FAB Q2/H1'2017 Earnings Call Transcript*

Co-hosted by Naresh Bilandani, J.P. Morgan
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FAB Speakers

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Bank of America Merrill Lynch

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Naresh Bilandani: Hi all, it's Naresh Bilandani from JP Morgan Equity Research in Dubai, and I welcome you all to the second quarter 2017 results call for First Abu Dhabi Bank. We have with us today James Burdett, the Group Chief Financial Officer, Karim Karoui, Group Head of Subsidiaries, Strategy and Transformation, and Sofia El Boury, Head of Investor Relations. I hope you all have the copy of the presentation, which is available on the bank's website. I will now pass the call onto Sofia to commence the presentation. Thanks.

Sofia El Boury: Thank you, Naresh, for the introduction. Good afternoon, good morning and thank you for joining us today to review FAB's financial performance for the second quarter and first half of 2017. On the call today, we have our Group Chief Financial Officer, James Burdett, our Group Chief Risk Officer, Abhijit Choudhury and our Group Head of Subsidiaries, Strategy and Transformation, Karim Karoui. They will respond to your questions at the end of this short presentation. As Naresh mentioned, the presentation we will be going through today is available on our merger microsite, www.bankfortheuae.com as well as on the IR section of our corporate website.

Before we start, I just would like to read out the first couple of paragraphs of the disclaimer that's on slide 2 of the earnings presentation, to clarify the basis of preparation of the investor relations presentation and our financial statements, so FAB's Pro forma consolidated financials as of 30th June 2017 serve as the main basis of reference for investor relations presentation and our management discussion and analysis report. FAB's reviewed consolidated interim financial statements as of 30th June 2017 are prepared on the basis that FGB and NBAD merger was declared effective on 1st April 2017 with FGB being the accounting acquirer as per IFRS 3. Therefore, these financials reflect consolidation of NBAD since 1st April 2017 only, while prior period comparative financial information relates to FGB. So for further information, please refer to the Business Combination note of the reviewed consolidated interim financial statements. So with this, I'll pass on to James for the presentation.

James Burdett: Hi, thank you, Sofia, and good afternoon everybody. What I thought I would do is take you quickly through the investor presentation page by page, skip you through some of the key points and then obviously we'll open the lines to Q&A. As Sofia mentioned, the reviewed accounts are very difficult to interpolate because of the accounting standards so all of our comments are based on the underlying financials based on pro forma. Just looking, for those who have the presentation in front of them, at slide 3, which is the key performance highlights, I just want to spend a little bit of time on this.

I think, you know, the performance overall is resilient in I guess what is softer economic conditions for the bank. We finished the half year 4% up over the prior comparative period at AED 5.5 billion and whilst we'll go into the revenue and balance sheet drivers in more detail, just to give you a quick snapshot, revenue was up 1% over the prior comparative period, but down QoQ, and you may remember that first quarter this year, we realised significant AFS gains, which is predominantly the reason for the drop over first quarter, as predicted. Also, in terms of costs, you can see that they're down 6% over the last year, as the synergies start to take hold, and we'll go through that in a little bit more detail, but significant upload on synergies.

Impairments lower as we tighten risk appetite and optimise balance sheet and overall, I think this has led to a reasonable result, particularly against the backdrop of the significant disruption that was the integration. Speaking of integration, we've achieved every single milestone that we put out to the market. Legal day one came and went on 2nd April and we've got our organisational structure down several layers beneath the CEO, significant synergies, as you'll see later on in the presentation. I think the critical part, which is IT, is going very well, so integration is on progress, the synergies are coming through as we predicted.

In terms of the balance sheet metrics, you'll see that liquidity remains very comfortable. The AD (loans to deposits) ratio's at 85%, our liquidity coverage ratio is at well above 100% so well positioned for strong liquidity, and overall, core equity tier one has strengthened significantly to 14.4%, so I think they're reasonable conditions given the circumstances. So where does that leave us, on page 4, against the original guidance that we've put out to you, the investors.

First of all, if you look at loan growth, there are several factors here that I think it's worth calling out right up front, so we put out single digit growth for the full year. The actual, for the half year, was -4%. I think there are several factors at play here. One, and the most significant, is the deliberate rundown of low yielding trade portfolio in our CIB business, which you'll see later on in the presentation, it has gone down by about AED 8 billion. This is, sort of, low ROE business that wasn't generating any ancillary wallet share so we deliberately ran that down. There's also a rundown of the old legacy and SME portfolio, which is deemed to be high yield but high risk and we're running that off as we tighten risk appetite and not replaced it, and overall, I think the economic conditions have led to lower demand. So all of those things have led to the fall off in balance sheet and we'll talk a little bit more about that later.

