FAB Q4/FY'2017 Earnings Call Transcript*

Co-hosted by Shabbir Malik, EFG Hermes
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FAB Speakers

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Arif Shaikh
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Other Participants

Aybek Islamov
HSBC

Deniz Gasimli
Goldman Sachs

Shabbir Malik
EFG-Hermes

Ryan Ayache
Deutsche Bank

Yavuz Uzay
Fiera Capital

Ahmed Hassan
CI Capital Holding

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*Edited

Operator: Good day ladies and gentlemen and welcome to the First Abu Dhabi Bank conference call on the fourth quarter 2017 results. Today's conference is being recorded. At this time I would like to turn the conference over to Mr Shabbir Malik. Please go ahead, sir.

Shabbir Malik: Thank you. Good morning and good afternoon everyone. My name is Shabbir Malik and on behalf of EFG Hermes I am pleased to welcome you to First Abu Dhabi Bank's fourth quarter results call. With me on the line is Mr James Burdett, the Group CFO, Karim Karoui, the Group Head of Subsidiaries, Strategy and Transformation, and Sofia El Boury, the Head of Investor Relations. Without any further delay, I'll now hand it over to Sofia to start the presentation. Sofia, please go ahead.

Sofia El Boury: Thanks so much Shabbir for the introduction. Good afternoon, good morning and thank you for joining us today to review FAB's financial performance for the fourth quarter and full year of 2017. On the call today we have our Group Chief Financial Officer, James Burdett, our Group Head of Subsidiaries, Strategy and Transformation, Karim Karoui as well as our Group Chief Risk Officer, Arif Shaikh. They will respond to your questions at the end of this short presentation, which is currently available on FAB's investor relations app, as well as on the investor relations section of our corporate website.

Before we start I would like to just read out the first couple of paragraphs of the disclaimer that's on slide 2 of the earning presentation in order to clarify the basis of preparation of the deck. So please note that FAB's pro forma consolidated financials as of 31st December '17 serve as the main basis of reference for our management discussion and analysis report and investor relations presentation. Comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in the pro forma condensed consolidated financial statement. The audited consolidated financial statement as of 31st December 2017, are subject to UAE central bank approval.

On this, I'll just pass it on to James for the presentation.

James Burdett: Okay, thank you, Sofia. Good afternoon everybody. Let me start off by saying thank you for joining the call this afternoon. I think you can see from the results that it's been an incredibly complex set of results for us with the purchase price allocation, with the IFRS9 and all the merger related noise. But, what I would say is the presentation is fantastic, Sofia and the team have done a great job, it's very transparent. So what I will do is go through the slides at a very quick pace just plotting out, I think, some of the salient features and some of the key points that we at the bank want to make and then we will hand over to you for Q&A, as usual.

So, look, those who have the presentation, I'll start on slide 3 which I think says it all. So, reported net profit was AED 10.9 billion and whilst it was 4% down year on year I think it was well ahead of consensus estimate and also I think it's important, again, to bring up the integration noise. So integration costs were AED 463 million, close to AED 300 million higher than the prior comparative period and also we had the amortisation of intangibles and I'll talk a little bit more about that later but when you back up those two items, adjusted group net profit was AED 11.5 billion, which is broadly in line with 2016.

I guess, more importantly, on this slide, you know, we are seeing momentum build up in the fourth quarter and you can see a significant jump in profitability over the third quarter. And we expect that to continue into 2018 with pickup in GDP which is widely reported in the press, particularly with Abu Dhabi and the GREs and our traditional client base starting to spin.

We delivered top shareholder returns, and you will see from the presentation that the dividend of 70 fils was generally above where the market anticipated. That results in a total pay-out of AED 7.6 billion which is 11% higher than 2016 with dividends per share at AED 0.7.

Integration, you know, continues to perform well. We've hit every single milestone we put up to the market. More importantly for you, I guess, and your models is that we've revised full year 2020 synergy guidance to AED 1.5 billion and that's 50% higher than the billion we put out to the market previously.

