please note that all of our disclosures related to FAB's Q1 2022 financial results are available on the dedicated IR section of our website, as well as on the FAB IR app. So, without any further delay, I will now pass it on to James for the financial review.

James Burdett: Thank you Sofia, and good afternoon, everybody. Thank you for joining the call this afternoon. So as Sofia has said, I'll go through the slide deck fairly quickly as per usual, highlighting the salient points. And then we'll have plenty of time for Q&As at the end of the session. Starting off with the first slide, you can see from the results, it's a record performance, AED 5.1 billion net profit, up 107% over the prior comparative period. A very strong set of results.

The results were bolstered by the sale of the majority stake in Magnati at a AED 2.8 billion gain on sale. And clearly that's a significant part of our strategy around the payments business, and represents a milestone in the strategic execution of our payments business. It's a good deal, Brookfield is a great partner, and we're looking forward to growing that business with them over the next several years. Notwithstanding that and backing out the one-off event around Magnati, underlying performance is also showing strong growth, up 9% with growth across all sectors. In fact, when you look at loans up 6% or AED 24 billion quarter on quarter, it is record growth for us as an institution, and that's against, I think you'll appreciate, a volatile backdrop.

The fundamentals remain strong in terms of core equity tier one, NPL ratios, liquidity, and so on. And we are positioned well to capitalise on growth going forward into the next several quarters. The next slide, shows you the bridge of profit between Q1 2021 and Q1 2022, showing growth to AED 5.1 billion in Q1'22. And you can see that we've also put 6% growth on an underlying basis.

When you look at the breakdown of the numbers, you can see net interest income up 17% year on year, mainly due to balance sheet growth and the inclusion of Bank Audi Egypt (BAE), with the rate hikes to further bolster that as we go into quarters two, three, and four. Non-interest income is also up 17% over the prior comparative period, showing very strong growth despite the de-recognition of the Magnati fee income for the quarter versus last year. So, fee and commission growth are actually higher.

Obviously, all of this is offset by lower FX and investment income, which you would've seen come through our numbers. This is mainly on the back of the volatile environment, trading performance and global markets. The market reaction to the Ukraine/ Russia war, and what's happened to credit spreads and trading revenues, has obviously increased volatility in the first quarter. Costs are up 7% ex-BAE, but including BAE, it's up 15%, leading to the total of 5.1 AED billion.

The next slide just attempts to show you the same breakdown of revenue across the different business lines and taking each one in turn you can see good growth in investment banking on balance sheet, up 5%, good growth in fee income, but offset by reductions in FX and investment over the prior comparative period, showing negative growth year on year.

There was good growth in corporate and commercial banking, which was up 29% over the prior comparative period, with strong activity in terms of balance sheet growth up 9%, growth in fee business, growth in global market sales and so on. Consumer banking also showed good growth across the range of indicators, with the balance sheet up 3%, double digit growth on new mortgages, but credit cards and PILs (personal instalment loans) largely are down over the prior comparative period due to the de-recognition of the Magnati fee income.

When you look at the top right hand side, you can see that play through in the net interest income bridge, as well as the non-interest income bridge. On the next slide, which takes you through main movements in the balance sheet, you can see we had an outflow mainly in fixed term deposits. We did see a reasonably significant tightening in US dollar liquidity on the back of the Russia/Ukraine war and the resultant reaction from the markets.

We did see outflows from government, public sector entities, and corporates on the fixed term side, but that was significantly offset by growth in CASA, which was up AED 24 billion due to growth in new mandates, which was a good result from that perspective. In terms of deployment, you can see investment growth was flat, and most of it was deployed into loans, which were up, as I said before, a record AED 24 billion, or 6% year on year. That was funded through a reduction in balances at cash and central banks, which you can see are down AED 51 billion year on year, which led to a small deterioration in the liquidity coverage ratio from 134% to 120%.

