

FAB Q3/9M'2017 Earnings Call Transcript*

Co-hosted by Waleed Mohsin, Goldman Sachs
Thursday, 26 October 2017
4pm UAE Time

FAB Speakers

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Operator: Hello, everyone and welcome to FAB's third quarter 2017 earnings call. At this time, I would like to turn the call over to our Moderator, Waleed Mohsin, who will take it forward. Thank you.

Waleed Mohsin: Good day, everyone. Welcome to FAB's third quarter 2017 earnings call. On this call we're pleased to have from FAB Mr. James Burdett, the Group's CFO, Mr. Karim Karoui, Group Head of Subsidiaries, Strategy and Transformation and Ms. Sofia El Boury, Head of Investor Relations. So, without any further delays, I would like to pass the call on to Sofia. Sofia, please.

Sofia El Boury: Thank you Waleed for the introduction. Good afternoon, good morning and thank you for joining us today to review FAB's financial performance for the third quarter and first nine months of 2017.

So, on the call today, we have our Group Chief Financial Officer, James Burdett, and our Group Head of Subsidiaries, Strategy and Transformation, Karim Karoui. They will respond to your questions at the end of this short presentation. Just a quick reminder that the IR deck we will be going through today is available on FAB's Investor Relations app, on our merger micro-site, 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, in order to clarify the basis of preparation of the deck. Please note that FAB's pro forma consolidated financials as at 30th September 2017 serve as the main basis of reference for our Management Discussion and Analysis report and our Investor Relations presentation. FAB's Reviewed Consolidated Interim Financial Statements as at 30th September 2017, are prepared on the basis that the FGB/NBAD merger was declared effective on 1st April, 2017 with FGB being the accounting acquirer as per IFRS 3. Therefore, these financials reflect the consolidation of NBAD since 1st April 2017 only, while prior period(s) comparative financial information relates to FGB. For further information, please refer to the Business Combination Note, which is note number 29 of the Reviewed Consolidated Financial Interim Financial Statements as of 30th September 2107. With this, I pass it on to James for the presentation.

James Burdett: Thank you, Sofia, and good afternoon, everybody. Thank you for joining the call on a Thursday afternoon. What I thought I would do was go through the presentation relatively quickly, and try and pull out some of the key highlights and then leave the floor open to Q&A so we can get some discussions going.

So, for those of you looking at the investor presentation deck, I'll start on page 3, and let's just go through the key performance highlights. And the first point I think is self-evident. So, excluding the one-off, and you will be well-aware of the legacy one-off that happened in the legacy FGB book in the third quarter of 2016. If we back those out, then profit is up 2% year-on-year -- which I think is a pretty good result in light of the significant disruption which was the integration of the two banks. And in fact, if you back out the integration cost which was additional AED 200 million over last year, we are up nearly 4% in terms of net profit.

Risk-adjusted returns are stable and improving. So, we have done a lot of work around optimisation of the balance sheet to give us higher risk-adjusted return; and I will talk a little bit about that later. In terms of the integration, we are making excellent progress, and you will see through the numbers that both on the revenue-synergy side and cost-synergy side we are well ahead of expectations. And also in terms of the integration costs, we are well under the guidance that we put out to the market.

Needless to say, the balance sheet remains very strong. Our capital adequacy ratio is now at 18% and our core equity Tier 1 continues to climb and is well into the mid 14% mark. And our liquidity remains strong with the loans to deposit ratio at 87%. In summary, we're on track to meet the four-year financial targets that we have put out to the market.

Now, turning to page 4, just to draw down a little bit on the optimisation of RWA, because it does have an impact on income. And what we have said in the past was that we are deliberately running off some of the lower-yielding assets that were delivering low return on equity. We are also adjusting risk-appetite, particularly in the personal banking group where we had a significant SME portfolio that was high-yield but high-risk which resulted in significant NPLs.

So, what you see there on the top right-hand side, is that whilst assets have grown 2% year-on-year, the RWAs are down 3%. And the Return on Risk-Weighted Assets is stable at 2% year-on-year. And then if you filter down into the bottom right-hand-side of page 4, and just look at the net profit. Once we back-out AED 540 million of one-off property gains in the nine months of 2016, you can see net profit is up 2% year-on-year.