And just to say – and it's the usual, standard statement - the balance sheet remains robust, liquidity is strong, capital adequacy is strong, our coverage ratio has improved over our NPLs - so the balance sheet is very strong and puts us in good stead to grow in 2018.

Moving to page 4, which just details the profitability in a little bit more detail, I guess the key point to pull out here is that revenues are down 4% year on year. That's mainly due to softer market conditions in terms of balance sheet growth, mainly in our personal banking business. And that, sort of, within the personal banking business there's a couple of items. One is a little bit softer growth, a little bit of competition in the spread, but also a bit of risk appetite tightening in the old SME portfolio.

And then you can see the decline in operating income versus prior comparative period has been more than offset by a reduction in BAU cost and also a reduction in impairment charges. The reduction in BAU cost is mainly as a result of delivering, you know, significant synergies as part of the whole merger and integration milestone. And the cost of risk is lower just on the back of a little bit of PPA but also tighter risk appetite in the book.

And then you can see the transaction related costs and the amortisation of intangibles. When you back those two items out, the adjusted profit is at AED 11.5 billion, which is broadly flat to this period last year.

Looking at the key ratios, cost-income ratio is at 27.7% so within guidance. NPL is at 3.1% with coverage ratio improving to 120%. Liquidity is strong, return on tangible equity is strong and CET1 remains strong, notwithstanding the fact that CET1 was hit by about 99 basis points as a result of PPA.

Page 5 just looks at the performance versus what we put out to the market and you can see that we’ve hit all our milestones except for core revenue growth where we said it would be flat and it was down 4% for the reasons I've highlighted previously. But the other items have come in line, so cost-income ratio ahead of target, return on tangible equity ahead of target as well as we managed risk adjusted returns which has partially explained some of the core revenue reduction, and loan growth, you know, strong business we met particularly in the fourth quarter.

Moving on to page 6, you can see that we are delivering top returns to our shareholders and you can see there’s significant growth over the last five or six years. Total dividend paid, AED 7.6 billion which was up 11% over last year and fils per share at 70 versus the pro forma set of fils is 63 for the combined bank in the prior comparative period.

Page 7, I've already talked a little bit about integration. But, you know, we’re quite proud of what we’ve achieved. We've hit every milestone, as I mentioned earlier, we've aligned the target operating model, we've delivered AED 500 million of synergies in 2017 alone. We’ve still got significant amounts of work to do ahead of us, so we’re obviously planning to migrate our customers to one core stack by the end of this year and we believe there's still synergies to be had as we execute our international strategy as well as deliver synergies around the ops and IT space once migration is completed at the end of this year.

Page 8 – I think the slide speaks for itself. If you look at the 2015 combined results where costs were at AED 6 billion. BAU costs now are at just under AED 5.3 billion, down 8% year on year but down considerably since 2015 and I think this is mainly a result of us overachieving on our synergy realisation but also, you know, represents the success that we've had to date in terms of synergies. And the cost-income ratio ex-integration cost and amortisation cost is now at 27%.

Moving to page 9, just to articulate that in a little bit more detail. So we have saved AED 500 million in 2017. That's more than double what we put out in terms of guidance, and I think, again, that represents, you know, successful delivery of the integration road map. But we are putting up our synergy targets and the revised target is now AED 1.5 billion, so 50% higher. And you can see the revised phasing, we expect by 2019 to have achieved nearly 85% of it. Because we have, sort of, hit the ball out of the park in terms of delivering on the integration, we have spent more this year. You can see the integration costs are at AED 463 million. A significant pick up in the fourth quarter particularly and we're now revising our savings, but the overall hit to P&L of AED 1.1 billion does not change. But we expect it to be about AED 330 million this year and then in 2019 dropping below AED 300 million.

Purchase price allocation: obviously this has added a degree of complexity to the accounts. On page 10, you'll be familiar that, you know, when I spoke last quarter that from an accounting perspective it is a reverse acquisition. The standards require you to measure the fair value of the Legacy NBAD assets and liabilities and we needed to do that before one year from legal day one, which was 1st of April. So we looked to deliver by the end of '17 and we have delivered that.

