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ADIB

ABU DHABI ISLAMIC BANK
Results Call Transcript
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ABU DHABI ISLAMIC BANK PJSC
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Speaker 1:
Welcome. Please be aware that this conference call as well as any Q&A may be recorded. Where a company is presenting, any recording may also be posted on their website. I will now pass the call over to Mehmet Sevim.

Mehmet Sevim:
Good afternoon, ladies and gentlemen, and good morning to everyone joining from the U.S., and welcome to Abu Dhabi Islamic Bank's First Half 2025 Earnings Call. This is Mehmet Sevim from JP Morgan's Senior Financials Research team, and we are privileged and pleased to welcome Abu Dhabi Islamic Bank's Management to present and discuss the first half 2025 results. The presentation will be followed by a Q&A session, and instructions will be shared later on the call. Now, without further ado, I'd like to invite Ms. Lamia Hariz, Head of Corporate Communication Marketing, ESG and IR to begin the session.

Lamia Hariz:
Thank you, Mehmet. Good afternoon to everyone on the call, and thank you for joining us. I would like to welcome you to our Q2 2025 financial results. Before we get started, just a quick reminder that today's presentation and all our financial disclosures are currently available on the IR section of our corporate website as well as our dedicated IR app. I have with me on the call Mr. Mohamed Abdelbary, our Group CEO, and Mr. Ahsan Akhtar, our Group CFO. The agenda for today is consistent through this quarter. Mohamed will cover the key highlights of the quarter followed by high-level guidance for the rest of the year. This will be followed by a more detailed analysis given by Ahsan on the financial performance, and then as Mohammed mentioned, we'll open the room for Q&A. I'll hand it over now to Mr. Mohammed to go over the financial highlights.

Mohamed Abdelbary:
Thank you, Lamia, and good morning. Good afternoon, everyone. Thank you for joining us on today's call. We reported a very good quarter in... second quarter in 2025 where we continue to demonstrate our strong results and the sustainability of our performance. Our record earnings reflect healthy client activities marked by a balance sheet expansion across all our core businesses as well as strong growth in diversified revenue streams. We delivered significant growth in net profit of 16% with net income for the first half reaching 4 billion dirhams and an ROE of 30%. This was driven by double-digit growth in revenues, 11%, powered by expanding growth-based business volumes, continued customer acquisitions, and improved revenue mix with higher non-funded income contribution. Non-funded income has grown by 15% and it cost the 1 billion milestone for the second quarter, and if we'd want to just look at the composition of our revenues, 39% of our income now comes from non-funded income.

From a client perspective, our franchise has gone from strength to strength, and we've added in the first six months of the year 145,000 new customers, which takes our total now to 2 million clients. Despite our investments in people, digital advancement and technology, we have maintained our cost to income ratio at 28.2%. From a balance sheet perspective, asset growth was exceptional during the first half, supported by favorable macroeconomic conditions and robust market activity, which resulted in accelerated growth in customer financing. This demonstrates our ability to capture market opportunities with speed and discipline and create value for our customers and ADIB group. This growth was efficiently funded by also an increase in customer deposits. We can talk about it more in detail. But as we've always been highlighting, while we are driving business growth, we are always focused on ensuring we have ample efficient liquidity, but also a strong capital position.

We maintain our focus on high-quality origination disciplined credit risk. And we are very pleased to be showing continuous improvement in our asset quality KPIs. As I also mentioned in the last quarter, I would like to remind us all where we started a few years ago when we signaled from the very beginning that one of our KPIs was to continue to drive efficiency and improvement in terms of our non-performing asset ratio, our coverage ratio, our capital liquidity position, and I'm very pleased to report that this journey is continuing, and we are continuing to deliver on these promises. So let's talk about the guidance for a second. So for the rest of the year guidance, we are, I think, very strongly pleased to talk about where we are expecting to land the year. We have updated some of our guidance.

In terms of our customer financing, given where we are year-to-date, we are looking at possibly closing the year anywhere between 18 to 20% financing growth by the end of 2025, net profit margins, four-year guidance, and again, assuming the two rate cuts will materialize, now the verdict is in the air, but probably our view is two rate cuts can anywhere start between September, October all the way to December, taking us to a 50 basis point cut, and hence. We are guiding still the market towards 425 net profit margin. Cost of risk and the quality and health of the portfolio is evident. We are still guiding towards a range of 40 to 60 basis points. Cost-to-income ratio will be below the 30% mark, and our return equity will continue to be for the foreseeable future above 25%. With that, I will now hand over to Ahsan to take us slightly into more details of the financial performance before we open it up. Okay, Ahsan, over to you, please.

