Transcript

# ADIB 2Q2024 Results Call

Wednesday, July 24, 2024

**Shabbir Malik** Good afternoon, or good morning, wherever you are. Welcome to Abu Dhabi Islamic Bank's second quarter results call, co-hosted by EFG Hermes. My name is Shabbir Malik. The management will take some time to go through the slides, and then we will open the floor for questions and answers. At this time, I will hand the call over to Lamia, the head of Investor Relations, Communications and Marketing. Lamia, over to you.

**Lamia Khaled Hariz** Thank you, Shabbir. Good morning, good afternoon, for everyone on the call, and thank you for joining us today on this call. Before we get started, I just want to say that the presentation is already on our website and on our Investor Relations app. And you, as well, have received the email with the presentation and the MD&A. It's also posted on the ADX. I have with me on the call Mr Mohamed Abdelbary, our acting group CEO, and Mr Ahsan Ahmed Akhtar, our acting group CFO.

The agenda of today is very consistent with the previous quarter. We will start with a detailed analysis of our financial performance, we will then conclude with the guidance for the rest of 2024, before we open the door for the Q&A. With that, I will hand over to Mr Mohamed Abdelbary, who will take us through the presentation.

**Mohamed Abdelbary** Thank you, Lamia. Thank you, Shabbir. And good morning, good afternoon, everyone, and thank you for joining our call today. We are very pleased to report yet another strong set of financials for the first half of 2024. And again, it's reflecting the consistent growth story we have been signalling for a few quarters now. We're reporting a net income after tax of AED 3.03 billion, which is 30% up, year on year. And if you were to exclude or normalise for the tax impact from last year, we are talking about 3.42 billion, which would take us to approximately 40% up, year on year. The profits for the quarter, we are reporting before tax 1.78 billion, which is up 8% from the previous quarter and 38% up, year on year.

If one would just dive into the main drivers, the results were driven by strong growth across all of our business, particularly we are very happy to see the progress on our funded and non-funded income combined, and the way we have seen our underlying volumes growing quarter on quarter. It's also worth highlighting that our cost-to-income ratio has dropped to 28.6%, which is an improvement of 183 basis points from the last quarter. And for those who have been following ADIB for some time now, I think that's definitely a number worth acknowledging, given that a few years ago we were probably in the higher-40 mark, and from that onwards, we have been always signalling to the market that we are on the right path and achieving a cost-to-income ratio which we are reporting today.

We have also welcomed around 100,000 new clients, which is, again, a reflection of our ability to continue to attract clients to ADIB. From a balance sheet perspective, we are very pleased to have passed our first milestone, exceeding a balance sheet of AED 200 billion for the first time, which was supported by a growth and net customer financing of 21%. And as the norm for ADIB, we have been able to efficiently fund that growth, a combination between CASA and wakala to cover the contractual financing opportunities. And hence, we are protecting the efficient funding mix we have.

At the same time, we have not lost sight in terms of continuously enhancing our NPA ratio, and we will come to it in the next few slides, where we are reporting a Non performing asset ratio of 4.7%. And again, this chart will speak for itself when we come to it, where we see, quarter on quarter, the progress. And I would like to always go back and say that we have been signalling that projection over the quarters, and I'm very pleased that, with the team here, we have been delivering on the promises we made.

Let me move you forward to the next slide. I think it's important also to understand where the performance has come from. Our revenue has grown 25%, year on year, and that was supported by, as mentioned, both from a funded and non-funded income perspective. It's absolutely critical for us that as we deliver growth in our profitability, quarter on quarter, it is very important for us to understand where the profitability is coming from. And as we grow our core business, it gives us a lot of sustainability and continuity as we go into probably next year's cycle, where rates are expected to be lower. I spoke about the cost-to-income ratio, but also if one would look at our capitalisation situation, we are reporting a total CAR d of 17% when we come to the CET1, which has touched 12.9% as well.