You'll recall that the initial consideration paid was AED 54 billion and the net asset value at the time, which was book value of Legacy NBAD was AED 39 billion, leaving just under AED 15 billion of residual balance. We've now gone through a complete IFRS measurement exercise on the legacy NBAD and the final result is good will at AED 17.3 billion and intangibles at AED 2.6 billion. Intangibles is mainly made up of customer relationships and core deposits and a little bit of license value; all that gets amortised over 12 years. So we're estimating about AED 180-190 million a year going forward. The nine-month impact for 2017 is AED 138 million which you see reflected in our accounts.

In terms of net asset value on loans and advances, you can see we've marked the portfolio down by AED 2.9 billion and that's essentially just revaluing the book which was AED 210 billion at the time. And you'll know that fair value exercise is significantly different from the incurred loss model which we measured assets and liabilities at prior to the PPA exercise. Other assets at AED 1.9 billion were marked down mainly on two things. One is more conservative methodology and measuring our investments and derivative book. And secondly write off of the legacy NBAD assets as we move to, predominantly, the FGB stack in terms of migration. And I've already talked about the intangibles and the predominant breakup of intangibles is mainly around customer relationships.

Page 11, which just walks you through the Core Equity Tier 1 (CET1) ratio from December '16 to December '17. You can see it remains strong at 14.5% at the end of the year. And you can see the walkthrough of movement. So capital generation was 2.27%, the PPA impact was just under 1% bringing the total to a 14.5% and even with the proposed dividend of 70 fils you can see the impact of just under 1.6% bringing the CET1 ratio down to 12.9%, which is comfortably above the regulatory minimum of 9%.

Page 12, I think it's worth spending a little bit of time looking at revenue drivers, I know this will be a question for you. So you can see that total operating income was down 4% year on year but up 10% in the last quarter as we are starting to see the momentum we talked about in prior quarters come through. In terms of net interest income, it was down 3%. In the CIB book that's mainly a little bit of optimisation where we looked to reduce low yielding assets, in the personal banking space there's a couple of items. One is tightening risk appetite particularly in the commercial segment and second is tightened competition particularly in PILs and credit cards. So that all came through and contributed to 3% negative growth year on year but as you can see there's an uptick in the fourth quarter, which is up 4% on the back of growth.

In terms of fees, fees and commissions' down 13% year on year. That reflects the market which was generally quieter particularly around lending fees and trade activity. Again, you see a significant pick up in the fourth quarter as we start to see pipeline come through and a significant pickup in activity and you can see it's up 18% over third quarter. Just to reiterate, you know, we are seeing a pickup in spending. We are seeing a pickup in our pipeline. We do expect GDP to increase significantly next year, particularly as our traditional client segment in the CIB space starts coming to the financial markets for financial services.

The foreign exchange and investment income is up considerably over the prior comparative period and that mainly relates to AFS gains that we recognised in the first quarter, and you'll be well aware of that. Other non-interest income down and that's predominantly linked to lower real estate gains by around AED 250 million over the prior comparative period. And it's something we're targeting, growth in core revenue as opposed to relying on one offs as we go forward.

On page 13, looking at the NIM – on top right-hand side you can see the reasonably significant fall off from Q2'17, Q3'17 to Q4 '17, predominantly of the 11 basis points' net fall is in relation to deployment of government deposits into the Fed so there's a significant pick up in deposits, there's a significant deployment into the Fed to the amount of AED 24 billion, obviously that impacted the mathematical footings and caused the net interest margin to fall. When you look at the performing loan yields and the cost of customer deposits, the two items that we've been encouraging you to look at, you can see on the cost of deposits a slow but gradual tick up mainly in relation to Fed rate hike coming through. But obviously not coming through to the full extent of the rate hikes as we manage our liquidity and, you know, in particular, I think we've had something like 7% growth in our CASA, which as, you know, is interest free. But in the performing loan yields you can see there's a drop off QoQ. Third quarter was a little bit of a spike up due to a couple of one offs but notably on the full QoQ there's about four basis points in relation to personal banking as continued attrition of the old SME portfolio starts to come through but also competition kicks in. And in the CIB space there was a contraction in margin mainly relating to deployment in one or two significant deals.