Ahsan Akhtar:

Thank you, Mohamed, and very good morning, good afternoon to everybody on the call. To start with a quick summary on the financial results that Mohamed mentioned, we've continued to deliver an exceptional set of financial results this quarter with all core businesses and product lines continuing to perform extremely well. As a result, net profit growth before tax was particularly strong at 16% year-on-year for the half year to reach 4 billion for the first time. Second quarter results before tax increased 14% year-on-year to reach 2 billion dirhams. On a post-tax basis, the net profit for the first half was 3.9 billion, reflecting a 15% increase in the profitability of the bank for the first half while Quarter 2 increased to 1.8 billion, up 30% year-on-year. In terms of revenues, these were at 5.9 billion, and while revenues increased 11%, expenses grew by 9%, reflecting widening jaws of the business. Cost-to-income ratio has continued to improve and this is something we have always alluded to. So they improved further to reach 28.2% driven by enhanced efficiencies and disciplined cost management across the bank.

In terms of the balance sheet, the total assets reached 260 billion, the balance sheet growing 22% year-on-year. This has been driven by strong financing growth across both our retail and wholesale businesses, coupled with increase in the investment portfolio within our treasury business. The growth in assets has been adequately funding to a very cost-efficient healthy deposit base, which increased by 24% year-on-year to reach 213 billion while maintaining a healthy funding mix by growing our current and saving deposits. Moving forward to slide eight, as you can see in the table, our operating income increased 11% to reach 5.9 billion. This strong performance was reflected by a 12% increase year-on-year in the operating profit margin, which reached 4.2 billion by half 1/2025. We would also like to mention that while we've applied a first half tax rate of 9%, we are working on completing the assessment for eligibility for the initial phase of internal activity exclusion, and we'll reconfirm by year-end in terms of final applicability and outcome. As of now, our effective tax rate works out to 11.5%, which is in line with our expectation and guidance previously provided.

Moving on towards the income statement, and while we delve into the income statement, drivers, you will appreciate from the top left head chart that we have recorded a consistent upward trend in our net income growth over the last few quarters. Within that, the key drivers are both the funded and the non-funded income. And while funded income has increased by 9% year-on-year, this has been on the back of strong financing growth, which has been funded by a stable and low-cost deposit base. Additionally, our non-funded income has been 15% higher than the previous year at the same time, and it has grown steadily by 7 1/2% above the last quarter, driven by strong growth in fee and commission income, underlying our strategic focus on revenue diversification. And this growth has actually been achieved across all customer focus segments of the group. The non-funded income now therefore contributes approximately 39% of the total income, and this has risen by approximately one percentage point compared to the same position last year. From a segmental perspective, our core retail and wholesale businesses continue to contribute healthy towards our net profit growth.

Moving on to funded income on slide 10, as mentioned earlier, funded income has increased by 9% year-on-year from growth in business volumes. That has actually offset the slight margin contraction that we've had in H1. In terms of performance by segments of... funded income has grown across all businesses aided by higher volumes, particularly in the wholesale and the retail space. On the funding side, we continue to benefit from our low cost of funding in the UAE market where cost of funding is close to 1.7% now, while the overall cost of fund has reduced slightly from the beginning of the year by about 10 basis points to reach 2.53%. Net profit margin, therefore as a result has slightly contracted to 4.27% compared to the last quarter, primarily because of the rate cuts that we saw in 2024. But this has been more offset by the healthy deposit mix that we've seen in 2025. With regard to NIMS sensitivity, we would like to remind everybody that this remains unchanged at 120 million impact on net income resulting for every 50 basis points movement in the interest rates.

Moving on to the non-funded income, the revenue growth that we have seen has been supported by diversified revenue streams with non-funded income now contributing an efficient 39%, and that helps us in our capital as well. So 39% of our total revenue has come from non-funded sources. In the second quarter, the non-funded income increased an efficient 15% year-on-year to reach 2.3 billion and 8% sequentially to reach 1.2 billion in the second quarter. The key drivers of the non-funded income essentially have been three, but investment income has increased by 33% on the back of the investments that we're doing in our portfolio as we take advantage of the higher interest rates, while at the same time FX income has increased by 98% resulting from increased customer flows. Meanwhile, our fee and commission income, which has been our strength historically, has increased year-on-year by 28%, driven by higher processing fee on assets. Local and international retail card spends remain at a high level and new card acquisition that has resulted in cards income increasing by 16% over the course of the last 12 months.

At the same time, our wholesale banking team is now playing a bigger role in terms of syndication arrangement and debt capital market and has seen a growth in CFIB related fees as well. Moving on to expenses, so while expenses have increased by 9% year-on-year, this has been primarily because of the investment that we... doing the talent and strategic initiatives to support business growth. We are also very proud to say that our cost income ratio is now at a historical low of 28% lowered by 40 basis points compared to the same position last year. And this is comfortably within our guidance as we continue acceleration of our investment in growth supported by existing income levels. Moving on to slide 13, in terms of provisions, overall impairments were 305 million for each one and approximately 200 million for the second quarter. The cost of risk remains well within our guidance at 44 basis points, and this is compared to 40 basis points last year as well. It is worth mentioning at this stage that we are not seeing any credit quality pressures either in wholesale business or our retail business and the overall-

Ahsan Akhtar:

... either in wholesale business or our retail business and the overall credit environment remains very stable.