Looking at core revenue growth, headline growth is relatively stable, core revenue is down slightly, but you'll see when we put the guidance out, the revised guidance out, we're comfortable with headline revenue being broadly stable. Cost to income ratios come in below guidance range and we're optimistic that'll continue as the synergies take hold, and have performed better than guidance. In terms of cost of risk at 74 basis points, it's within guidance. We're quite comfortable with that. You'll see that the NPLs have gone up a little bit. I'll talk more about that mainly being a denominator impact of a reduction in loan balances, but also the NPLs have gone up in our personal banking business, but nevertheless, we're comfortable with the cost of risk at 74 basis points, and most importantly, our return on tangible equity, so risk adjusted returns that we're aiming for, well above guidance at 14.7%.

Turning to page 5, just looking at integration, as I said, good progress right across the board across the 20 or so workstreams that we have for the integration piece. You can see there the second bullet point that we've got, AED 175 million of realised cost synergies already for the first half of 2017 against the annualised run rate of AED one billion for a full year by 2020, so we're already at 18% of the annual target run rate. In terms of integration costs, I think we put out a figure of about AED 385 million for the full year. That's well on track.

We're at AED 194 million and we'll come in line with guidance but the integration costs are coming in line with budget but also with our expectations, so no significant points to note there, and then of course, you would have seen we've rolled out the brand, which will be progressively rolled out for the remainder of the year and I think I've already mentioned the IT, which is the critical part, 18 to 24 months, is broadly on track so we're quite confident with the way the integration is going.

On page 6, just picking apart some of the revenue items because there is a whole series of moves here which I think it's worth, when you look at revenue, as I said, overall, it's up 1% YoY but down QoQ and the main reason it's down is obviously the AFS investment gains that we realised in the first half. When you look at interest income, you can see YoY basis, it's down 5%. There are several reasons for that. One is the tighter risk appetite on personal banking, so in terms of risk appetite, we've tightened the high risk, high yield risk appetite and we're seeing runoff in some of those portfolios, which we're not replacing, which is obviously coming through to the NII line. There's also the deliberate rundown of the CIB trade FI book, which is low yield, low ROE business without any ancillary income, so we've deliberately run that down by about AED 8 billion, and then overarching all of that is obviously low.

Now, when we go through the NIM a bit later, you'll see that customer NIMs have held up so what we pay to customers on deposits and what we receive on our assets is broadly stable up a bit on both sides, but you'll see that NIM has come down overall and that just reflects the deployment of liquidity, and, you know, we have the structural balance sheet, which is partly due to being backed by the government.

Obviously, we receive significant liquidity inflows. We behaviourise it almost as an operational account and we deploy it in central banks. I guess the key message is it's down because we've deliberately managed our balance sheet down in high risk areas or low yielding areas, and the NIM is down mainly because of the deployment of excess liquidity.

Fees and commissions are down significantly. You can see that's down 16% YoY. That's mainly in the CIB business and mainly due to lending activity and trade activity. I think the key point here is that since the disruption of the merger, there's been a reasonably significant uptake, and you can see that the commissions from first quarter to second quarter are up 7% in the CIB space, it's up over 20%, so we're getting some good momentum now, and actually quite healthy pipeline for CIB going into the second half.

I've talked about FX and investment income mainly being AFS gains received and the treasury books of the legacy NBAD from the first quarter, and in other non-interest income the reduction is mainly due to one-off real estate gains in the legacy FGB book for the same period last year. I think that sort of explains and the result of all of that is 1% growth in income overall.

Moving onto costs on page 7, you can see the cost to income ratio ex integration costs has a nice trajectory downwards. We're now at 27.4%, notwithstanding the synergy (integration) costs of AED 194 million. The synergies are starting to come through and I think the key point here is that the majority of that synergy was affected in the second quarter versus the first quarter. I've already talked about integration costs, well on track and well-managed. We're comfortable with where that stands, and with the cost to income ratio.

Turning onto page 8, just looking quickly at asset quality and metrics, you can see on the top right-hand side that the cost of risk has fallen from 79 to 74 basis points YoY, we have, I think, nearly AED 100 million lower of impairment charges. That said, I think one of the things that stands out on the bottom right hand side, you can see the uptick in NPL ratio. This is predominantly as a result of the denominator impact of the falloff in customer assets, but also there has been an uptick in personal banking NPLs, which we've recorded there. But we're comfortable with the cost of risk guidance over the full year and our coverage ratio stands at 112%.