On page 5, just looking at the integration journey. You know, from our perspective, we met every single milestone we put out to the market. We've finalised the target operating models. We've gone through the process of re-contracting all staff. All the policies and procedures have been aligned. Our risk-appetite framework is now harmonised. We're in the process now of integrating the various subsidiaries. The merger benefits are tracking well ahead of plan; and we'll talk a bit about that later. And in terms of the critical path, which is the whole IT dependency, which I think we said to the market was 18 months to two years, we're well on-track looking to target the end of next year the delivery of that. So, in essence, you know, it's tracking reasonably well on our integration journey.

Part of the integration journey is obviously re-branding, and on page 6 – and you will have noticed this if you're around town in Abu Dhabi and Dubai and other places that, you know, we're re-branding the legacy FGB and legacy NBAD branches and ATMs and so on to the new FAB logo, which we expect to complete by end of 2017.

Looking at page 7, where I talked about cost synergy. So, yes, we put out to the market AED 250 million for the full year. We're already at AED 280 million year-to-date in September, which implies a run-rate to the end of the year just under AED 400 million. So, we're well ahead of synergies in regards to that. And we also have, you know, further waves of synergies coming next year. We have the international rationalisation. We also have more branch rationalisation within UAE. We're looking at subsidiaries and a little bit of rationalisation there. And so, we have further appetite to go there. And obviously, the critical part is the IT systems integration which we're expecting to happen at the end of next year. And in terms of the one-time integration cost, we're currently at AED 268 million, where I think we expect it at AED 385 million for this year. We think it will finish the year well-under that figure. And some of those costs are winding down as well, as we go through PPA process into next year.

A few accolades on page 8. So, we were labeled the number one safest bank in the UAE, which was a great result. And we're still, despite the slow-down in lending growth in the market generally, you know, we dominate loan league tables with a market share of 14.3% for GCC league tables; which is a very strong result.

Moving on to page 9, and this is I guess where the rubber hits the road. For your guidance, where we put out some low single-digit negative for loan growth, we're currently at minus 3%. Although you might have noticed there was a pick up in the third quarter and we're seeing a very strong and healthy pipeline into the fourth quarter; we're sticking with that guidance just to be conservative. Because as you know, part of the deliberate management, some of those low-yielding assets and some of those high-risk assets have obviously impacted lending growth.

In terms of revenue, we're currently at AED 14.5 billion for the nine months and we put out a flat core-revenue growth; 2016 core revenue was around AED 19.5 billion, we're still comfortable putting that guidance out within 1% or 2%. And checking the cost-income ratio, we put at 28%. We're currently at 27% and tracking lower; as you'll see from the cost trend. So, we're very comfortable with that guidance. And in terms of cost of risk, you've started to see the risk optimisation come through with the lower costs of risks. down around 9 basis points around this time last year. And at the bottom end of the guidance it's 70-75 basis points we put out to the market. And all of that sums up to a return on tangible equity currently at 14.3%. So, we're in line with the 14% guidance we've put out to the market.

Turning to page 10, and just diving into some of the revenue trends, and I know there'll be a lot around this. The first piece, net interest income, you can see is 5% down year-on-year. And again, just to reiterate, that's partly a deliberate wind-down of low-yielding assets where we expect higher risk-adjusted returns;

with release of General Provisions and so on. And also in the retail banking business where we had a fairly large SME portfolio, we're running that down and a lot of that is turning to NPLs, actually. So, the risk-adjusted return on tightening the risk-appetite of that business is starting to come through the retail banking numbers. And you could start to see that coming through in the third quarter results.

In terms of the fee and commission income, we are down 17% year-on-year; and I think that predominantly reflects the 7-10% reduction in trade volume. And, remember, again, we've deliberately run-down some of those trade volumes where they were low-returning businesses, and we're looking to re-deploy that capital into higher-yielding, or higher risk-adjusted assets. That's part of the reasons for the lower non-funded income. But also the loan market is down. And you'll know that loan syndications are around I think 40% down on prior years. So, obviously, that impacts us. And also the low volatility that's in the market means you're seeing less hedging in some of the market sales products, coming through into the numbers. That said, we are seeing a substantial pick up in the pipeline for the fourth quarter, and we're quite comfortable that this will come back in the fourth quarter.