Jumping to the next slide, just deep diving a little bit into net interest income. Interest income for the quarter was at AED 3.135 billion, up 17% over last year and 3% quarter on quarter, mainly due to volume growth and the inclusion of BAE. NIM is up 5 basis points. Again, this is mainly due to growth and BAE, and clearly we have tailwinds from the Fed rate hikes still to come through in the second, third, and fourth quarters. And as we said before, every 25 basis points creates just under AED 300 million for the bank.

Turning to the next slide, overall non-interest income is at AED 1.3 billion, down 22% year on year. You can see fee growth is 17% with strong activity across a range of businesses, loans, debt, equity and mortgages. But that was offset by a reduction in FX and investment income year on year, as well as quarter on quarter, where we had significant gains in Q4 2021. Other income is really just a movement related to a property transaction that we did in the first quarter of 2021, which obviously wasn't repeated in the first quarter of 2022.

Jumping to costs, which is the next slide, underlying costs are up 7%, and when you include BAE, they're up 15% to AED 1.5 billion. Cost-to-income ratio ex Magnati is 33%, and we expect that to moderate down to below 30% for the full year. Most of the cost increase is depreciation from continuing investments in backend systems and in digitization, as well as an uptick in sales costs as we continue to recruit talent.

On the next slide, you can see the cost of risk at 43 basis points was AED 557 million for the first quarter, down 3% on the prior comparative period, mainly due to an improvement in macro-economic factors. As you'll be well aware, we're expecting strong GDP growth from 2.5% last year to 4% this year, and we've got strong oil prices - all flowing through into our ECL model calculation. So total NPL's are at AED 17 billion, which equates to 3.8% NPL ratio, and coverage remains healthy at 98%.

Deep diving into capital adequacy, on the next slide. You can see capital with core equity tier one is back to 13%, post the dividend CET1 ratio of 12.4% at year-end, representing strong organic capital generation of 88 basis points, which is mainly from the first quarter profits. You can see a reasonable impact under other movements of 24 basis points that's driven by adverse movements in our AFS reserve. This is mainly due to credit spreads blowing out on our investment portfolio on the back of volatility relating to the Russia/Ukraine war. We expect that to come back as things moderate, but significantly above the regulatory minimum of 11%.

We're not seeking to change guidance at this stage, and will remain conservative. And as you know, we only change guidance at H1 if it's warranted. In terms of loan growth, you can see we've already hit the guidance we put out to the market, and I should reiterate that we have a very strong pipeline coming through. We're looking to keep cost of risk conservative at 80 basis points for now, despite the fact that at the first quarter we're at 43 basis points. We think it's wise to be prudent given the macro backdrop, the war and current volatility ,but we are looking to remain strong in terms of capital adequacy and provision coverage ratio.

So to sum up, we've had great results in the first quarter, and we have very strong revenue trends emerging, as well as strong year to date growth. I've said before, we also have a very strong pipeline coming through. Tailwinds from the Fed rate hikes are expected to pick up, depending on your view of how many hikes there will be in the third and fourth quarter. We forecast strong GDP growth, with a pipeline representing our traditional client base, government public sector GREs, as well as corporates, all pointing to very strong revenue growth going forward.

The balance sheet remains strong in terms of liquidity and capital. We're well positioned to capitalise on this growth, and we expect to continue to deliver returns for our shareholders and customers. With that, I'll hand over back to Sofia for Q&As, and we've got Rajesh and Pradeep here to help answer some of the questions you may have.

Sofia El Boury: Operator, over to you for Q&A's please.

Operator: Thank you. If you'd like to ask a question, you can press star one on your telephone key pads. If you'd like to withdraw your question, you may press star two. Please ensure you're unmuted locally when asking your question. Our first question for today comes from Waleed Mohsin from Goldman Sachs. Waleed, your line is now open.

Waleed Mohsin: Yes, thank you so much. Good afternoon and thank you for the presentation. Three questions from my side. First, I'm very excited to see the strong loan growth and I wanted to get your thoughts on the very strong pipeline you mentioned. If you could talk about which particular sectors are driving this demand, and in terms of the 6% sequential growth that you've achieved, are there any parts which you think are less sticky or one-offs? You did mention IPO-related financing as one, but also wanted to get a sense of how sticky some of the short-term trade-related funding is, as well as what's driving the other FI funding? So that's the first question on loan growth.