Moving on to page 14, I guess I've already talked about costs, you know, bottom right hand side really shows you the 8% fall off in BAU cost. And in the graph, on top right hand just shows you the impact of including or excluding the amortisation of intangibles. So, excluding it's at 27% as we mentioned earlier which is the real cost of running the business going forward.

Page 15, cost of risk down significantly over last year from 76 basis points to 69 basis points. Cost of risk continues to improve on the back of, you know, prudent risk management, but also there's an impact from the PPA which has come through. NPLs are up a little bit in the retail space but you can see on the bottom right hand side our coverage ratio has jumped up to 120% which is mainly, again, as a result of the purchase price allocation adjustments that we put through. Overall non-performing loans at 3.1% are broadly flat to June-September quarter end.

Page 16 on the balance sheet, you can see it down over prior comparative period partly as a result of tightened risk appetite. Also a little bit of optimisation there but you can also see some growth happening in December. That growth was slightly negated by the purchase price allocation adjustment that went through the net asset value as well.

In terms of deposits, massive up tick which you can see predominantly relating to government deposits inflow into the fourth quarter, which, as I iterated earlier was the main determining factor behind the fallen NIM or the mathematical calculation of NIM. Nevertheless, our liquidity remains strong at 83.5% for the AD ratio and the liquidity coverage ratio well above the regulatory minimum at 112%.

Slides 17 and 18 talk a little bit about the business. Corporate and investment banking you can see revenues down 5% year on year. A little bit of portfolio optimisation but also a little bit of softness on the market on the back of lower GDP particularly in Abu Dhabi. And as I said we're seeing a pickup in the fourth quarter sliding into 2018.

We had good revenue growth in global markets and cash management, two areas we are focusing on and you can see we've put a statement in there that overall that business generated higher risk adjusted returns as we optimise RWAs and go for higher yielding business. Cost management, you know, strong and costs down 11% due to synergies. A significant portion of the synergies for CIB were delivered in 2017. Personal banking revenue down 8% and I've talked a bit about that. High yield optimisation partly competition particularly in credit cards and PILs but also a tightening of risk appetite around the SME segment, which, as you know, is high yield assets but also had higher risk associated with it. Operating expenses, you know, there's been network optimisation, significant synergies already delivered at 13%, there's more to come in 2018.

In terms of subsidiaries, the main reason for the fall off in revenue was lower property related gains over the prior comparative period. And in the international space, you know, the main impact – so, I think about half of that impact was due to FX devaluation in Egypt and in the UK impacting the Dirham equivalent of the revenue of that performance. But that said, you can see deposits significantly grew by 15%, loans growing at 3%, and expenses starting to be managed down which are down 3% over the prior comparative period, so good performance in from our international division overall.

The last couple of pages on the outlook, and I've talked a little bit about this, but we believe there will be two to three Fed rate hikes in 2018. Obviously, there was one in December. We expect expansionary growth across the GCC which will be partly supported by firming oil prices but also partly supported by a pickup in government spending and we expect GDP to be around 3.5% versus 1.3% in 2017. And we think that will be led by Abu Dhabi and obviously that’s our dominant market segment so we’re predicting a significant pickup in revenue this year. So really, it is a year of growth for us.

What we said is in terms of the international strategy we are looking to execute that this year, the strategy is largely finalised. We haven’t yet gone to market with it, we will do so in the next few months. But one of the key things we want to point out is that we are in the process to obtain a CMA licence and a SAMA licence in Saudi Arabia which we view as significant opportunity for us and for the GCC in particular.

In terms of the last and final slide, which is just our usual guidance slide for 2018, as I've talked about a pickup in GDP we expect that to flow through to our financial guidance for this year, so, we’re looking at mid-single digit loan growth. Revenue growth will be a bit lower, we think it will be somewhere between flat and mid-single digit so we've called it low single digit. And that's really the revenue – constant revenue fall that we've had in 2017 in our personal banking business, the full year impact of that coming through into 2018 offset by a very strong growth in other parts of our business to come up with low single digit.