I think we can move forward on this slide, that's okay. Let's talk about the income statement. Again, from an income statement perspective, if you look at the top-left chart, we are seeing consistent growth every quarter. Net profit has grown 8% versus last quarter, and that's after incorporating UAE tax. One number I'm particularly proud of is that when you look at the quarter net profit after tax, it has almost recovered from the first quarter of 2024, where we said that if you exclude tax, we will still be showing growth, quarter on quarter. But now, even after incorporating tax for the second quarter of 2024, we continue to show growth from a quarter-on-quarter perspective.

And moving forward, on the funded income side, as was already mentioned, fund and income growth, 13% year on year, to 3.3 billion in H1, from 9% growth on average profit earnings. The number which I'm really proud of is that our net profit margins have held up quite nicely in a very challenging environment, because we are not only mindful of the fact that, as we stand now, our portfolio has largely repriced, so we kind of hit the top angle of our growth yields. But also, given the competitive environment in the market, we have been very disciplined in our pricing approach and hence our net profit margin. If even one compares it to the first half of 2023, moving from 4.41 to 4.6, something I think would be quite unique if one would compare to other financial institutions in the market.

On the expenses, the story continues. Our expenses have grown 6% year on year, to 1.5 billion. And if you were to look at where predominantly the expense growth has come from, it's from two main categories. The first one is employee costs, and that's just a reflection of us continuing to invest in our people. The 4% is the net growth. The underlying actually is a bit higher, because we made sure that our compensation to employees is in line with the market. But also, we have created some efficiencies as we went ahead in our digital journey.

Now, that reflects on the second pillar, you see, which is the 12%, and that's predominantly the cost of the flows to our digital spend. Now, being on the journey for now almost, I would say, three to four years, in terms of really focusing on your digital agenda, we are at an inflection point where our delivery cycle is becoming shorter and shorter. What it means is that projects which we have invested in maybe 12 to 18 months ago are being delivered, but also the ones which started six months ago, are also being delivered much faster. I think we're learning as we go, and we have demonstrated that we are leading in terms of our digital servicing capability and making significant progress in terms of our sales origination efforts as well.

And moving forward on impairments, the impairment has increased 9% year on year, and that is something which, again, we were very keen to ensure that our cost of risk, or our impairments, is keeping in line with our financing growth. Now, if one would look at, okay, financing has grown around 21%, we need to ensure that we are keeping a lot of discipline in terms of our underwriting standards and, hence, our provisions have been actually higher, despite the fact that the actual underlying cost of risk has remained quite benign.

But that's important to reflect on the next slide, Lamia, which we see, that our coverage ratio, from a cash perspective, has gone up to 77%. Again, shouldn't be a surprise to the market, we did commit to the market that this is the number we are focusing on, and we will continue enhancing. But also our NPA ratio dropping to 4.7%, where it was 7.5% only 12 months ago, again something which is structurally being executed at best focus levels. And as we are looking at our pipeline, we do expect that this trend will continue as we finish 2024. It's a combination of actual legacy recoveries, which we again told the market we are focusing on, but also we have been very prudent in terms of our write-off approach.

Moving forward to the balance sheet, banked total assets, as I mentioned, have now crossed the 200 billion mark for the first time. We are reporting 213 billion as of the second quarter of 2024. Now, underlying is actually 223 billion, and the 9 billion is the impact of the FX devaluation in our Egypt subsidiary. Egypt, underlying, on a local currency basis, has done extremely well, has grown, but given the FX devaluation, I think the bank, as I mentioned, has been impacted by 9 billion.

What we are quite proud of is actually when we start talking about our financing growth. And, Lamia, if you can go to the next slide, where we see where the build-up is coming from. So 17% growth from the beginning of the year, and as we can see, nice contribution from retail as well as from our corporate or wholesale banking division. So both engines are firing, are delivering, and are staying on course.

Now, if one would now bifurcate the retail delivery in the lower-right-hand chart, you would see that home finance has had a significant contribution to our growth, as well as personal finance and auto finance. And I would like to believe that if one would look at our home finance book and personal finance book now, I think we are probably market leading for these two specific books in the UAE.