Moving on to our non-performing assets and you will appreciate the fact that our overall NPL levels have gradually dropped and has now reached a level of 5.8 billion, down 10% year-on-year. In terms of our non-performing ratio, this is now at a historical low of 3. 5%, lowest since 2016, declining from 4.67% same time last year, reflecting the strong recovery which you have seen in some of our legacy credits, as well as some related write-offs.

In terms of coverage ratio, as shown in the bottom right-hand chart, if we include collateral, this has now reached 161%, up from 149% same time last year. While we continue to build on our cash coverage ratio as well, which is now at 85% and we are trending towards the 90 as we move into the second half of the year.

In terms of our balance sheet, on slide 15, we've seen a very strong momentum continue from 2024 into the first half of 2025. This has resulted in our total balance sheet increasing by 34 billion since December. The year-on-year asset growth as result is now 22%. Key drivers have been financing assets which have increased 22% year-on-year, as well as increase in our investment portfolio of about 7.5 billion.

Well, as we move into our financing assets, as I mentioned previously, this increase has been 31 billion over the last year or so, to reach 167 billion at growth financing assets. A significant portion of this growth has come from our retail assets where we continue to gain market share, especially in our flagship products, and we are now proud to say that we are number one in terms of our market share in products such as home finance and personal finance, with home finance now growing by approximately 44% year-on-year, aided by successful new product campaigns and tie up, which we have now got with a lot of dealers in the market.

Wholesale bank continues to have a very strong year. There have been solid financing demand across most industry segments throughout the region with GRD growing at 31%. In terms of our investment portfolio, we have expanded this by a 7.5 billion year-on-year, primarily because we want to lock in longer duration assets at a time when interest rates are relatively higher, and we continue to deploy the excess liquidity of the bank into different SKUKs. Around 85% of this portfolio with accounted for it amortized cost, and almost 90% of this portfolio is investment grade as well.

Moving on to slide 18. In terms of our deposits, a strong customer franchise has continued to drive broad-based growth in customer deposits, which have increased 24% year-on-year with impressive and continued growth in CASA of 14 billion out of this, and particularly year-to-date, this CASA growth have been quite impressive at 11 billion, with retail CASA now reaching almost 100 billion as of now. CASA therefore stands at a very healthy 66%, which continues to support low-cost funding based at the bank's support. And our ability to attract CASA balances in this environment, it's clearly a reflection of our success factor for the bank and our focus on product innovation and attracting Emirati salary accounts.

Lastly, I'll conclude by talking about liquidity and capitalization. So in 2025, ADIB continues to maintain robust capitalization and liquidity levels despite the significant balance sheet growth that we have witnessed in 2025. Our capital adequacy ratio continues to remain at a very healthy level of 16.6% and we've managed to increase our common equity tier one ratio to 12.7% from 12.1 at the beginning of the year. Despite the higher asset growth, the overall risk rate assets growth this year has only been 16 billion. Essentially implying that we've done several capital optimization initiative throughout the year.

Lastly, on our liquidity ratios, these remain very healthy. Advances to stable fund ratio is at 80% while our financing to deposit ratio is at 76. 5%, relatively stable compared to our position 12 months ago. And ELAR ratio, which is a measure of our liquidity as well, relatively stable at around 18% compared to about 19.5 about one year ago. With that, we conclude the financial side of the presentation, and over to you.

Speaker 2:

So we can now open the room for Q&A.

Leila:

If you'd like to ask a question, feel free to use the raise hand feature, which can be found along the black bar at the bottom of your Zoom screen. If you've dialed in by phone, *9 will activate the raise hand, and *6 will allow you to mute and unmute.

Our first question will come from Aybek Islamov. Your line is open. Please go ahead.

Aybek Islamov:
Thank you for the conference call and congratulations with a strong set of numbers in the first half.
Well, I think I would like to ask a couple of questions. One is on retail. I'm looking at your new to bank customer growth, very impressive in the first half, up 50% year-on-year, but can you elaborate on what are your main customer acquisition channels as of today, which are leading to such strong growth, and what kind of growth should we think about for the second half and also 2026? That's my first question.
And secondly, on your capital ratios, I can see your CET1 ratio improved marginally in the second quarter versus the first quarter. It is 12.7% to be precise, so does the level of your CET1 ratio going to dictate the type of assets that you're planning to book going forward? Because this quarter I can see a strong pick-up in lending to sovereign public sector, so it's a low risk weighting. I think this question is also relevant in view of this introduction of 0.5% counter cyclical buffer on private sector international loans. So how do you think about this counter cyclical buffer, how it'll impact your growth diversification targets? That's my second question.
I'll stop here. Thank you.