Secondly, if you could please clarify the fee income trends excluding Magnati on the sequential basis, given that you've had substantial loan growth. So, I just would be curious to hear what kind of underlying core growth you see on the fee income line.

And my third question is on your strategy. If you could talk a little bit about the roadblocks to the EFG Hermes transaction that you were looking at, what prompted you to pull out? And what's going to be the inorganic strategy given that this didn't go through?

James Burdett: Thank you Waleed. So look, in terms of loan growth, yes, we have a very strong pipeline. There was a small element of IPO-related exposure that'll disappear, but it's relatively immaterial in terms of the overall growth. And as I said before, the pipeline is mainly our traditional client base - the government, the GREs, public sector, and some of the larger corporates. In fact, it's very, very strong, so we're now looking at how we optimise RWAs in other parts of our balance sheet where the returns are perhaps suboptimal to accommodate this growth. That's how strong it is. I don't have anything to add on the sector.

In terms of fee income, yes, we had 17% growth over the prior comparative period. And once you back out the Magnati transaction, obviously the trend is even more positive. We're seeing double digit pick-up in activity across a range of products. For example, in consumer banking, we are growing at double digit growth in mortgages, new card origination, and PILs. We've grown the balance sheet nearly 5%. All of that's going to lead to an uptick in fee generation going into the next several quarters.

A lot of that growth did originate towards the end of March, and as you would've imagined, some of the growth in January and February was a bit sluggish because of what happened in terms of the war and the volatility that ensued. But, it's looking very strong going into future quarters and yes, with EFG Hermes, we withdrew for a number of reasons. From a balance sheet perspective, it had a very, very small impact on us financially. We're still very much committed to the Egyptian market, it's a great returning market for us.

We've got a fantastic deal with the inclusion of BAE, and we are continually examining new M&A opportunities. So you can never say never, and we'll be looking out for opportunities as and when they come along. But you'll know very well that any M&A type deal is a hard one to get over the line, because it's got to be in line with strategy and it's got to settle all sorts of criteria. And so, the probability of any of these working out is usually very small. Does that cover your questions?

Waleed Mohsin: Yes, thank you much. That does.

Operator: Thank you. Our next question comes from Naresh Bilandani from JP Morgan. Naresh, your line is now open.

Naresh Bilandani: Hi, good afternoon. It's Naresh Bilandani from JP Morgan. Thank you for taking my questions. Three questions, please. One is, would you be able to please talk about your views on the asset quality risks as we go further into the year? I'm looking at your core guidance, the cost of risk guidance, which is still looking relatively conservative compared to the run rate that you've enjoyed at least in the first quarter. So any thoughts there would be very helpful.

My second question is on Magnati. Could you please share some thoughts on the sale of the controlling stake in Magnati? I'm just keen to understand the reasoning behind the sale of control. It would also be very helpful if you can please just guide us on the transaction multiples like the implied EV to EBITDA or P/E or any kind of guidance that helps us put this in context.

And my third and final question is on the investments gain. Once again, it would be very helpful if you can please share some thoughts and outlook there given the sway it typically has on the revenues on the bottom line. And the fact that the consensus in this quarter is coming mainly from this line, thank you.

Pradeep Rana: Okay. Hi, Naresh, this is Pradeep. With respect to your question on asset quality and the cost of risk, as you know, our cost of risk did fall to 43 basis points for this quarter. Let's look at the numeric rate for this. First of all, we were looking at improvement in the MEV's, we're also seeing an improvement in the economy and the quality of the book. Couple that with the denominator, where we did see a 6% growth in our loan book, and that's the reason why we came in at 43 basis points.

In terms of looking forward, look there are a number of unprecedented risks in the global economy at the moment, with challenges mounting day by day, high inflation, rising interest rates, China slowdown, supply chain issues, and the war in the Ukraine. This could translate into dramatic swings both on the credit side and on the market risk side over the next few quarters. And it's because of that, that we are taking a fairly conservative view.