From a corporate perspective, I'll just make one point, that the importance of having a good mix between GREs and corporate is of significance, given the RWA benefits, which we are getting, as well as enhancing our credit quality. This is in terms of our sukuk investment, again, quite nicely on track, on strategy. We have added a few billion from the beginning of the year. Now, we are reporting 27.2 billion. Our portfolio remains to be predominantly investment grade, which is, I think, quite unique for this market. And for ADIB specifically, it's helping us to give stability, it helps us to give long-term financing, fixed-rate opportunities in an environment where we expect rates to go down. We will continue to build on that portfolio selectively and where it best fits ADIB's profile and risk appetite.

From a deposit perspective, we have grown, as I mentioned in my opening remarks, in line with our financing growth. Now, ADIB always had the benefit of being a fairly liquid bank, this has not changed at all, but what it meant is that when we spoke in the previous quarters of keeping liquidity on hand, keeping our powder dry, being able to deploy when we needed to deploy, that is crystallising now as we speak. So as engines are firing on all fronts, we have the ability to call on effectively-priced funding opportunities with a mix of wakala, to ensure that as we support our asset side of the balance sheet, the funding mix by no means is impacted from any of the acceleration we are seeing on the asset side.

It's also important that we are making conscious decisions of mixing between CASA as well as wakala. And while we have the ability to continue growing our CASA, giving the uniqueness of ADIB's profile, it's important for us that we are creating duration on the liability side to ensure that we do not create any mismatch from a funding perspective as we grow our financing book.

Last but not least, I would talk about our capital and liquidity position. Our CET1 is now standing at 12.9%. It gives us a lot of comfort, especially if I were to compare it to the second quarter of 2023, 12.9 versus 12.8 12 months ago. We are definitely heading in the right direction. We are creating value to the franchise. We are ensuring that capital is deployed at its best level. As you can see, balance sheet growth, financing growth, strong liquidity but, more importantly, by no means we are diluting our capital position as we position also ourselves for year-end to ensure that a dividends decision can be made within the bank policy.

Now, on the right-hand side, we see the liquidity position. Again, very, very liquid bank, I have to say. And even despite the fact that the change in the CRR ratio, which happened a couple of months ago, moving from 11% to 14%, while it might have some profitability angle, it did not create too much pressure on us in terms of having to raise funding for that, given that we always have that ammunition on hand and able to deploy as and when required.

Moving on to the outlook and guidance now, I have to say, given the impressive performance which we are all very proud of, particularly in the second quarter of 2024, we are revising only one metric in our guidance, which is our growth financing. So year to date, we are at 14%, we are saying that we are closing the year probably above 16%, year on year. Net profit margin we've always said is going to be above 4.5%. I'm maintaining this position. I do believe that we probably had the high point in terms of financing yield, given our profile of products we have, but also given that, as I mentioned, the cycle of repricing our assets has probably concluded by now. So a net profit margin probably above 4.5%, and we are very comfortable that this number will be maintained.

Cost of risk has remained the same, between 40 and 60 basis points. Cost-to-income ratio, we are saying sub-30%. We are already at 28.6. I think that probably that's the number we are going to land on. And returned equity north of 25%. We are already running at 29%. So with that, I'm concluding our introduction, and we're happy to take any questions.

**Shabbir Malik** Thank you very much, Mohamed and Lamia. We will now open the floor for Q&A. If you would like to speak, please raise your hand. If you'd like to send in text messages, please use the Q&A box. We have a couple of questions.

**Lamia Khaled Hariz** I think [inaudible 00:17:52].

**Shabbir Malik** Yes, please, sorry. Adnan, please, go ahead. Adnan Farooq, can you hear us? I think we'll try the next participant. One second. Naresh, please, go ahead.