Mohamed Abdelbary:
We start with your first question regarding retail bank and new to bank. So, we have acquired in the first six months around 145,000 new clients, taking the total client base to 2 million. The question acquisition channel, actually I can give you another KPI which might be helpful, and I spoke about it this morning as well. One of our [inaudible 00:23:17] deals is that we are processing almost 180 million transactions per year across all our channels. If I compare to the year before that, it's an increase of 20%. And now fast-forward into the first six months of this year, that's another 16%. So if you see we are growing almost from 15 to 20% in terms of volumes. We are still having the same 59 branches and we still have around the 600 ATMs. So what it tells us is that 26% of that actually is challenged to our digital platform, whether it's in terms of service or sales origination. And in fact, with the increase of clients and volumes, the traffic on our traditional channel has actually gone down. So our branch channel and volumes has gone down 2.6% year-on-year. So if you just do the maths, 20% up, branches 2.6% down, digital channel up. So all the traffic and the acquisition channels have really gone to our digital channel, whether it's the mobile app and other channels, depending on the type of client, and hence service and/or origination has come from that.
And we see that continue because it's a journey that has started many years ago when we started enhancing our digital channels. It's paying off now because in the boom, it's not a matter of throwing bodies or brick and mortar against that volume, but you are able to absorb that channel. And this will continue in '25 and '26. Having said that, there's no plan at this stage to change any of our branch network, in fact, we are very proud of them. We actually opened a few more to accommodate some of our business banking pickup, and also you might starting to notice that our entire ATM fleet is being changed as well. So we are modernizing the entire ATM fleet as well. And it becomes not the traditional ATM, but it's almost like a small tele machine, where you can go, it becomes cardless, it becomes checkbook, it becomes embossing, so it's a complete different value proposition. So that's really under new acquisition channels we have, and happy to follow up if required. In terms of our capital position, currently, as you rightly mentioned, we're sitting at 12.7%. In terms of where we see that happening, I think we just have to sit back and acknowledge that our strategy is working. And we've always been saying that ADIB's intention is to ensure that we create enough internal equity to support growth. And what it means is that we are able to grow the balance sheet. It's grown almost year-on-year by 22%. RWA's have gone much slower than that, and hence the RWA capacity, or efficiency consumption, has actually gone down. I think it's touching probably 66% now. And this is why it's not coming back, for instance, but when we talk about retail, our biggest flagship product is home finance, which attracts an average 35% RWA.
We are very much focused on capital-light corporate financing as well, but a mix also from slightly heavier RWA to ensure the margin is protected. But we are looking at continuing that journey, because for us it's not a matter of only growing balance sheet or financing, but it's always very important that we protect our capital base because that's our license to continue growing. The worst thing I think any institution can do is go into a start-stop mentality where you grow very fast, don't look enough or focus on your capital and liquidity, and find yourself pricing yourself outside the market to be doing that.
ADIB is nowhere near that. We are very comfortable 12.7. The next six months, we have a very clear view on pipeline of how we're going to land the year with a strong closing as well. That's why the guidance we provided, as well was a close strong capital position. I spoke about a capital action required this morning as well in one of my interviews, and this year I think we are good. Is an 81 probably on the table? Why not. It's always a very attractive instrument to have and it helps you support your illegal lending limit if you like, in that concept. But other than that, there's nothing planned for this year beyond that.
Please let me know if I missed any of your points, happy to follow up on any of these.

Aybek Islamov:
Yeah, just on customer acquisition. So I mean, by the way you describe it looks like you can be easily at like 4 million customers by end of next year, and that's a pretty big chunk in terms of customer account within the UAE. Is that fair to say?

Mohamed Abdelbary:
Yeah, so again, you are right, but if you look at the mix of clients we are onboarding, we have by no means changed our target market. So on the financing side, instead of also not talking about number of clients, let's talk about which clients are using your facilities more, it's still 80% [inaudible 00:28:29] in actions. We are boarding the spectrum, we are onboarding more clients, but even in the expert segment, we have been quite focused and selective to ensure that the value proposition on both sides still work. So we have not gone down market and we will continue to do so. By July, 4 million clients, why not? The infrastructure is available. We're running faster than our position in terms of our digital capabilities, and we hope to continue to be doing that.

Aybek Islamov:
Clear. Thank you.

Leila:
Our next question will come from Shabir Malik. Your line is open, please go ahead.

Shabir Malik:
Hi, can you hear me?

Leila:
We can. Please go ahead.

Shabir Malik:
Thank you very much. Congratulations on a good set of results. I have three questions, and number one, in terms of you loan your guidance, what gave you the confidence to raise it from less than 14% to high teens? My second question is around capital optimization. You've added CET1 capital this quarter, I just wanted to understand what initiatives you took to boost that RWA efficiency, which enabled you to raise your CET1 ratio. And yeah, those two questions please.
And yes, maybe finally, in terms of your strategic priorities, what are maybe your top two or three strategic priorities for the rest of the year? Thank you.

Speaker 7:
Thank you.