Just looking at the NIM in a little more detail on page 11. And I'll start, I think, with the bottom left-hand chart, which looks at the performing loans' yields. And you can see that's re-priced nicely over the last two quarters. Partly on the back of Fed rate hikes, and partly on the back of, you know, assessing our customers and re-pricing where we can. And notwithstanding that increase, you can see we've managed to keep the cost of customer deposits, you know, reasonably stable - with the uptick in the third quarter only up 4 basis points, which is partly the synergies coming through in terms of using the double A rating on the combined balance sheet, but partly as a result of managing high-cost deposits down and utilising our strong liquidity.

So, you can see some of that coming through into the NIM which has moved up q-on-q. But it's down year-to-date. And as I've explained in previous calls, the main reason around 20 basis points of the decline is simply the deployment or excess liquidity into the ECB and the FED diluting them. But the positive message here is that notwithstanding the dilution of NIM, from the deployment into the central bank, the customer assets is re-pricing nicely and the cost of deposits is totally flat.

Moving on to page 12 which just covers operating expenses, you can see that costs year-to-date are down 3% year-on-year. That's a significant reduction; particularly in light of the fact that integration costs are up nearly AED 200 million year-on-year. So, that's really the result of the synergies coming through quite strongly in our operating numbers.

Moving on to page 13, and looking at the cost of risks, as I've said before, on the top right-hand side you can see the impairment charges at AED 1.8 billion. So, it's 71 basis points, down substantially over the prior comparative period. And part of that is due to the managing down of the SME portfolio in retail; part of it is the risk-appetite. So, we're quite comfortable with cost-of-risk guidance that we've put out there.

In terms of the NPLs, they're down a little bit q-on-q, exactly at 3.0%. Part of that is write-offs, but part of it is also the denominator impact of loan growth. And overall, we're quite comfortable with the prevailing coverage, which is at 109%.

Lending momentum on page 14, as I've said, you can see an uptick in the third quarter to AED 328 Billion. You can see most of that's derived by trade. That is opportunistic trade that's come back. So, we're seeing some opportunity in some of the markets to re-deploy a decent return on equity. So, we've gone into that market. And as I said, we've also got a healthy pipeline going forward into the fourth quarter. And in terms of deposits, they've held stable at just under AED 379 Billion. The loan to deposit ratio, you know, is comfortable at 87% and the LCR well over 100%. So, comfortably in-line with the Basel III glide path.

In terms of page 15, just looking at capital ratios. I talked a little bit about the risk-weighted asset optimisation. So, that's really helped to push our capital adequacy ratio to 18%. And you can see there on the bottom left-hand side, the return on risk-weighted assets at 2.2% is broadly stable. And remember, the small spike-up in March was really driven by the AFS investment gains that we realised. So, that's holding up relatively well. Notwithstanding the lower revenue, we expect the lower costs of risk to come through

and the risk-adjusted return to eventually push the return on tangible equity up. And you can see that this is sitting at 14.3% year-to-date, well above the guidance that we gave at 14% for the full year.

The last couple of pages, just dig down on segmental performance. The only thing I'll call out is the corporate investment bank; you can already see the risk-adjusted returns coming through. So, whilst revenue is down year-or-year, you can see that profitability is actually up, helped by a lower cost of risk but also helped by synergies coming through, notwithstanding the lower revenues. So, their return on equity or return on risk-weighted assets is actually showing a nice uptick year-on-year.

In terms of personal banking, you can see the revenue fall off at around 8%, and the net Profit After Tax fall off at around 8%. This is on the back of, you know, tightening risk-appetite, the wind down of the SME portfolio. The cost of risk isn't coming through to the full extent yet; it's down I think about 2% or 3% year-on-year. But you'll eventually see that cost of risk starts to fall down as the strategy takes hold. And, of course, they have significant synergies in that business as well.

Subsidiaries is recording a small loss over last year. Obviously, the major reduction over last year is the one-off gains that we recorded due to property gains in the third quarter last year. The provisions are elevated in that business mainly as a result of the cycle in the type of business we're in with subsidiaries. And international is looking quite strong. So, the return on equity in that business is going up. We've wound down some of the lower-yielding assets, but it remains an important place of liquidity for us, with deposits growing 7% and now representing 27% of the group's total deposits.