Therefore, our guidance for the cost of risk for the remainder of the year will stay at around 80 basis points. But overall, I would say we are talking about a sweet spot of around 60 to 70. I think that's where I would be looking at. In terms of our asset quality of our books, we don't have any major concerns on our stage two portfolio, and we remain cautious and continue to monitor key accounts if there are going to be certain signs of distress.

Naresh Bilandani: Got it. Thank you.

James Burdett: Thanks, Pradeep. To your second question on Magnati. Look, it's a fantastic deal we struck, significantly higher than most of the market players out there at the moment. As you know, the business is roughly valued at just over a billion dollars, we've kept the 40% stake, and that's now an investment in our books, which you'll see come through in our financials, and we recorded a fairly significant gain.

On the rationale of 60% to Brookfield, they are a strong international player and they've got a significant track record of value creation. We're looking to work with them to really grow this business and accelerate the growth strategically, potentially leading to a listing in the future and consolidating other pay-cos. The rationale was to go on with a private equity player like Brookfield who, perhaps it could be argued, are more nimble on their feet, less bureaucratic than a bank, and can move much quicker in terms of capturing market opportunities.

We're very, very comfortable with them as a partner and very comfortable with the strategy that we have going forward. And just to give you an idea of how fast this business is growing, we've got 96% growth in new acquired clients, 37% growth in volumes, huge growth multiples coming out of that business, so, very attractive for us. And I think the synergies between us and our customers and Brookfield and their international and global connections can really help us accelerate that business.

Lastly, on the FX and investment income. The main reduction was actually in global markets trading revenue, which was down very substantially over the first quarter last year, and the fourth quarter last year. And really it was all about positioning for the Ukraine/Russia war, and as you know, FX and investment income are volatile by nature, you don't always get it right. As we said last year, there was an element of significant one-offs. But I did say that we expected the levels to be much higher than they were in 2020, for example. And we do expect that these levels should be much higher going into the second, third, fourth quarter, but I think it's worth just reiterating the point that, by its very nature, FX and trading revenues are volatile.

Naresh Bilandani: Got it. Okay. James, sorry, a quick follow up. My apologies. Since I asked on the transaction multiples, I'm just keen to understand, is there anything that I have missed in the public disclosures which will allow me to calculate or help me calculate the implied P/E or EV/EBITDA? I just want to ensure that I haven't missed out anything.

James Burdett: No, there's nothing there that gives you that information. And it's obviously confidential between us and Magnati shareholders, but in the fullness of time, more information will become available.

Naresh Bilandani: Sounds good. Thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, you can press star one on your telephone key pads. You can also type your question into the chat box function. Our next question for today comes from Shabbir Malik from EFG Hermes. Shabbir, your line is now open.

Shabbir Malik: Thank you very much. My first question is on your deposit growth. Historically, when oil prices have been high, we've seen a large influx of deposits for the bank. We haven't seen those for you to date. I think in fact, quarter on quarter deposits was slightly down. Is that something that we can expect to come going forwards? That's my first question.

My second question is related to your answer where you basically said you expect a strong pipeline from government,GRE and the public sector. Do you see a risk, given that the government or the public sector's liquidity situation is perhaps much better now than let's say when oil was at $40 or $50 a barrel? They could be looking to repay some of the working capital loans or may not be that keen to borrow from the banking sector? And also given that the UAE is, I think, starting to issue bonds that could also provide them an alternative channel for funding. So, do you see any risk to loan growth because of either the higher oil prices or because of the government issuing bonds instead of bilateral borrowing from the banks?

And finally, in terms of fee income and costs, I think you've indicated that fee income was down sequentially because of the Magnati effect. Is it safe to assume that the Q1 2022 fee income is going to be a sustainable level or a level on which you can grow on in the coming quarters? And same for costs, which were up compared to last year. I think you made a point that going forward you'll see probably less depreciation, but you'll see probably higher staff costs. So how should we think about the absolute cost levels for the remainder of this year? Thank you.