Mohamed Abdelbary:
Thank you so much, Schabir. Okay, so in terms of what gives us the confidence in terms of changing the financing guidance for the rest of the year, I think a few things I can talk about this. In retail, I think it can be summarized in one word, the machine is working. So we have very clear line of sight of where origination is coming, what are we booking in terms of gross assets every month, and what is our attrition repayment rate, what is our conversion rate and capability? And hence, the retail actually is the slightly more easier one to predict in terms of how you move forward, and I think if you look at the first six months and even go slightly before, the math is quite clear and that has not changed. Maybe the only change I would say is what we have seen probably early June when there was some geopolitical situation that happened. People were slightly cautious. It took us only 10 days with a bit of slowdown, but then the machine worked again. So I think retail does give us the confidence to forecast the full year number.
In terms of on the corporate side, very strong pipeline I have to say, one of the strongest I've ever seen in the last six years I've been with the bank. We've converted a lot in Q2. I would call them almost all landmark deals because they carry a strategic angle to it beyond just ranking a balance sheet, and there's much more to come in half two. Now again, to the point of capital optimization, which I'll come to, we are being very selective and we have been selective because we can be selective. We have that option and choice, and we are making sure that the financing we extend comes with a total relationship angle and ensures that it becomes capital accretive, not capital dilutive. And hence, when we looked at the full year guidance, we are also keeping a very close eye on our capital position to ensure that we hit the number we are comfortable with to make certain recommendations by year-end as well.
The question on what we have done on capital optimization, I wish I could say a lot, but I think the good thing is that because our strategy has been focused on generating equity internally for the last few years, it's not something that's happened this year, the fact

is that we have always had these positive jaws in terms of having our ability to book financing and create RWE. Now, some actions clearly we have taken, which I would call it more like hygiene practice which any institutions will do.

Like for example, home finance, there's an LTV element. If you have a certain number, you get 35% RWE. If it goes below that number, it goes to 50%, 60%. We looked at these. Some of the provision levels, if you are at a certain level, it affects a hundred percent RWE, but if you increase it for your non-performing book, it becomes less than that. So these are factors we have done, but I think the big win is that these are not one-time interventions, but it's a model. It's a model which is working. The frontline knows what needs to be done and we will continue to push on that front as well.

Your third question was on our strategic priorities. Now we've laid out our 2035 vision statement and it has milestones very clearly by a quarter note in the next 10 years. And one of the most important elements we are looking at is that in an institution which is growing at the pace we are growing, it is very important that first of all, your client experience becomes intact.

So a lot of our initiatives are going in terms of ensuring that our systems which support our client service model is being invested and delivered this year, whether it's on CRM, whether it's on, as I talked about, the branch network or digital capabilities, our mobile app, so that's the strategic initiative for us this year.

Number two, cyber security and controls. The more digital you go, the more you are prone for attacks, so a lot of investment is going on that front as well. And last but not least, we are upscaling also continuously the workforce because the new era dictates also a different level of skill set. We spoke about GenAI as one of our pillars. A lot of investment is going into that. GenAI is a big word, but it can boil down back to what we call use cases. You find the use case, you find where it is most beneficial, and hence you're able to protect your foundation and let the frontline do what they do best, but you give them the air cover in terms of ensuring that your backend in terms of middle office and back office are learning as fast as they're doing as well in a controlled manner.

Speaker 7:
Great, thank you so much.

Speaker 3:
Our next question comes from Naresh Narendra Bilandani. Your line is open. Please go ahead.

Speaker 4:
Yes. Hi, it's Naresh Bilandani from Jefferies. Thank you Mohamed, Ehsan and Lamia for the presentation. Just a few questions please. One is could you please offer more insight into the very strong growth that we've seen in the government and public sector segment? The credit is up roughly about 55% year-on-year and it is very contrary to the trend that we are seeing in your peers like Emirates and BD this morning. You were a marginal participant a few years back. I'm just keen to understand how much growth do you see here? I think the mix is roughly about 30% or so. Is this all Abu Dhabi linked or there's other Emirates or any international mix in here? So sorry, a bit of a broad question, but further insights into the growth and the mix on the government and public sector credit.

A second, Mohamed. This morning on Bloomberg, I don't know whether these comments were taken out of context at all. I think you talked about interest in M&A. I'm just keen to understand further these thoughts here on how do you see the M&A strategy for ADIB through the medium term, and how much capital would you always target to have, especially in the context of the CCYB coming through into the next year?

And my third and final question is, so more recently, there was a news on one of the Dubai courts banning the late payment charges by Islamic banks and the Kafil firms on any delayed interest. I'm just keen to understand if there is any particular impact on ADIB from this ruling by the Dubai courts, and how have you traditionally booked interest penalties on delayed interest payments? Thank you very much.

Mohamed Abdelbary:
Good, thank you so much. I will answer them not in a specific order, but if I miss anything, please do let me know. So first of all, on my comment on Bloomberg this morning on M&A, let me clarify. So what I said is that M&A has always, not only today, but it's always on the table to ensure that we don't miss any opportunity. Do we have something today I looked at? No. Do we actively pursue M&A for the sake of M&A? Who knows? But we always keep a very open mind, keep our eyes open. What could be out there? What could be capital accretive? And for me, even with my old hat on, I would say M&A will not be touched unless it is capital accretive. It is something which talks to the ADIB DNA. It is good for our network business and by no means it would dilute the rating of ADIB as an Abu Dhabi-based bank.