Moving onto page 9, looking at the balance sheet, I've talked a little bit about this but you can see it there graphically on the top right-hand side. You can see that from the end of the year, balances were down around AED 13 billion. The majority of that was the trade FI balances we talked about earlier, about AED 8 billion, which was low ROE. There's obviously some reduction in the personal banking portfolios as we tighten risk appetite and not replace some of those high-quality assets, and of course, there's weaker demand. One thing to point out – in March, you saw a spike upwards. This was due to a specific one-off overdraft to a specific customer that we knew was going to fall away in June, so there are some other movements contributing to that overall trend line.

In terms of customer deposits, they are broadly flat from last year. We've got a nice pickup in CASA which is good because it's juicy ROE business. A slight fall off from just liquidity management of GRE business, but liquidity overall, as I said earlier, remains very strong with a low AD ratio at 85% and the Liquidity coverage ratio at 116%.

Turning quickly to the interest margins, where we try to illustrate what I described earlier. If you look at page 10 and start with the bottom left hand side, you see a chart of performing loans and you can see the yield's actually gone up by three basis points YoY, and the performing loan yield for the quarter is at 4.42%, showing a nice increase. This is due to repricing and management of the portfolio, and then on the right hand side, you can see customer deposits have gone up by four basis points and I think obviously the fed hikes have come through and the cost of deposits has also gone up but this is being mitigated by funding synergies, so you can see these two lines are nice trends but the top left hand side, you can see a significant fall off in the interest margin, which is just a mathematical calculation of NII over balances, and that's down 25 bps YoY and it's mainly due to the deployment of excess liquidity.

Moving to page 11, just looking at capital, and I think this page really hammers home what we're trying to do with balance sheet optimisation. If you look at the bottom left hand chart, you can see risk weighted assets have come off considerably, in line with assets coming off, but the return on risk weighted assets has gone up by ten basis points, so essentially we're de-risking the balance sheet for better sustainable returns and a better return on tangible equity, and you can see as part of that, the core equity tier one has shot up to 14.4% and our annualised return on tangible equity is at 14.7, well above the guidance of 14% that we put out there.

The last couple of pages just look in a little more detail at a high level for the segmental performance, starting with CIB, which has had a great result with profits up 4%. Despite deliberate rundown in balance sheet, revenue is up 1% YoY and fee income, as I said earlier, for the second quarter, is up 23% QoQ, and they've won a number of leading franchise awards, which you can see on the investor presentation, but I think the key thing here is that we've got some momentum going into the second quarter and a very strong pipeline for the second half.

Turning to personal banking, you can see a reasonably significant runoff in revenues, 9% down over the prior year. Part of that's to do with competitive pressure, but the other part of it's to do with the rundown of these high yield, high risk SME portfolio as we go for a longer term sustainable business that gives us higher risk adjusted returns. That said, the revenue weakness is offset by significant cost reduction, which is down 11% YoY, and also you can see the impact of impairments coming down 10% YoY. The impact of all that is profits are down 5% YoY.

Turning to page 13 and just looking at subsidiaries, revenues are lower, mainly due to one-off gains realised in the property portfolio in legacy FGB in the prior comparative period. So you can see there's a small loss, which is mainly the result of an uptick in impairments, mainly in response to the current environments for some of the subsidiaries we have, and then international, you can see the profits are down slightly. That's mainly due to currency devaluation in Egypt and the pound having a small impact on profitability. Notwithstanding that, profits are broadly flat and, you know, we believe it remains a competitive differentiator for us, and still 26% of the group's deposits as of the end of June come from the international franchise, which is a significant opportunity.

And lastly, just a little bit about revised guidance. I think just looking at loan growth, we put out mid-single digit growth. Now we're saying low single digit, negative growth, mainly for the reasons we talked about but no change to our return on tangible equity, so in other words, we're positive on the returns being well above the 14% benchmark we gave. Core revenue growth, we're putting it flat and the cost to income ratio, we believe we have the potential to over-deliver the 28%. Cost of risk, we're comfortable between the 70 and 75 basis point range, so to summarise, I think, you know, a reasonable performance, given the backdrop of the integration, given the weak economic environment and the disruption that we've had.

We're well on target to achieve the benchmarks that we put out there. The integration's going very well and, more importantly, our return on tangible equity is going in the direction we want, creating shareholder value, so with that, we've got Abhijit and Karim here. We're happy to take questions.

Sofia El Boury: Laura, please open the lines for Q&A.

Operator: Thank you, Sofia. Ladies and gentlemen, if you would like to ask a question, please press * followed by 1 on your telephone keypad now. If you change your mind, please press * followed by 2 and when preparing to ask your question, please ensure your phone is unmuted locally. Our first question today comes from Waleed Mohsin from Goldman Sachs. Please go ahead.