Cost-income ratio of 26 to 27% and remember that’s against our 2020 ambition that we initially put out there of 25%. So we’re overachieving on that. Cost of risk, you know, we remain cautious at 65 to 75 basis points which is a range that was a little bit lower than last year in terms of the bottom end but we've put a wider range because of the uncertainty in the environment, particularly in the personal banking space.

Net profit growth, which is the main one, we think will be mid-single digit and we expect the return on tangible equity for next year to be above 15%. And we’re looking to keep our Basel III CET1 ratio above 13% and versus the 2020 ambitions we initially put out there of 14 and 15% we’re now revising that to 13.5%. You know, which partly reflects the strong dividend pay-out ratio that we've got but also partially reflects the desire for management to optimise the leverage around capital.

So look, just to sum up, I would say resilient performance and a transformational year for us. We've exceeded expectations, we've exceeded delivery to our shareholders in terms of dividends per share. We're revising up significantly our guidance in terms of synergies and with the momentum building in the fourth quarter we are expecting a strong growth year for 2018.

So with that, I've spoken for a good 20 odd minutes, I will hand over to you for Q&A and we've got Karim here, Arif Shaikh who is the Chief Risk Officer as well and Sofia's here as well to answer any questions.

Shabbir Malik: Thank you, James. Operator, we are open for questions now.

Operator: Thank you sir. Ladies and gentlemen if you would like to ask a question at this time please signal by pressing star one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one if you wish to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. Once again, it's the star followed by the one on your telephone keypad to ask a question.

It seems there are no questions at this time, but once again it's star one if you wish to ask a question.

Shabbir Malik: I think I'll start off as we wait for questions to come through. My first question is on capital, has the central bank said anything about the counter cyclical buffers coming through this year or next year. Do you think that there is scope for counter cyclical buffer to be implemented in the UAE given the economic conditions growth outlook?

James Burdett: The answer to that is - nothing's come through yet, we're assuming it will be zero but obviously the central bank reserves the right to increase it over the next two or three years.

Shabbir Malik: Okay. Operator, do we have any questions?

Operator: Yes, sir. We now have two questions after queuing. We will now take the first question form Deniz Gasimli from Goldman Sachs. Please go ahead.

Deniz: Hi. Good afternoon. Thank you for the presentation. I just have a question on synergies. So, while you've given very clear guidance on cost synergies and you increased the full run rate from AED 1 billion to AED 1.5 billion, my question is on the revenue side. As far as I remember on the revenue side it was maybe less exact but you were guiding for around AED 400 million of synergies from cost of funding optimisation and with additional synergies potentially from cross-sell opportunity. So I just want to ask what is your, maybe, outlook or comment on revenue synergies. Is there – are –, kind of expectations still the same or are there some, maybe numbers you can provide on this?

And my second question would be on IFRS9, if I may, the impact that you've disclosed around 60 to 70 basis points estimated impact on the core capital levels. Are you able to at this stage to give any, kind of, colour on this – what drives this impact. Is it driven by stage 1 or stage 2 or stage 3 expected sale losses? And any, kind of, more details that you can give us at this stage would be much appreciated. Thank you.

James Burdett: Okay, in terms of the revenue synergies, I think the figure we put out were funding synergies and, you know, I think you can see that reflected in our cost of funds which has not gone up nearly as strongly as the market's gone up as we start to realise those synergies. Clearly, it's a very difficult thing to measure but you'll note in some of the balance sheet disclosures that we've retired some of the more expensive debt, particularly some of the public issuances, we've also retired some expensive liabilities in some of the international sites, particularly Singapore. Now, without putting a number out there, yes, we're very comfortable with that synergy target we put out there and our ability to deliver it. But the complex part for us is the cross sale, you know, the synergies around bringing the two banks together and cross selling out of each other's customer base. That really hasn't started to take shape yet because, you know, we're going through a significant integration where we're looking to migrate the legacy NBAD customers on to the FGB stack. So really the focus has been around that migration but also retention. But I can assure you that there's plans to really start to leverage up that cross sell opportunity going into 2018.