This is very important for me because this is one of our key strengths. We carry the Abu Dhabi rating, we go into markets which will add value, but we will not chase M&A which will not make sense for us, and at this point in time, there's nothing on the table. But we'll continue looking at things if they come to us, and if they do come to us, as a bank who has clearly demonstrated growth capabilities, capital and liquidity, so you are a normal candidate for many people to come and tell you, "Why don't you look at this target?" But for now, there's nothing on the table. Just wanted to clarify that point.

On the first point regarding I think the growth, you mentioned the growth in terms of our financing and it's coming from the government sectors and which entities are coming from? So the good thing, I'm not able to comment on other institutions and the comments they made, but for us, it's been I think a very successful engagement model because our government engagement on these specific financing are all strategic in nature. It is not an element of us putting bans on the table, and I cannot maybe be more open on that, but some of the strategic national agenda items for the government which have been announced even recently, we are at the table, and that's where we are playing a very effective role because we do have that relationship and we are also very keen to support the national agenda item. It's in Abu Dhabi and it's in Dubai and other... But it's mainly UAE. Outside UAE, no. It's mainly UAE, but it is not only Abu Dhabi. Maybe slightly heavier in our backyard, but there's also Dubai involved in this as well.

And I'm very happy with these because they tick all the boxes. They are part of a national agenda, they are capital light, if I may say capital zero in some cases, and they give you that entry point and really continues to demonstrate that you are a strategic partner to a national agenda item, not only putting [inaudible 00:40:02] on the table. So that was on the financing side.

Late payment, I cannot comment on it. I think I've seen it like you have seen probably also in the news. It's too early for us to comment. All I can say is that we are operating within rules and regulations and guidelines, and I don't think at this point, we don't want to change anything. If there's something more to say about this, we will do so, but at this stage there's nothing needed to comment on this. But I do confirm that all our fees and charges, not only on late payment but across the spectrum, goes through a rigorous review and are fully compliant and approved by all the regulatory bodies.

Speaker 4:
Thank you, Mohamed. Just a very quick follow up. Is there any color that you can offer on what is the minimum level of capital that you would always like to maintain through the medium term for the franchise?

Mohamed Abdelbary:
Yeah. So I would always be comfortable with 12% post-dividend, so this is my kind of flow.

Speaker 4:
Pardon me, the line was a bit muffled. Could you please say that again?

Mohamed Abdelbary:
Yeah. On C-21, my comfort level is 12% post-dividend. So after you pay your dividends and clean up, coming into 12%, that's a comfortable entry point.

Speaker 4:
Thank you very much.

Speaker 3:
Our next question will come from Rahul Bajaj. Your line is open. Please go ahead.

Speaker 5:
Thanks for taking my question. This is Rahul Bajaj from Citi. I have one question mainly. This is on your home finance portfolio. I see very strong growth there, 44% Y on Y if I read the slides correctly. I just wanted to understand, what kind of risk do you see to this level of growth, especially now we expect sizable supply in the real estate market in Dubai and Abu Dhabi over the next two to three years? And if property prices do decline, what kind of risks we should be aware of from this real estate, home finance lending? In other words, what kind of LTV are these portfolios at? And also, what is the mix of this portfolio between Dubai and Abu Dhabi? If you could help us understand that. Thank you so much.

Mohamed Abdelbary:
Okay, so I think I'll probably tackle it from two angles. One is what could be the risk of the market slowing down? And that I think everyone has a view on that, so I don't think we're going to comment on this at this stage, but if there is a slowdown in the market, then in my view, the risk is not so much your existing book, but it will mean that you have less origination in future bookings. Now, there's also a point of view of saying, okay, slow down. Lower prices means maybe more investors or buyers enter the market, and you'll have an opportunity even if rates go down that you have more volumes coming from that segment. So I think it's a bit of a look

and see situation, but the new booking is the one which we will have to watch.
Now, the existing book I'm very comfortable with, and this is again, I have to check that with the regulator because post the financial crisis, a lot of measures have been implemented to ensure that even under a stressed scenario, the book is still healthy and equity is protected. LTV for us is around 70, 75% on the existing book, which is a really decent buffer for us and the homeowner as well before even any kind of stress comes into the system, and it's being serviced quite well. Again, most of these are with... It's not free for all, but we have a very strict guidelines in terms of which developers, which areas. So it's not open, so also we are very focused on that area. So I think to answer your question, not concerned too much about the existing book, but let's watch the future, what happens to the property market? I think there's enough analysis and we've spoken about it. This year, I think comfortable. Let's see next year what will happen.

Speaker 5:
Understood. Thank you so much.

Speaker 3:
Our next question will come from Olga Veleslova. Your line is open. Please go ahead.