Waleed Mohsin: Hi, good afternoon. This is Waleed from Goldman Sachs. Thank you for the presentation. A couple of questions from my side. First, in terms of the rundown of the loan book, you did allude to, and in the presentation as well, a rundown of the trade finance business, which is lower margin and we saw a similar case during the first quarter as well. Just want to get a sense of if you look at the total reduction of the loan book, it's much higher than AED 8 billion, which is running down from the trade finance business, so just want to understand what other parts of the book are being run down and the strategy on them going forward and how is the new loan origination strategy impacting the loan book formation, and also want to get a sense of the rundown in the book. Which vertical portfolios is it emanating from? Is it the legacy FGB portfolio or NBAD portfolio, just to get a sense of why management has taken these steps to address that?

And secondly, in terms of the rundown, obviously, you have a very healthy capital base, which continues to grow, both with the rundown in loans during the quarter but also in capital generation, so just also want to get a sense on how you think about capital, especially given that the buffer that has come in is also 50 basis points, so I'd say 50 to 100 basis points lower than what the market was expecting, so all in all a very healthy capital situation, but it seems that the loan origination momentum remains relatively weak and so it will give you opportunities to continue to develop capital generation from that sense. Thank you.

James Burdett: Okay, let me take a couple of the questions. First of all, the trade finance is an interesting one. This is the trade finance for FI, so financial institutions, which if you think about it behaves almost like an inter-bank loan in terms of risk. What we discovered was every single one of these, every single dollar we put into this, you put a 1.5% general provision aside and your risk weight is at 100%. Now, everyone on the call understands that trade is a legacy asset, if you look at historic loss ratios, they're very small so when you look at it, and we're putting that business out and we're competing with foreign banks and the global market, who are able to be more sophisticated and risk weight those assets at a significantly lower risk weight without putting a general provision aside, it means that every single one of those deals that we put on in the local market is loss making.

So it was a deliberate rundown of that particular book and, yes, you're right. We're down AED 14 billion from the start of the year. That represents AED 8 billion of the AED 14 billion. There was a small spike upwards from the end of last year to the first quarter, which was one specific asset that came and went, and that was predicted. There's been a little bit of rundown in the personal banking book, to the tune of AED three billion, which relates to the SME or commercial sector, if you want to think of it that way, which is high risk, high impairment and it's just a business that we're not comfortable, from a risk appetite perspective, in this current environment. So all in all, we're managing our balance sheet for sustainable long-term growth and, you know, as I said earlier, we've got a reasonably healthy pipeline. Personal banking is steering a lot of its marketing efforts into mortgages and so on, so does that answer your question specifically? It's the legacy commercial portfolio in NBAD, the legacy trade FI portfolio in NBAD that would predominantly run it down.

In terms of your capital, you know – your question around capital. Absolutely, we are looking for profitable growth but we're not looking to do crazy growth where we put balance sheet out the door at very low rates just to achieve growth rates. For us, the main hurdle is return on tangible equity. Does that answer your question?

Waleed Mohsin: Yes, just in terms of usable capital. So given the decent buffer as well as where you are in terms of capital, that means if loan origination is in fact quite, I would say, weaker than what we were anticipating earlier, then in that context, you would be building up some substantial capital buffer over and above what you're targeting, so just your thoughts on capital allocation.

James Burdett: No, I think the answer is, we're expecting a reasonably healthy pipeline for the third and fourth quarter. We wouldn't like the capital ratios to go, you know, skyrocketing through the roof, because that's probably not an efficient use of the leverage of the capital position, so I think we're seeing increased demand. We're seeing a pickup in activity. We think the traditional legacy NBAD customers will come to the market for financing. We think oil will stabilise. The IMF have come out with, I think, a reasonably significant uptick in GDP for the UAE next year. All of that, I think, plays into where we're looking to deploy.

Karim Karoui: And adding to that, we are dealing a little bit with the capital generation, generating the profitability. It's also a combination of looking at our funding costs, looking at the asset allocation. It's all the balance sheet management, which as a whole will help us improve our profitability and then maintain the capital at these levels.

Waleed Mohsin: Understood. Thank you very much.

Operator: Our next question today comes from Hootan Yazhari from Bank of America Merrill Lynch. Go ahead.

Hootan Yazhari: Good afternoon, gentlemen. A few questions. Let's start with asset quality, please. We've seen, obviously, NPLs ticking up. We've seen some pressure coming through from the retail portfolio and this is something that we've seen in some of your peer group as well. Given we've seen coverage and if we continue to see further pressure, are you still comfortable with your cost of risk guidance at 70 to 75 bps for the year or do you potentially see a situation where you'll have to increase your cost of risk guidance?