In terms of IFRS9, yes we put out a very general disclosure to the market of 57 to 68 basis points impact on the core equity tier one. We're not putting out much more detail other than that. We still need to tighten our models with our advisors and also with our auditors over the next two to three months but once we've, sort of, stabilised that model we will be sure to give you the information that you need.

Arif Shaikh: Yeah. I think IFRS9 has been a difficult project especially in an integration year where you have two systems, you know which have to be kind of reconciled. I think in terms of the validation exercise, which was undertaken by EY that has been done. But I think it's too early in the game for us to get into more details.

I think this is the rate we are comfortable with at this point of time, clearly the central bank will come in and validate this one more time, and I think by March, when we are supposed to go live, we should be in good shape to come up with the final numbers.

Deniz: Good, thank you.

James Burdett: Just to add to that, what I would say is the 68 basis points is the outside range, so it's the worst-case scenario from our perspective, and also there's a potential to amortise the impact over a period of five years, depending on the size; the magnitude and whether we get central bank approval, but the key message is we can comfortably absorb.

Operator: We will now take our next question. Our next question comes from Ryan Ayache from Deutsche Bank, please go ahead

Ryan Ayache: Hi, good afternoon. I have a question on liquidity, and I suppose asset allocation. Your loan to deposit ratio is very low, and on the asset side, you're just extremely liquid with, I'm looking at slide 24, a very low loans to asset ratio. So, when does this start to look more conventional? Is this a three-year story? and what are some of the targets that you can share with us, in terms of how you'd like to see the asset side evolve, from a ratios perspective? And on the liquidity, I appreciate hoarding liquidity, is something that you may not be fully in control of, being the government's banker, but 83% is just a very, very low ratio that does weigh on the profitability. Is there anything that can be done about that from an inflow perspective? Thanks.

James Burdett: Thanks Ryan. I think, I consistently have trouble explaining the impact of government deposits, as of the end of December, and you can see this from the disclosures, that our governments sector deposits are at nearly AED 79 billion, and that's the growth over June from AED 55 billion, which is quite significant. And so, that money comes in and obviously impacts just the mathematical footing of the advances-to-deposit ratio. So, I guess what you should know is that, those government deposits we invariably place in central banks, be it the federal bank or the ECB. If it's the ECB we enter into a swap arrangement to ensure the spreads are decent; But from a behaviourisation perspective, in terms of liquidity coverage ratio, we behaviourise very small amount of core liquidity that we can lend out. So, if you sort of back all of that out, actually; the advances-to- deposit ratio is significantly higher than 83%.

That said, your point is well taken, that we haven't grown our assets as strongly as we put out to the market; but we are confident of growth this year, particularly on the back of the significant uptake in GDP that's being expected by the market. And in fact, in terms of our aspirations for this year, we are looking to grow assets much faster than liabilities; in terms of our budget and what we are trying to deliver into the market.

Arif Shaikh: In terms of government spending, if I could just pick on from what James said. I think we see that coming back from the third quarter onwards, a lot of projects now being awarded, even projects that were put on the back burner, in 17 or late 16, are now kind of back on track. And we have seen good traction, in terms of the business. And you will see that coming through, including some very large deals that will happen, in the first quarter. So I think the asset pick up is just a matter of time, and you'll see the traction coming through in the first half of 2018. And this is solid asset quality because as you know we are the favourite bankers to the government, so a lot of these projects will flow through fast.

Operator: We will now take the next question from Yavuz Uzay from Fiera Capital, please go ahead.

Yavuz Uzay: Thank you very much for the presentation. I have one detailed question on the integration costs. When you were originally communicating integration cost, you were separately giving integration cost and strategic investment numbers. I understand, based on this AED 463 million, realised in 2017, that includes everything; and updated target, for integration costs, for the coming two years, which are AED 330 million and AED 307 million, are also including all these strategic investments, I presume? Or, should we include those strategic investment as before, as a separate item? That's my question.

James Burdett: Yes, that's right. We did put out some guidance around that, but just to be crystal clear, page 9 which talks about the saving of the integration costs, is strictly limited to integration only; So, this is the costs of redundancies; costs of closing down; costs of consultants; costs of whatever it is, that its solely related to integration.