So, just to conclude what I will say is, you know, once you take account of some of those one-offs and look at the core business, I think it's been a very successful year. Particularly in light of the significant disruption that was the integration of the two banks, which involved a lot of management attention and time. The balance sheet remains strong; we've got strong capital adequacy ratios. And, you know, with the economic activity pick up that we foresee in the New Year, with GDP potentially going from 1% to 2.5-3%, we're starting to see that come through the pipeline. So, we're quite comfortable with the progress we've made in 2016 to date. And we're quite comfortable with the guidance that we've put out there, with the return on tangible equity at 14% and core income flat for the full year, which does imply an uptick in revenue in the fourth quarter. And with that, I think I'll hand over for Q&A.

Operator: Thank you. The question-and-answer session will now begin. If you'd like to ask a question, please press one on your telephone keypad. We'll take the questions in the order that they are received. Thank you. We have our first question from Naresh Bilandani from JP Morgan. Naresh, please go ahead.

Naresh Bilandani: Hi. Thanks, James, Karim, Sofia. It's Naresh from JP Morgan. Just two quick questions please. First, given that the synergies realisation is starting to come in faster than expected, do you see any upside risks to the initial guidance that you had said, going into 2018? I understand that your target for the synergies realisation next year was 65% of the annualised AED 1 billion; so, about AED 650 million or so for the next year. So, can you share some thoughts on that? And second also, would appreciate your thoughts on the deterioration that we are seeing in your past due loan buckets. I think we've seen a material growth in the 31-60 days and over 90 days' buckets, like 50-60% or so. And so, would appreciate your thoughts on the risks of these PDNIs eventually turning into NPLs. And also could you guide on what level of coverage you would be comfortable with in the medium term. Thank you.

James Burdett: Okay. I'll answer your first question. The answer is yes, we're doing very well with the synergy target that we put out to the market. It's too early to come out with revised guidance. So, what we'll undertake to you is that in the next quarterly update – so for the full year call, we'll come out with the revised target. But I can confirm that the target will be higher than the AED1 billion that we put out there. So, yes, there is positive upside on that.

To your second question on the PDNIs, I think the answer really is it's a relatively small amount; it is AED 9.2 billion overall so less than 3% of our net loans. But what I would say is the deterioration overall is two names specifically; and we don't foresee that ending up as NPLs. So, it's not something I'd get concerned about.

Your last question was coverage ratios. Look, I think that's difficult to answer, because we've got a lot of stuff going on with IFRS9. We've got the PPA process that we're going through, the credit harmonisation; but clearly we'll want to be above 100%.

Naresh Bilandani: Okay. Great. Thank you very much.

Speaker: Next question. Operator?

Operator: Thank you. We have our next question from Deniz Gasimli, from Goldman Sachs. Deniz, please go ahead.

Deniz Gasimli: Hi, good afternoon and thank you for the presentation. I'll just ask three questions from my side. One is regarding margins. I think the presentation mentions that asset yields improved on the back of asset repricing on the corporate banking side. But it mentioned lower margins on the personal banking business. So, I just want to get some more colour on what's behind that, what are the dynamics you're seeing in the personal banking segment.

Second question, on the NPL ratio. I mean, could you give a bit more details and tell us what's behind that 20 basis point improvement in the NPL ratio to 3.0% this quarter? Were there higher repayments or, what kind of sectors are you seeing more – let's say, better credit-costs. Any comment on that would be appreciated.

And my last question is on IFRS9 implementation which is coming in 2018 So, I mean, any preliminary guidance that you can share on that? And then do you feel, if you have say excess provisions, currently your coverage is 109%; so that may be translated to excess provisions? And if yes, do you think the central bank will allow banks to reverse some of the excess provisions through the equity? Thank you.

James Burdett: Okay. In terms of the first question on the net interest margins, yes, that's right. A lot of the deterioration year-on-year, was just simply the deployment of excess liquidity. That said, in the retail banking business, we also had deterioration in net interest income because we have this legacy SME portfolio where the rates were 18%, 19%, 20%. Now, obviously that business – right across the entire market suffered significant NPLs and therefore higher cost of risk for provisioning. So, we could tighten that up. Obviously if you start winding down those assets, it's going to come through and impact net interest margin. But clearly what we're expecting is there will be a lag effect here, a lower cost of risk connected to it going forward; notwithstanding IFRS9, which I'll talk about in a minute. In terms of your second question, I didn't quite follow. It is to do with NPLs, I believe?

Sofia El Boury: Can you please repeat your question, Deniz?

Deniz Gasimli: Yes, sure. If you just can give more colour on what's driving the improvement in the NPL ratio. And what – just any kind of comment on asset quality would be appreciated.