Second question is really around what you're seeing with regards to market share. Have you started to lose market share as your counterparties look to assess single party risk and exposure to yourselves given you have such high market share? Has that started to be an issue at all and has that reflected or partially accounted for the negative loan growth that we've seen?

And third and last question, you alluded to very strong liquidity and the structural problems that you have with regards to having high velocity government deposits. How are you looking to address this, or is this just a feature that we're going to have to live with in the future, thank you?

Abhijit Choudhury: Hi, this is Abhijit Choudhury here. I'll take the first one in terms of asset quality. No, our guidance still remains very much what we have given to you, you know, between 70 and 75 bps and NPLs at around 3.2%. As you will have noticed that the growth in NPLs has been about AED 1 billion in terms of total, of which, you know, roughly about AED 450 million has come from the corporate side and the rest of it has come from retail, as we've mentioned, and within retail, obviously, the overall sector, we've seen weakness in the personal instalment loans component, and that's obviously weakness in the economy, lay-offs, etc, and my suspicion is that you will see, as is traditionally seen, a bit of a spike in the third quarter when, you know, after the summer break etc.

But having said that, as James alluded to it, there has also been an offset in terms of the programme lending component, you know, where there's been some – you've seen a plateauing of the growth of delinquency but at the same time, one must remember that there's also been a retraction of lending in the economy as the data on the Emirates Credit Bureau matures. Once again, there's also a significant opportunity and those banks that will have their collections ability tightened, provides a significant scope, so from a net-net basis, we feel that's fine. As far as on our corporate book is concerned, it just means, you know, just one or two credits on the fringes, which is slipped into NPLs and then we expect some of it to in turn reverse.

So overall, I think as well as asset quality is concerned, this is our guidance as it stands. With reference to your second question in terms of market share, I believe your question more hinges on the question regarding the fact in terms of for the combined bank, are there any single exposure thresholds which we are, in turn, meeting, and is that in terms of being a constraint in terms of our long growth. If anything, you know, the expanded capital bids and the optimisation which we have in turn carried out, we have looked at all our exposures, in a risk managed manner to in turn see that they are well within thresholds. James, do you want to speak on the third item?

James Burdett: Yes, just to, you know, the structural balance sheet, where we received significant liquidity from the government, is a nice thing, you know. The reality is when, you know, the government money comes in and out, we behaviourise it according to maturity. Essentially, as an operational account, which means we deploy it into the central banks and we obviously make a profit on that. What actually happens is, it's risk weighted at zero because it's the FED or the ECB. We make a return of, whatever it is, 15 or 20 basis points, and that obviously goes straight through to the bottom line, which is pure risk-free income, but what it does do optically, is that it reduces the net interest margin as a straight calculation because it increases the footings and therefore the mathematical calculation accordingly.

So back in the old NBAD days, I was at pains to try and explain this, which is why we've disaggregated it and shown you customer loans and customer deposits, so when you look at headline numbers, that just says NIM is down 25 basis points. What you've got to remember is the deployment of surplus liquidity is a significant revenue item for us. Is that clear?

Hootan Yazhari: Understood. It's very clear. I just want to see if there's an opportunity that you foresee where you can have greater flexibility given your very high levels of liquidity at the moment, maybe to mitigate some of that impact on NIMs. I totally understand it's risk-free earnings but at the same time, want to see if there's an opportunity there to further enhance your return.

James Burdett: We are looking to optimise balance sheets, so some of the things I mentioned earlier, like running down the low yielding, low ROE assets that don't give us ancillary business, tightening risk appetite so it's sustainable future returns as opposed to, you know, high yielding, high risk coming through, managing the funding synergies by replacing high cost deposits with cheaper funding. All of these things we're working on and all of it has potential upside.

Hootan Yazhari: Understood, thank you.

Karim Karoui: And also we have to let go some of the deals where the price was too thin for us, which did not make sense for us to keep, so maybe this would explain partially the decrease in the loan book and also the decrease in market share. But our discussion with the corporate people, the CIB, we are not aware that we are losing clients because of the merger. Everything is fine, all the relationship managers, they are talking regularly to their clients etc, but for some reason, we've let some of the transactions go. We've left it to the competition because the pricing does not make sense for us.

James Burdett: Yes, I think sometimes with mispricing risk and you've got, it doesn't matter who it is, people are going out there and trying to grow for the sake of growth. I think you've got to be careful with the deployment of capital, for sure, and that's what we're focused on.

Hootan Yazhari: Okay, thank you.

Operator: Our next question today comes from Aybek Islamov from HSBC. Please go ahead.