In terms of strategic investments going forward into the future, in terms of our budget, yes we are investing in the future; we are investing in areas like digital. Yeah, we also hired a chief digital officer and we're looking to rack that up, and a lot of the focus loads of 2018 is on the migration, in the business as usual and the need to migrate all customers on to one stack. But in parallel, we are looking to see what we can do in digital and cyber security and various other things, where we do need to ramp up investments.

Yavuz Uzay: Ok but originally you gave us AED 360 million cumulative strategic investment, target, that will be distributed equally, per year, until 2019. Now it's part of business as usual costs, right? Meaning, we shouldn't look at it as a separate cost, right?

James Burdett: Yes, that's right. From your perspective, until will come out with a revised target of investment spent, you can assume that its incorporated within the BAU spent.

Yavuz Uzay: Ok, thank you very much.

James Burdett: But I would iterate that we are investing, so it's not just all about costs though.

Yavuz Uzay: Thank you.

Operator: We will now take our next question from Ahmed Hassan from CI Capital Holding, go ahead.

Ahmed Hassan: Thank you Gentlemen for the presentation, my question has been answered so I'm fine. Thank you very much.

Operator: Once again ladies and gentlemen if you would like to ask a question please press star one on your telephone keypad. We will now take the next question from Aybek Islamov from HSBC, please go ahead.

Aybek: Hi everyone, thank you for the conference call. I'd like to ask the following, what do you think will be the corporate response, the borrower's response to 3 rate hikes in the U.S. We are talking about a substantial increase in funding costs for them; what are your thoughts on this subject? That will be the first question.

And, the second question. You mentioned that you're in the process of obtaining a CMA license in Saudi Arabia. How does this new geography fit into your international strategy; and what are your key targets there in Saudi, in Saudi markets? That's it for now.

James Burdett: Look I think you're right, we do expect 2 to 3 rate hikes this year; and remember there was one in December, and there's no question that the costs of funds will go up, and that will put some pressure on some businesses. Actually, one of the things you should look at, when you look at our financial statements, is that the risk weighted assets have actually gone up, and whilst the credit risk weighted assets have come down, market risk weighted assets have gone up; as we see a substantial pick up in hedging activities. So, I think a lot of people are already anticipating, and a lot of people are front running into hedging around their interest risk exposure, so we are seeing a big pickup in business there; which we think will come through in our 2018 results.

Also, what I would say is that we are pushing, from a bank perspective, we're pushing CASA, which is up 7% year on year, and is a huge force of capital accretion for us. But, the customers themselves I think some will be a mixture of stress, a mixture of hedging, a mixture of push back; I don't imagine the whole 75 basis points will be passed on immediately, there will be a fading impact where businesses can adjust to the new norm, just like it happened in our economy with oil prices actually. So; I think there will be a mixed reaction depending on your point in the cycle, your credit worthiness, it's a really, complex question to answer; but from a bank perspective, we are seeing a lot more hedging activity.

Aybek: Ok, thank you; and with regards to Saudi Arabia?

Karim Karoui: It is extremely important for us to have a physical presence in Saudi Arabia. In the past it was not that easy to access this market. Given the openness and what's happening there, we see a huge opportunity for us. It's a market that we understand, and we are going to enter from two doors; one on the investment banking area, through CMA licence; and then the commercial banking space through SAMA. 2018 will be the year for us to push that physical presence, and then we will build on that in the future. It's extremely important for us to be there, it's going to be one of the winning horses for us in the future; along with what we have built on in the past for Asia, APAC that will continue. So, between Asia, Saudi Arabia, the EMEA region where we are currently now, this is what we are currently having in terms of strategy on the international side. The other places we are rationalising, and then the information will come and then we will focus on the execution, on what we agreed internally, in terms of international strategy.

Aybek: Ok, thank you; and if I may, a follow up question. Your long haul expectation in 2018, does it assume you taking market share from other banks or you see a good enough, sort of new growth opportunity. I'm looking at your GDP growth forecasts for example for UAE, north of 3% in my opinion, is quite optimistic. So, what's behind your long haul expectations? taking market share from other banks or is it the year opportunity?