Speaker 6:
Thank you and good day. Let me refer again to this interview this morning to Bloomberg TV. You mentioned that Saudi now accounts for 10, 15% of total assets. Given that you're actually 50/50 retail business, then it means that in the corporate lending, ADIB has one of the biggest exposures among the largest UAE banks. Would you confirm this, and if yes, then what are your target areas...

Speaker 6:
Would you confirm this? And if yes, then what are your target areas in Saudi? Where do you grow well? How much do you prefer government entities? And which risk weights do you apply to Saudi expansion? So, this will be my first question. My second question is on the tax rate. If you can disclose for us what is your value of net tangible assets abroad? So, in order for us to understand how close are you to the minimum thresholds to meet the requirements, apply 9% tax in the next several years. And my third question is competition in fab results. We saw that there was a very strong growth of Islamic accounts. ADCB started to grow more in retail. So, how competition is changing specifically in Abu Dhabi from your biggest competitors. And if you could comment, is this pricing on non-pricing competition predominantly? Thank you.

Mohamed Abdelbary:
Thank you so much. So, again, not in any specific order, I'll start with the tax question first. We're not able to disclose that specific number, but what I can tell you is that we have done the assessment of the eligibility of applying the effective rate of 9%. Our effect rate today is 11.4% because we have some international businesses as well. And obviously, you know the difference between reported income and taxable income. So, today is 11.4% incorporating a 9% for UAE. And this on the back of us having concluded the assessment that we are eligible for that trade. Now, obviously it'll go through more rounds of discussion and approval requirement, but at this stage we are comfortable that this is a number we are going to plan. And if it's going to change in any way, we will definitely disclose it in our next quarter, and you'll also see the numbers then changing.
But at this stage, fairly comfortable that this is going to be the outcome. And this is based on the very criteria set by the regulator in terms of how many markets you operate in. As you rightly mentioned, tangible assets. For us, the business model, it's clear, it's an open book, and it's a good thing that definitely we do qualify for that element. So, that's lot on the tax side. The second question you had on the Saudi exposure, yes and no. So, yes, Saudi is not a small exposure for us in the context of the wholesale bank. But I would like to also point out that Saudi exposure is not limited to the corporate book but also in our investment book. So, we do hold a lot of [inaudible 00:47:43] in our investment book, which are where the counterpart is Saudi. It is a good mix between entities in the corporate book for Saudi counterparts, but whereas in [inaudible 00:47:56] books.
Now comes the second question, is that in terms of proportion too big or too small? Let me just give you our go-to market position for Saudi. So, Saudi for us is a strategic market and it's also we are aligning ourselves to the key agenda item or strategy for 2030 within our risk appetite. And it is a mix between mainly capital like, high quality government entities. That's where we are banking. So, we do not bank domestic domestic. That we don't do. It has to be an element either of government or semi-government entities, which we finance or it has to have a UAE counterpart operating in Saudi. And that's the network play we have. So, hence the capital consumption for Saudi exposure is very efficient. Cannot give you a specific number on it, but if you've seen the evolution of RWAs and financing, that's just part of it that we are very capitalized on it. And hence we are comfortable with that exposure at this stage. And I'll give you the 10% number overall in terms of our financing book. That's what we have out for Saudi between the [inaudible

00:49:08] and corporate entities.
The last question you had on competition in Abu Dhabi on the retail side, I will not comment on our colleagues or the business model, but all I can say is that we're focused on what we do and what we do best, and have demonstrated over and over again that we are very successful on this. And that's what we continue doing. Are we competing only on pricing? The answer is no. It is a complete value proposition in terms of providing the client with what he needs. And I always say that when a client asks for a home finance, he doesn't want a home finance, he goes and buys a house. His end product is a house. And you provide him that service as long as you are able as an institution to provide him that specific product in a seamless way, in a price competitive manner. Not going into price for but just price competitive, fast, accurate, and a good experience. That's why you see our origination the way it's today.

Leila:
Thank you. Our next question will come from Rahul Rajan. Your line is open. Please go ahead.

Rahul Rajan:
Hi, am I audible?

Leila:
You are, please go ahead.

Rahul Rajan:
Hi, quick question on the sovereign part. You've mentioned that the growth is coming in sovereigns, understand now it's also from Saudi. So, how are the margins here? While from a capital perspective they might be light, but from a NIM perspective or a net profit margin perspective, how do we see this and therefore the impact on overall NIMs? Thank you.

Mohamed Abdelbary:
So, I think what is happening is that when you deal with specific entities, in many cases, the pricing would be what we call market clearing. And it's important that you obviously price for the risk, and at the time where risk is... there's no lower risk, but lower than other counterparts, the margin will also be lower. So, clearly these counterparts will have lower margins. But in terms of what we focus on is not the gross yield, what we charge or the margin, but we look at the return on the relationship. And we have a hurdle rate in terms of what we look at in terms of the relationship and also EVA of the relationship. And as long as it's positive, it is capital accreted, it's higher than our cost of capital, it is a goal. And then we assess the situation.
Now, for us to be able to protect our margin, and [inaudible 00:51:52] if you can show the margin, that profit margin slide, you'll see that with all what we have been doing, our gross yields have really held up nicely. So, in half 125, our gross yields are still at 7.29%. Now, go back 12 months in time and since then, I think probably two or three rate cuts happened since then towards later part of the year, and you're still at the gross margin of 7.29% and have been able to price down. That's our business model. We do a mix of nicely priced transaction, capitalized transaction, and creating internal equity, and put that all together and this is the picture you see for net profit margins and protecting basically the profitability and capital liquidity of the brand.