Aybek Islamov: Yes, good afternoon, everyone. Thank you for the conference call. A couple of questions from me, firstly, could you confirm your revenue guidance for 2017 and including all the one-offs that you've booked so far this year, as well as last year, so that's the first question. Secondly, I'm just curious about your costs. You have a few slides which explain your cost trajectory very well and I think the integration costs are very transparent. That's very clear, that's in your investor presentation. As far as synergies are concerned, in the slides you show that they're AED 175 million since the start of this year but when I look at the cost decline QoQ from the last year, it looks like synergies are even bigger, so I think the question is really what are you expecting as your operating costs ex integration – let's put it that way, for the rest of the year? You think you can push them lower, you know? That's pretty much it, yes. That's two questions for now.

James Burdett: Look, to answer your first question, headline revenue guidance is flat to last year. Your second question, which was around synergies, I think, you're correct. AED 175 million is a half-year figure which, if you annualise, is AED 350 million but we're not looking to annualise this year because there's obviously other things that happen. It's a complicated bank. There's movements in Full time employees and so on and so forth, but we're well on our track to delivering the AED 1 billion that we put out there and we think we can over-deliver that. I can't remember your middle question.

Sofia El Boury: Can you repeat your middle question?

Aybek Islamov: Actually, I had two questions. I think I'll just add a third question because we've done the first two fairly quickly, if that's okay with you, so the third question is, obviously a lot of YE statements to your pro forma numbers, in particular loans are restated downwards by 6%. Assets are restated downwards by 3%. What's causing such a big restatement?

James Burdett: Yes, what we did was, just for the benefit of everyone, there's a number of things happening, so there's accounting harmonisation between the two banks. There's obviously IFRS9, which is coming, and then there's PPA. So what we said to you was, in this first set of results, is a set of changes around accounting harmonisation and a big change is the netting off of the national housing loans, both the asset and the liability side, so that's the significant change I think you're referring to. Previously, I think NHL was grossed up on both the sides.

Aybek Islamov: Understood, thank you.

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

Rahul Bajaj: Hi, good afternoon. I just have two questions. First is around margins, so just to understand with Saudi issuances which are happening, domestic sector issuances and excess liquidity here, are you looking to deploy or banks in UAE looking to deploy that excess liquidity into the Saudi issuance, and linked to that, how do you see margins outlook in the second half of the year? My second question is on the trade loan rundown, so even after this AED 8 billion rundown, you have AED 21 billion of trade loans on your books. I just wanted to get a sense of how much further of such rundowns do we expect in the second half of the year and linked to that, is how much further of the SME book rundown AED 3 billion you've seen in the second quarter. How much rundown do we expect in the second half of the year, thank you?

James Burdett: Okay, to answer your second question, I think in terms of trade, we've done a lot of the optimisation work already, so I wouldn't expect to see too much more in that space, and where it's profitable, obviously, we'll look to grow and where there's ancillary business and customer relationship, we'll look to grow, but predominantly, the FI trade piece was low ROE and that's the one we've deliberately run down. In terms of NIM guidance, it's difficult for us to predict because of exactly what I said in the question before yours, which is movements of government deposits in and out impacting the headline NIM. But if I look at it from a customer asset perspective and a customer liability perspective, or customer deposit, I think you'll see a slight uptick in both, mainly on the back of FED hikes coming through the business. I think they'll be mitigated to some extent due to funding synergies and then, of course, you've got the high yielding portfolios that we're deliberately running down and risk appetite doesn't want us to replace and we don't want to replace. So all of that into the mix, I expect it's going to be stable, if you discount the liquidity fluctuations.

Rahul Bajaj: And something on the bond issuances in Saudi, will you be looking to deploy liquidity there?

James Burdett: You know it's all to do with liquidity, how much excess liquidity we've got, where we see the appropriate relative value, you know. When you look at our balance sheet investments or the deployment of our excess liquidity, you can see it's highly rated paper. It's well-diversified geographically. We have a good GCC mix in the bag, but it's hard for me to say, yes, we're definitely going into this market because it depends on relative value.

Rahul Bajaj: Thank you.

Operator: Our next question today comes from Shabbir Malik from EFG. Please go ahead.

Shabbir Malik: Hi, this is Shabbir Malik from EFG Hermes. I have a couple of questions. First one, on your cost synergies, so the amount of cost synergy that you realise in the first half, can we expect the same trend to continue in the second half, and in one of your earlier presentations, you expect to ramp up on your cost synergies in 2018 from 25% to 65%. I just want to understand what would be the source of this increased synergy next year, and my final question is on fee income. Fee income trend in the second quarter has been quite weak. You've talked about improved momentum, which would help you deliver mid-single digit, kind of, revenue growth in this year. What will be the source of that improvement? Comments on that will be very useful, thank you.