James Burdett: Yes, Part of that is the asset denominator impact. So, as we resumed some growth, the NPL coverage ratio has dropped a little bit. Part of it is due to the tightening of risk appetite. And as we tighten risk appetite then, you know, to optimise the balance sheet, we get out of the high yielding risk-assets. And we're comfortable, as I've said, with the 109% coverage ratio. The other impact, don't forget, is the write-offs. Though you would've seen going through the numbers this time round that and it's just part of business as usual that we've written off a number of personal business loans.

Your last question around IFRS guidance; yes, we've got a governance process underway, we're using external parties to help us build the models—we've picked Moody's for that process. We've now got the staging rules agreed and we're in dialogue with the central bank. We're in the process of developing the models. At the end of the year, we're required to disclose qualitative and perhaps even quantitative disclosures, and we're well-positioned to do that. At this stage, the models aren't finalised but our gut-

information is that we're going to see an uptick in provisioning related to personal banking group, particularly the SME portfolio, and a downtick in our CIB provisions. And we think the net impact is very manageable, particularly since any net impact on provisioning will go through to reserves, not through to P&L.

Deniz Gasimli: Thank you.

Operator: Thank you. We have our next question from Chiro Ghosh from SICO. Chiro, please go ahead.

Chiro Ghosh: Hi, this is Chiro from SICO. A very quick question, I see that your real estate-related loans have gone up. I just want to get a sense why exactly it's happening and also are you concerned with it.

James Burdett: Sorry. Your question was why was there an uptick or a material change in real estate loans, correct? That was simply some assets that we had listed under sovereign, the central bank had re-guided us to put under property. That's it.

Chiro Ghosh: Okay. That's all from me. Thank you.

Operator: Thank you. We have our next question from Shabbir Malik, from EFG Hermes. Shabbir, please go ahead.

Shabbir Malik: Hi, thank you very much. I think just a question on IFRS9. I don't know if you touched upon this, but what is your expectation in terms of provisioning for 2018? What – because of this change in approach towards provisioning with IFRS9, would your baseline provisioning go up you think in 2018 relative to '17? My second question is on your fee income. I noticed that your fee income has been quite weak this quarter, and I think the previous quarter as well. Are there any efforts being made by the management to pull this back up, pull this fee income back up? What is causing this weakness? Is it due to the economic cycle or is it increased competition? And finally a quick question on the NIMs. What forces are at play on your NIMs? How do you see these forces shaping your NIMs going into 2018? Thank you.

James Burdett: Okay. In terms of IFRS9, I think the previous statement that we made to the previous caller sort of holds true. So, we're well-advanced into our IFRS9 modelling. Our assessment so far is that we expect an uptick into provisioning related to the retail banking business but we also expect to almost compensating reduction in our CIB business based on the books and the models that we've put out there.

In terms of the guidance, 2018, you know, I think what I would say is that we'll be in compliance with the 1.5% minimum ratio that the central bank puts out there. It's unclear to us yet from the guidelines from the central bank whether any additional provision needs to go through P&L or through reserve. So, we're discussing that with the central bank. But we think it's going to go through reserves. So, we don't envisage a significant impact next year from our IFRS9.

And in terms of your question on fees, yes, they're down this year. Part of it is due to the market. As you know, the GDP growth has been challenging this year at about 1%. But, you know, the rating agency or some of the commentators have come out with next year's growth around 2.5-3%. We believe that's true. We think the economic cycle is starting to pick up; that oil prices have stabilised. And we've started to see that come through our pipeline in the fourth quarter. And as a result of our traditional client-base, the GRE, the public sector entities, we think they'll come to us for financing. So, we are expecting an uptick in both our growth around the balance sheet, associated fees and so on. So, we're quite bullish that it'll recover in the next quarter and on into 2018.

And then your last question was around NIMs. Which aspect was it around NIMs?

Malik Shabbir: Just wanted to get a general idea of what forces are at play on your NIMs right now. What's keeping them down, or, you know, what's helping them up and how do you see those shaping your NIMs in the coming quarter or in 2018?

James Burdett: Yeah. So, I would think what I would say is if it came from the type of business we're talking about. So, in the retail space, I think you'll see continued competition affecting NIMs. But from our perspective, that would be exacerbated by the run-down of the high-risk portfolios that we're seeking to exit.