James Burdett: Okay, so to your first question on government deposits, as I've said before, we only behavioralise a relatively small percentage of the government deposits as long-term liquidity, and so as the government deposits ebb and flow, based on oil prices movements and volatility, essentially it just balances at the central bank. So, when you see those deposits go out, you see the central bank reduce and vice versa. So, no real impact from a liquidity or funding perspective, or a cost perspective.

In terms of loan risk, no, we don't see any risk from government issuing bonds. The pipeline is strong, it's well diversified. It's not solely government, it's also public sector, GREs and corporates, so, very strong demand right across the board, and I think the diversification angle helps us there.

In terms of fee income, yes, the first quarter is a good base from which to operate growth from because it excludes the impact of Magnati, and as I said before, the balance sheet growth happened towards the end of

March. We have a strong pipeline going forward, so I think it is a good base to project some form of growth from.

And from a cost perspective, we sense that costs will be broadly flat to the first quarter going forward, maybe with a little bit of an uptick, depending on when the various projects that we have in play close, and then we will start to depreciate, but obviously there'll be ebbs and flows in terms of staff costs. We're looking to selectively import talent across the bank, and so, roughly the same level or may be up a little bit going into future quarters.

Shabbir Malik: Okay, thank you.

Operator: Thank you. Our next question comes from Aybek Islamov from HSBC. Aybek, your line is now open.

Aybek Islamov: Yes, thank you for taking my questions. And thank you for the conference call. I had a few questions to ask you. Firstly, I'm curious how often can you review your macro assumptions? I guess you're not the only bank which reviewed macro assumptions and had a positive impact on the cost of risk this quarter in the UAE. That's my first question.

Secondly, I wanted to ask you about the composition of your risk-rated assets in the first quarter. How much was the market risk? Is it the same or similar level to the end of last year? And I think thirdly, what are your intentions about future exits or spinoffs of other assets? I'm thinking about, for example, your stake in the digital bank, and are you reviewing your balance sheet for non-core assets that you can kind of spinoff and optimise your position? These are the questions for now. Thanks.

James Burdett: Pradeep will take the first question, I'll take the next two.

Pradeep Rana: With respect to the MEVs, we continue to update the macro-economic variables regularly for our IFRS models, and we've been doing this since September 2020. Our next update will be in April, followed by July and then September.

James Burdett: To your question on RWAs, if you look at slide 12, I think it is, bottom right-hand side, you can see the composition of credit-risk weighted assets versus market-risk and operational-risk. You can see most of the growth between December and March was credit-risk asset growth on the back of strong lending growth as we spoke about before.

And then I think your last question was around acquisition or divestment. At any point in time, we have a number of deals that we're evaluating in terms of both acquisition and divestment, if you like. We have nothing concrete to disclose at this stage, and even if we did have something, we couldn't disclose it, but we never say never. If a deal makes sense to us, we'll evaluate it professionally and execute it professionally.

Aybek Islamov: Thank you. Can I ask one follow-up question? When I look at the quarterly results what strikes me is that other competitors are talking about repayment risk from the public sector. Whereas in case of FAB, it's a completely opposite picture. How would you comment on this? What's your view on this sector overall? And what is your unique position with regards to public sector loans? If I put it that way, your guidance is quite optimistic, and Q1 is very impressive.

James Burdett: We remain optimistic and we have a strong pipeline. Of course, we have repayments coming through, but the drawdowns are significantly higher than the repayments. And what differentiates us from our competitors is our deep and strong relationship in Abu Dhabi with multiple businesses doing a lot of investing activity, both here and abroad. That coupled with our international footprint puts us in an enviable position versus our competitors. Remember we are by far and away the largest corporate bank or investment bank, if you like. Some of the other banks are more reliant on retail growth, which is slow compared to some of the chunky deals we can do in the investment banking space.

Aybek Islamov: Thank you.

Operator: Thank you. Our next question comes from Rahul Bajaj from Citi Bank. Rahul, your line is now open.