James Burdett: Yes, I think in terms of the synergies, you can expect to see, I wouldn't say double it to AED 350 million for the first year but you will see a significant – it's an absolute run rate save that we've made on the second quarter, which will float through into the third and fourth quarter. But also, remember we've said at the outset, that we had good cost to invest so there are investments that need to come through. We expect a similar level of integration cost coming through next year but I think you're right that the sustainable run rate is improving every single month as the synergies start to take shape, and we're very confident of getting that sustainable AED 1 billion on a run rate basis going forward very quickly.

In terms of fee income, it was down predominantly over the first half last year prior comparative period in our CIB business and if we drill into detail, most of that is in two areas. One is in trade and one is in lending activity, and when I say lending activity, I'm also including DCM origination, which is obviously very weak in the first half in this market. What we're actually seeing in the second quarter is a significant pickup in that, so whilst we're down half on half, I think in that CIB space, we've already seen something like a 23% pickup in the second quarter from the first quarter and we've also got a very healthy pipeline going into the second half, and I think, you know, let's not underestimate the disruptive impact of the integration. But we now have, you know, a very firm operating model in place in our CIB business. Relationships are assigned now to the new cadre of relationship managers, and it's all about generating new business, so we're pretty confident in the second half that CIB will continue to do well.

Shabbir Malik: Sure, just going back on the synergies, so there is an increase in momentum, so how are things changing over the next six to 12 months that will relate to that increased momentum, if you could answer that?

James Burdett: Yes, I think the first part of the integration is the low hanging fruit and we're plucking that quite successfully, I think, In our schedule, we've got very detailed synergies by division. We've gone through a number of synergist working groups where we're looking at the detail behind whether it's FTE, whether it's systems, whether it's automation and so on. I think, you know, what you can expect to see going forward is another wave of synergies sometime after the systems integration has actually happened so when we migrate the old NBAD customers to the FGB stack, obviously you'll then only have one platform to manage. The FGB platform is obviously significantly more efficient than the old legacy NBAD, which was old and antiquated, so there's another wave of synergies that's going to come through in that. We've done some branch closures in the first half of the year.

There's further branch closures in the second half and then into next year and we're starting to see a lot of the benefits of the integration come through in terms of run rate, and you can see that already, I mean, first quarter to second quarter, run rate is down by about AED 150 million ex-integration costs, so if you annualise that, you can see the sort of progress we're making and when you add those successive waves of synergies plus, you know, potentially some rationalisation of the international network, all that will feed into a very strong cost to income ratio in the future, I think.

Shabbir Malik: Thank you. Thanks for that.

Operator: Our next question today comes from Ahmed Hussein from CI Capital. Please go ahead.

Ahmed Hussein: Okay, my first question is about Qatar exposure. I know you guys disclosed in the presentation that GCC exposure to loans, small contribution to total loans, but my question, how you see the Qatari situation holding up during the next six months or 12 months, is my first question, and my second question is what negative impact you expect from IFRS9. Thank you so much.

Abhijit Choudhury: Let me take the second question first, in terms of IFRS9. Obviously, we are in the process of going through the entire IFRS9 exercise and we are required to present our findings to the central bank by 1st January. I don't believe that there will be anything of significance but nevertheless, at this point in time, we're, you know – as you can imagine, it's not a simple exercise, so data has been collected. One-time, lifetime PDs etc are being calculated on all our individual exposures so we will have more clarity as we go forward towards the completion of the exercise. Do you want me to touch on Qatar?

As far as Qatar is concerned, you know, obviously for a bank of our size, operating here in the GCC, you know, we do have exposure to Qatar but as far as that exposure is concerned, just to give you an idea in terms of the percentage of our total loans, GCC exposure is about 2% of the total loans.

So overall, as part of that exposure, Qatar is fairly limited, really, to the size of our balance sheet. It's well-contained. As far as our investments are concerned, the investments are also very liquid. As you know, they are through the sovereign. As far as we do have a presence in Qatar, as you're aware, and as far as our onshore exposure is concerned, it's extremely limited at this point in time. We have no concern as far as our exposures are concerned, we have not had any arising softening in terms of quality as of now.

Ahmed Hussein: Thank you so much.

Operator: Our next question today comes from Chiro Ghosh from SICO. Please go ahead.

Chiro Ghosh: Hi, thanks for the call. My questions are, first one is, I want to get a sense of your lending portfolio. I see that other UAE banks have grown their books in this quarter. I just want to get a sense that is, is it a conscious decision to go slow or are you actually seeing a lower demand? That's my first question. The second one, I just want to get a better sense about your trade finance lending. I want to get a sense, like how much is it lower than your average lending book, averages, so what typical differences between the situations.