So, you know, if somebody said to me that businesses that were high risks, you know, that led to huge provisioning - both will come down and they'll have an impact on the personal banking group. Now, on the flipside, we're expecting at least two, maybe even three Fed rate hikes next year, which will come straight through to the bottom line, and we expect and anticipate a significant positive impact from that. On the back of those Fed rate-hikes, we would expect to see some re-pricing happen on the CIB books. And then, of course, the overall plotting will be determined by significant, you know, flows from the government and how we deploy those at the Central Bank.

So, all in all, what I would say is the risk-adjusted returns for the CIB business and the funding optimisation on the back of that will be quite significant for us, offset by a reduction in personal banking group. So, there, again, what we would say is the risk-adjusted returns would be higher in that space because it will have a much lower cost of risk. You know, cost of risks for the SME portfolio has been quite significant to the legacy bank.

Shabbir Malik: And then just if I could ask one follow-up question. Has there any – have been any regulatory changes which could have impacted fee income for the bank or for the sector this quarter?

James Burdett: No. None that we're aware of.

Speaker: All right. Thanks.

Operator: Our next question is from Naresh Bilandani. Naresh, please go ahead.

Naresh Bilandani: Yeah, thank you. And sorry for barging in with another question. So, I'm just looking at your revenue growth guidance, and your guidance is for flat core revenues for this year. And we had roughly about say AED 700 million one-offs last year, about AED 400 million in the first half of this year. So, when I keep these in context, that implies close to about AED 5.5 billion of total revenues in Q4, which I think would be the highest compared to your previous quarter. So, could you please guide me if I'm missing any bits here or if not, can you kindly share your thoughts on what will drive the core revenue strength in the fourth quarter, please? Thanks.

James Burdett: Yeah, I think we put out there the core revenue figure for last year was, you know, AED 19.5 billion. That's the figure we're targeting for the full year '17. It's just less of that. Which, as you pointed out, the AED 5 billion revenue which is an uptick over the previous quarter. We're well aware of that.

Naresh Bilandani: So, AED 19.6 billion would be the core revenue for 2016. So, which will imply about close to about 5.4 billion of revenues in Q4? Because you also had AED 400 million of one-offs in the first quarter of this year.

Sofia El Boury: Basically the revenue guidance that we provided for the full year, like you said, its flat core revenue growth. We basically estimate, core revenue excluding one-off property gains as well as AFS investment gains that were recorded last year.

So, it's a rough estimate of around, AED 19.5-19.7 billion of revenue. But, you know, the bottom line is that definitely in Q4, the expectation is to have a higher revenue number than previous quarters of around AED 5 billion, That is our rough estimate.

Naresh Bilandani: Okay, great. Thank you very much.

Operator: Thank you. At this time, we have no questions. As a reminder, please press on one to ask a question.

Waleed Mohsin: I think as we wait for questions, I'll quickly ask a question. I just want to talk to about the capital ratios for the bank at this moment. They are strong. And every quarter we've seen a build-up in capital level. We have around 80 basis points of capital formation in CET1 ratio since March this year. And while, you know, growth did pick up a bit in the third quarter, and you're talking about growth that you have in the fourth quarter, the internal capital generation still remains quite strong, especially the ROE. And the growth can be sustained, and that means that you will even have excess capital as we assume, a pay-out which is similar to last year.

So, I just want to get your thoughts on how the bank is thinking about the net capital formation which is coming through despite the growth outlook. The regulatory framework also seems to be – the challenges from that seem to be easily resolved by the bank. You commented IFRS 9. Even if you look at some of the other emerging market banks, it doesn't seem the impact of IFRS 9, on FAB would be that dramatic.

So, just your thoughts on how this capital gets deployed and what levels of capital would you be comfortable going forward because the target range you would be exceeding that quite comfortably with the current capital formation.

James Burdett: Yeah, I think the sort of roundabout answer to your question is, yes, we have to pay more dividends. Our capital ratios remain, you know, extremely strong. But what I would say is, you know, we've got the PPA accounting that we need to execute for next year. We have the IFRS 9. In fact, we have a number of other regulatory changes that we need to take into account.

We also, you know, are in the process of developing our strategic plan, you know, for the combined entity going forward, post integration. So, all of these factors we'll take into account. But I think that you're absolutely right that, you know, part of this process is to – one of our core mission statements is to deliver, you know, superior shareholder returns. Part of that is optimising the balance sheet from these low-yielding assets and these high-risk low-return assets so that we can absolutely do that. And we're in a position to do that.