Rahul Bajaj: Hey, this is Rahul Bajaj from Citi. Thanks for taking my question. Two quick questions from my side. The first one is just to trend on the balance sheet and the mix of the balance sheet. I see that your cash at central bank has reduced quite drastically quarter on quarter, and that has basically gone into the loan book, while your assets have remained largely flat and slightly down actually quarter on quarter. So, just wanted to understand, was that a conscious decision to move cash from central bank towards the loan book? And, is this something you want to do in the future as well? And, what kind of implications are there in terms of margins or other aspects from such a strategy? So, that's my first question.

The second one is on Magnati again, just thinking about Q2 and onwards. Should we think about Magnati, the profits from Magnati, being reported in a separate line as an associate income going forward? Your 40% stake, or how will the accounting work going forward? Thank you.

James Burdett: First of all, your question on liquidity. So, it's a complex thing to talk about because we have to follow the central bank guidelines for liquidity coverage ratio, and net stable funding ratio. We attach different probabilities and weights in terms of long-term liquidity, depending on the historical volatility of the deposit. So, as I said, in the previous answer to the previous question, if we get volatile deposits on the back of volatile oil prices, because we only behavioralise a relatively small part of that for longer term liquidity, what we see is essentially flows to and from the balances of central banks. And so, as we saw an outflow of deposits, government and so on, it really just came out of central bank. So, we're managing liquidity professionally, and obviously looking at it through the asset and liability management process.

In terms of Magnati yes, you're right. We do recognise the revenue and the cost, and going forward, we'll be showing it as an investment in associates at 40% coming through in one line in the balance sheet for future quarters.

Rahul Bajaj: Understood. Thank you.

Operator: Thank you. Our next question comes from Chander Kumar from Al Ramz Capital. Chander, your line is now open.

Chander Kumar: Hi, thank you for taking questions. I have a question regarding your deposit growth. We saw a massive growth in the cost of deposits over the past few years. So, I just wanted to check, is this the main reason for your decline in deposit growth, as your CASA deposit is restricting your world deposit growth? That's my first question.

And my second question is regarding trading gains. Trading gains has reduced in the first quarter of 2022 to AED 632 million from previous quarter of AED 2.7 million. So, this is I think, mainly due to the upward yield curve. So, can we expect further declines in trading due to further rises in interest rates, or is this a normalised level of trading gains? And that's my second question.

And the third question is regarding your Magnati business. You mentioned in your presentation that your Magnati business is affecting your credit card-related income. So, I just wanted to check the extent of that impact on your P&L. And my last question is regarding NIM guidance and LDR target, loan to deposit target. Thank you.

James Burdett: The answer to your first two questions are the same really. We saw significant market volatility in the first quarter as a result of the Russia/ Ukraine war, the noise around the Fed rate hikes, what's happened to equity markets and so on. And, we saw liquidity tightening on the back of that, particularly US dollar liquidity retreating back to the US. So, we did see an outflow in fixed-term deposits, as you would expect with the liquidity going back to the United States for safe haven status.

But, what we have seen offsetting that substantially is continued growth in our CASA products, which have grown steadily for the past several years, and are now at 52% of total deposits. They showed very strong growth quarter on quarter, which we're very pleased with. And, that's on the back of new cash mandates and significant investment in our payments and cash platforms.

Similarly on the trading gains, so, trading profits in global markets dealing room were down substantially in the first quarter versus the first quarter last year and the fourth quarter last year due to the volatility surrounding the war. And as I've said in the Q&A session earlier, we believe that the FX and investment income should be at a higher level, and it's more sustainable going forward at a higher level, but it's subject to volatility, and we saw that volatility come through in the first quarter.

Your question on Magnati was...

Chander Kumar: On Magnati, you mentioned in the presentation that the sale of the majority stake in Magnati is affecting your credit card-related income and non-interest income, so I just wanted to check the extent of that impact.

James Burdett: Now, if you read the statement carefully, you'll see that it's obviously impacted our fee income, but the credit card income is down as a separate issue because of higher reward costs plus the fact that we are looking to grow the credit card business substantially, so it's not linked to Magnati at all. And then your last question on NIM.