James Burdett: Yeah, I think it's a combination of both. We put a mid-single digit loan growth as a target. If you sort of think two times GDP; we are a leveraged player on GDP, we got a dominant market position in Abu Dhabi. We expect GDP to be led in the UAE and Abu Dhabi, with Government spending and so on. So, we are pretty confident in achieving that number. I think in terms of market share, it depends right, on the whole system; loan growth, which segments you target, and so on, so it's really difficult to target. But we definitely want to raise market share, here in CIB; and Abu Dhabi; and Dubai where we are obviously targeting.

Aybek: Ok, thank you, thanks.

Operator: We will now take our next question from Ghobash Investment and Trading, please go ahead.

Mahmoud: Good evening gentlemen, this is Mahmoud from GTI. Just two questions from my side. The first would be; I noticed a decline in impairments, in this year, on the back of write backs. So, I was wondering which buckets of your loan book is actually driving that?

And, my second question is; we have obviously seen strong decline in core fee income, on the back of the reasons that you mentioned, softness, market etc. However, it is a significant decline, and I was wondering if that actually sets a base, that is low enough to resume growth in 2018? Thank you.

James Burdett: Yeah, I think I'll take the second question and then hand over to Arif for the first question. In 2017, you're right there was less market activity; particularly on the lending and trade front, and that sort of followed through into our numbers; plus, in 2016 we did have a significant number of, sort of one off items, or one or two large deals that generated fee income. So, I think yeah, we're confident in taking the core of 2017 as the base and going from there.

Arif Shaikh: I think, in term of the write backs; it has been a combination of both, the consumer business and the CIB business. I think predominantly on the CIB business, based on closures we did from 2016, then to 2017. So, this is an ongoing daily process, where we keep on looking at our portfolio. So, there will be write-off's and there will be some write-backs.

Mahmoud: Yes, thank you.

Operator: As there are no further questions at this time, I would like to turn the call back to our speakers for any additional or closing remarks.

Shabbir Malik: If I may ask just one or two questions before we conclude the call. In terms of your NIMs, what processes do you think will be at play in 2018 and what direction do you see NIMs going this year? And my second question is on your retail business. How far ahead are we in terms of integration in the retail segment; and when do you think the retail business will start firing on all cylinders?

James Burdett: Ok, in terms of the net interest income, we're looking for, in terms of absolute numbers, the NII will grow this year, so 2018 will grow over 2017. In terms of NIMs percentage itself, there are various factors that come at play; the government deposits, the government liquidity, the Fed rate hikes, the ability for us to grow CASA, so on and so forth. So, we haven't put a NIM figure out to the market, but we are looking to grow the absolute quantum of NII, on the back of mid-single digit loan growth.

In terms of integration, I guess the policies the target operating models, all the basics that form the bases for integration going forward in our retail business, has happened. The only thing that hasn't happened, really, from a big picture perspective is migrating the customer of legacy NBAD on to the target stack, and because of that we'll be operating two systems within the branches. It makes it a little bit more confusing for the retail customer, and so network optimisation, all of these things can only really happen, effectively, when we do the migration, which is scheduled to happen this year. So, it's a huge part that hasn't been done; but I would say, the base building block around it has been done.

Shabbir Malik: Thank you, that's all from me. Operator are there any other questions?

Operator: There are no further questions Sir. I will now turn the call to our speakers for any additional or closing remarks. Thank you.

James Burdett: Yeah, look thank you for joining the call today guys, I realise it was a comprehensive and complex set of results that we put out to you. But as usual please feel free to contact myself, or Sofia, or Karim, any one of us with one on one questions if you like. Abhishek is also here and I know he has a personal relationship with most of you. And I just conclude by saying; we are seeing momentum in Q4, we are expecting a pick up in 18. It's been an amazing year, from an integration perspective, and we're quite proud of what we've achieved – so, thank you.

Operator: Ladies and gentlemen, this will conclude todays conference call. Thank you all for your participation today, you may now disconnect.