Waleed Mohsin: Understood. And just a follow-up on your comment. In terms of the low yielding parts of the loan book, et cetera, how much more optimisation is left in the book? And I'm just trying to understand how much of an impact that would have on the capital base? Because you mentioned they have been substantial out of the optimisation, and then obviously that means it's a positive pass through to the net interest margin line as well.

And just one question linked to this is, on the cost synergies, we've seen a very, very strong progress ahead of guidance. And you did mention – and you have mentioned this already as well, areas of revenue synergies. I just wanted to get your thoughts on how is your thinking on the progress on the revenue synergy line, what avenues are still available and how can it – how much could it potentially contribute in the coming years.

James Burdett: Okay. In terms of the cost synergies, as I think I mentioned before, yes, we're tracking well ahead of the run rate that we put out there, which was AED 1 billion of annual run rate phase from the end of 2019, and we will come out with revised guidance at the end of the year. And we do have, you know, several ways of synergy optimisation coming through.

In terms of the funding optimisation, that's an on-going exercise as you can well imagine. But, yes, we are replacing high cost deposits. We've also allowed some of the higher cost to medium-term borrowing to run-off. So, yeah, we have a lot of liquidity. And the liquidity is quite strong in terms of the ability to grow into that pipeline that we've been talking about.

Your first question was with optimisation of the portfolio. What I would say is in the CIB space, I think we've – you know, we've done a lot of that. So, I wouldn't expect to see too much more run-off, to be honest, just the normal BAU, repayments and, you know, normal business restructuring and so on. But what I would say is that the personal banking space, the SME portfolio, this portfolio that was, you know, there's

significant NPLs and cost of risk is still to run down. And I think that's about AED 1 billion, or AED1.5 billion still to run-off. And obviously as that runs off, it will impact the revenue line and reach our earnings. But there will be flipside on the cost of risk on a lag basis going forward. So, those are the only two big moves I can see happening in terms of optimisation going forward.

Waleed Mohsin: Thank you very much.

Operator: Thank you. We have our next question from Harshjit Oza from Integrated Securities. Harshjit, please go ahead.

Harshjit Oza: Hello, everyone. Thanks for taking my questions. I have two questions. First of all, on the dividend. If you can give me – give us any guidance on how will be the dividend policy? And the second question is on the upcoming tax regime, the value added tax. So, obviously there's a lot of talk about, you know, how it is going to impact the financial sector and real estate sector. And given your size and exposure, how do you see the value added tax impacting your income statement?

James Burdett: Okay. So, I'll take the last one. So, on the VAT. Look, the European models that they're implementing here or the government is implementing will definitely result in an increase in VAT cost for the bank. The extent to which we can recover that through fees and so on is unknown at this stage because the detailed guidelines are yet to come out. And we're expecting those in the early part of November.

But what I would say is, we're well on track to delivering on that. We're already engaged one of the big firms to help us with that. We've already selected the tax engine, you know, the third-party tax engine that we're going to use. So, yes, I think you will see an uptick in cost as the result of VAT that we have to absorb somehow. But how are we going to absorb that at this stage is still unclear because we're not sure which items are exempt or non-exempt.

And in terms of the dividend, I think it goes back to, you know, what I said earlier, which is, yes, we have the capacity to pay out a significant dividend, but we also have a PPA exercise to be cognizant of. The IFRS9 is still yet to be landed. So, you know, we need to take into account all of these factors. And my sense is, we'll look to record all this stuff sometime in early November, going back to the board with our recommendations, but it will be up to them to pay the final dividend. And I think it will – you know, I think we have the capacity but there are still a lot of unknowns out there. So, I can't actually give you a figure at this stage.

Harshjit Oza: Okay. Thank you very much.

Operator: Thank you. At this time, we do not have any further questions. At this time, I would like to turn the call over to Sofia for closing remarks. Thank you.

Sofia El Boury: Thank you Operator and thank you to everyone for participating in this call. Just a reminder that all our disclosures are available on our FAB IR app, on our micro-site, as well as on the corporate website.

If you have any further questions, please don't hesitate to contact FAB's IR team on ir@bankfab.com or you can give us a call. Thank you very much for your participation and have a great weekend.