Chander Kumar: It was on loan to deposit.

James Burdett: Yeah, NIM guidance and loan deposit. We haven't put that guidance out there, but with the Fed rate hike coming through, we expect a reasonable pickup in net interest margin, depending on what your view is. As for advanced deposit ratio, it's a little bit of an outdated and antiquated metric. We're mainly looking at liquidity coverage ratio now and we're looking to maintain that at healthy levels.

Chander Kumar: Okay, so that means there's no specific target for loan to deposit? It was like 67%, now it's 72%, so are you comfortable with that?

James Burdett: No, it doesn't make sense for us because as I said before, we get big chunky inflows of deposits, which impact the advanced deposit ratio. For us, the main liquidity measure is liquidity coverage ratio.

Sofia El Boury: And Chander, we've never historically put out any guidance for loan to deposit ratio or NIM.

Chander Kumar: Fine, thank you.

Operator: Thank you. Our next question comes from Alay Patel from Barings. Alay, your line is now open.

Alay Patel: Yes, hi guys. Thanks for the call. Can I just ask firstly on Magnati, my understanding was that the valuation was around USD 1.15 billion. 60% of this would be around two and a half billion dirhams, and you've reported a gain of AED 2.8 billion. So, I'm just trying to understand what netbook value you put it at. Linked to this, will the cash proceeds from this come into Q2, and does this have any impact on your dividend policy? You've obviously paid a scrip in 2021, so especially on your earlier comments on the strong credit pipeline, what is the bank's policy of paying cash versus scrip? I'll stop there for now.

James Burdett: Thank you for those questions. So, in terms of Magnati, yes, you're correct that the valuation is around USD 1.15 billion, and we've agreed to sell a 60% stake in it. You can see the 40% stake of Magnati is therefore valued at just under USD 400 million and now recorded as an investment in the associate. And, then what we do under the accounting regulation is take profits, and the valuation for that came out to USD 760 million, which is just around that AED 2.8 billion mark. So, we're just following the accounting standards for the fair value of the gain and sale in Magnati.

Your second question was around dividend policy. So, we've always maintained that we want to be a high dividend yield player, and obviously we don't disclose dividend policy up front because it's subject to a number of factors at year end, including core equity tier one, and the need to maintain our double A rating. Secondly, on what our growth aspirations are and so on. So, the guidance remains the same, subject to a number of criteria towards the end of the year.

Alay Patel: Can I just follow up on that? I mean, unless I'm getting my numbers wrong, that would imply that Magnati has been valued at zero netbook value and the AED 2.8 billion gain, is that going to be then the cash proceeds that comes next quarter or Q3?

James Burdett: Yes, in our books, it was essentially valued at zero, so when we sell it, obviously we recognise the gain. There is potential for upside recognition under the deferred earn-out structure we have with Brookfield upon achieving certain targets. So, there is a possibility of recognising more, and there's a very limited possibility of recognising less or reducing that figure because we set it at a very conservative level.

Alay Patel: Okay, thanks. And just the final question was on the rate sensitivity that you put in the presentation, this implies around 17 bps improvement in NIM looking at how it is moving and your comments on 52% CASA deposits. Does this seem reasonable to you, of course, it's going to be H2 tilted and I know you haven't put any guidance on NIM, but is that sort of reasonable, high teens?

James Burdett: Yes, that's reasonable. I mean the house view at the moment is five rate hikes. The market is anywhere between five and seven rate hikes. And if you do the math, which is reasonably easy, it translates at five rate hikes to roughly 15 to 17 basis point increase.

Alay Patel: Okay, thanks a lot.

Operator: Thank you. We have no further questions, so I'll hand the call back over to the management team.

Sofia El Boury: Okay, thank you. Thank you everyone for joining us today. If you have any further questions, please feel free to reach out to the IR team. You know how to reach us. And more importantly, please check all the disclosures on our website, it includes all our reports which have been published over the past couple of months, including the annual report, the corporate governance report, as well as our corporate ESG report. So, thank you all for joining us today.