James Burdett: Yes, I guess at risk of repeating, we've deliberately run down some of our low yielding assets. We're also running down some of our high yielding high-risk portfolios as part of building a sustainable bank going forward that delivers stronger return on tangible equity. I think, you know, in terms of trade, it's a short-term self-liquidating business, it's an international global business and the prices are international and what you're doing is you're competing with foreign banks that have more sophisticated Basel III rules that will allow them to risk-weight it lower and not provide as much against it. We put 100% risk weighted asset aside and we put a 1.5% general provision, so when we're looking at this business, we need to make sure, you know, we're looking at the customer, the ancillary business, the overall return on the relationship and so on.

The specific portfolios that we ran down, you know, the trade FI business, I'm not even sure what the price is, but it's below 100 basis points and it's dictated by the market, and so every single deal you're putting on can be loss making unless you've got ancillary income. So yes, we see that some banks have grown, depending on the segments they're in and the exposure and how much risk appetite they've got. We're comfortable with our current asset levels and we're also comfortable with the pipeline that we have.

Chiro Ghosh: And one quick one, if you can please remind, just integration cost, when do you think it will be, you know – I know it's early but when do you think the integration costs will get, by second half of this year and first half of 2018 or it will run longer than that?

James Burdett: No, we've put out a guidance to say that it would run over three years. Obviously, some of the costs will be investments that get capitalised. Some will be costs that you realise up front, like severance pay and so on and so forth. Some of it will be overwrite through PPA so there's a whole series of accounting optimisation that we're doing in that space, but it will be over three years and I think it's correct to expect that it will fall over three years as well.

Chiro Ghosh: And have you given any guidance on the dividends? I know that it's too early, but anything else you would say on this?

Karim Karoui: In general so far, we are good with our returns on equity. We have a strong mandate to generate profitability. The capital ratios are showing good ratios so far, so we are very well positioned to optimise the shareholders' returns in similar ways of how we did it in the past, so without any comment, but we will continue looking on at this the same way we do in the past and then we keep in mind that we are here to maximise value for shareholders. So whatever makes us, in terms of capital requirements, etc, we will propose our best in terms of dividend returns for our shareholders.

Chiro Ghosh: Sorry, in the past as in?

Karim Karoui: I mean, it's a new bank. It's First Abu Dhabi Bank now so we are not really – I mean, it's a mix of the two legacies of banks and then we look at the future as a new First Abu Dhabi Bank.

James Burdett: I think also, you know, we've got a lot of the accounting adjustments to do where you need to go through the whole PPA exercise. We're bringing two banks together. There's obviously a heightened period of risk. It's just not the appropriate time to comment on exact dividend levels, that's all.

Chiro Ghosh: Okay, thank you. That's all.

Sofia El Boury: We take maybe one last question before ending the call.

Operator: Our final question today comes from Yavuz Uzay from Charlemagne Capital. Please go ahead.

Yavuz Uzay: Thanks for the presentation. I want to ask two questions. One of them is actually a follow up from Aybek's question because what I'm trying to understand is when you're saying flat core revenue guidance, you are making some adjustments, like for one off in 2016, and also probably one-offs in 2017. Can you clarify exactly how much adjustment we should be doing for the one-offs in 2016 and also one-offs in 2017? So that we're using the same basis for numbers and the second question is about dividend pay-out. The combined FGB NBAD last year paid a total of AED 6.84 billion dividend that was corresponding to 60% pay out on pro forma 2016 and 0.63 per share. In 2017, and onwards, what kind of dividends pay outs should we be looking at and will that be driven by a threshold capital ratio or will you be focusing on an absolute number or the per share dividend, thank you?

James Burdett: To take your last question first, the actual pay out of the combined entity equated to about 63% last year, which came to about AED 6.864 billion and, you know, to go back to the answer we've provided in the previous question, we're not putting out a level of dividend at this stage because there's so much accounting noise to get through and we still need to put up a strategy to the board and I think you're right that one of the key parameters we're looking at is the core equity tier one ratio and once those regulations are finalised and we find out where we land, we'll obviously be able to work out our dividend policy accordingly.

Karim Karoui: So it's a mix of the regulatory requirements, of the return on equity and also the potential for future growth and the risk appetite. All this is put together, I'm sure we'll come up with the right dividend for our shareholders.

James Burdett: And then to your first question on core revenue growth and headline revenue growth, we're calling both of those flat.

Yavuz Uzay: Okay, thank you.

Operator: That was our final question for today, so I'll hand back to you, Naresh, to continue.

Naresh Bilandani: Okay, great, so if we have no further questions, then let's just end it there.

Thank you very much to the entire FAB management team and the IR team for their time today, and thanks to all the participants for dialing in. Thank you, good days ahead.