Rahul Rajan:
Thank you.

Leila:
Our next question will come from Murad Ansari. Your line is open. Please go ahead.

Murad Ansari:
Yes, good day, everyone. Thanks for the presentation. Just a very quick question. I mean you're on your cost of risk. So, you've been for the first half, you're close to the lower end of the range. I mean do you see any risk upside risks for this to move up to the higher end of range? I mean it's a pretty wide range for you to 60, but I'm just trying to guess if there's more room for this cost of risk to come lower towards further lower than what we've seen in the first half, given that asset quality environment has been quite benign, your asset quality ratios have been fairly very solid. So, just on that. And in addition to the second half of the year, I mean could these sustain into 2026 as well at these levels? Thank you.

Mohamed Abdelbary:
So, cost of risk, will it go below that point? We hope so, but we don't aim for it because lowering the cost of risk comes with a price. As I said, I always say you could shrink to greatness. So, you can shut down your risk appetite, you take that cost of risk completely down and then your possibility gets impacted. So, in fact, I am quite comfortable with that cost of risk. If it goes below a certain point, I would actually argue that are we not taking enough risk or not? And hence, I would still guide the market towards that number and at the normalized level for this year and next year as well.

Murad Ansari:
Great. Thank you so much.

Leila:
Our next question will come from Seki Matukwa. Your line is open. Please go ahead.

Seki Matukwa:
Hi, thanks. Just two questions, please. First one was, I think you mentioned the non-funded income at some point expanding as a percentage of revenue. I think it was maybe two to four percentage points. Just checking the timeline on that, was that from 2024 as the base and four or five years out? Or what expectation or guidance did you give? And then the second question is just on OpEx growth, absolute OpEx growth. Given the investments you talked about including CRM, et cetera, is 9% to 10% absolute growth this year and next year reasonable? Or how would you view that? Thank you.

Mohamed Abdelbary:
Thanks. So, on the non-funded income side, the base I think if you take it from last year, is a good proxy. But I would rather look at it from how much of your income is coming from funded and non-funded income. Today is around 39%. I believe that in the next maybe 12 to 18 months, it could match up to 41%. Do you want to take it any higher than that? I'll be careful because it's, again, equation you have to be mindful of, is that you still want to create enough core in your funded income, which is almost your base line. And then there is an element of non-funded income, which also can be classified as core linked to your origination. And then the icing on the cake will be whether it's your wealth management business, whether it's, again, your cards business, your corporate finance fees, you name it. That is icing on the cake and should continue to be such.
But if it becomes a too big of a proportion of your income, it creates a volatility we are not comfortable with and I'm not comfortable with. I always would like that balance to be there. So, guiding it towards 40%, 41% is a good number. Maybe touching 45 and the long term would be okay, especially in a lower rate environment. But beyond that point, I think we should be careful to make sure that flow and non-flow is also protected as such. On the second question on OpEx, we have been heavily investing not only this year but really for the past few years in all aspects of our business. And it's paying off because what you see today as a 9% growth and cost, could have been maybe a 15%, 20% growth just to support the volume you're seeing today. Because the traditional way of seeing a 20% volume pick up in millions of volumes means just more people, more branches, more infrastructure, which at today's we don't have to do.
So, all the cost increase you're seeing is actually investment costs. It's not cost going in to meet capacity, as much as costs going to meet future client experience controls and meeting future demands, which we are expecting. You have some guidance for next year. Instead of giving you a number, I would rather say this, that we are very mindful that we maintain positive jobs and ensure we have strong productivity. We always like our revenues to grow faster than our cost and hence the cost to income ratio is protected at a certain level. And again, when you compare, I think across the market, I think sometimes we overlook the fact that we are predominantly a retail bank. Retail bank carries a higher infrastructure cost. So, us as a predominantly heavy retail bank with a 28% cost to income ratio, I think you should probably do an adjustment factor for comparison purpose as well.

Seki Matukwa:
Thank you.

Leila:
There are no further questions from the audience. I'll now pass back to Mehmet and our speakers. Thank you.

Mehmet:
Thanks very much, Leila, for the moderation. And I'll now hand it back to Mohammed for closing advise. Thank you.

Mohamed Abdelbary:
Okay.

Speaker 8:
Thank you, everyone, for attending the call. As usual, we are on emails and on WhatsApp and on if you have follow up question. Thank you, Mohammed. Thank you, Leila. And have a lovely weekend.

Mohamed Abdelbary:
Thank you so much, everyone. Thanks for [inaudible 00:59:05] the call. Thank you.