**Naresh Bilandani** Hi. Can you hear me?

**Shabbir Malik** Yes, we can. Go ahead.

**Naresh Bilandani** Oh, perfect. Thank you. Hi, Mr Mohamed. Hi, Lamia. Congrats on a very good set of results. Sorry I didn't get a chance to go through the great detail, but just a few quick questions after listening to your presentation. One is it would be very helpful to understand the sustainability of the very strong volume growth that you have recorded in the first half of this year. I see your guidance, which, on the first look, does not imply that a similar strength could continue in the second half. Are you just being conservative here, or is there more room for further growth surprises? And how should we think of the growth in the second half of the year? That would be my first question.

My second question is on the margin outlook. As you kindly mention, you seem to have hit the high point in the ILS. Could you please throw some light on the expected trajectory of the NIMs once we start seeing rates go lower? Is it fair to assume that you will still continue to see some support from the Egyptian franchise, where the NIMs still remain quite strong but the UAE NIMs could be much more in the direction of where the Fed rates go? So if you can throw some light there, that would be extremely helpful. That's the second one.

And my third and final question is, having heard the investor calls of some of your peers, there has been a discussion around the new revised provisioning standards that are being promulgated by the UAE Central Bank, if you can, please, just share your thoughts on the first take on the potential impact that we could see from these new regulations, that would be super helpful. Thank you.

**Mohamed Abdelbary** Thank you so much, Naresh. I'll take them one by one, and if I miss any point, do let me know. So the first question was how sustainable do we believe this performance will be in H2? And my answer would be is that I think we are cautiously optimistic that the growth story will continue. Your question was specifically on the financing book. Now, second quarter has seen tremendous activity, particularly in the GRE side, and I think that's probably, just glancing over the other bank's announcement, a market dynamic which we have seen. So ADIB wasn't alone in this. And hence, when we talk about H2, I am not sure that this will repeat. There was a lot of demand from the GRE in Q2. There will still be, in my view, but not to that extent.

Hence, we believe that on the retail side the growth story will continue and actually will do a bit more, but on the corporate side, it will probably slightly moderate. And we've seen cycles where, Q3, corporates tend to be now slightly slower in terms of activities, it has to do with the summer months, with the vacation months, and you had a very strong Q2, and then it picks up again by the end of the year, as some of these corporates try to get the balance sheet in order before the year-end closes. So probably a slower Q3 and a higher pickup in Q4, particularly on the corporate side.

On the retail side, all engines are firing, all our products are taking market share. And we just seen the numbers, the numbers are publicly available. I think our team has done extremely well in terms of positioning, at least from a retail perspective, particularly on home finance and personal finance, really taking the market by storm. So that will definitely continue in H2. And hence, if I now link it back to the profitability in H2, we are very cautiously optimistic that these are numbers where it's predominantly core business, it does not have a lot of volatility. There are pluses and minuses, like any other business would have, but the core itself is reflective of what we see today, and I think we continue in H2 as well.

Now, on the second point, which was the margin outlook, what would probably happen, and that is just re-emphasising, the points I had flagged with the team here in our Q1 result announcement. When we looked at Q1, we did say that by H1 we're still going to be fairly okay in terms of margins, because we saw some of the elements of the portfolio repricing. Today, I can confidently say I think we are at that point now, which means that for H2, the yield will hold, but maybe some of the funding costs might catch up with you, because they have not been originated from the beginning of the year. It's always kind of a year-to-date impact. So the gross yield will hold, but funding costs might creep up a bit.

But the good thing about it, and maybe that is not known to the market, is that when we talk about our CASA issue, which is around 63%, 64%, on the retail side, it's almost 90%. And on the corporate side, it's around 35%, between

30% and 35%. So what really drops or puts pressure on your net profit margins and raises your funding cost is the corporate side, as expected, and rightly so, because if you are corporate treasurer, you would demand a return for your deposits much more, I think, aggressively, than any other client.

So what this means for us is that as the curve starts to turn next year, we will be able to efficiently reposition ourselves in terms of our funding costs and bring back the funding, our net profit margin corridor, to a level which will ensure that we will be able to continue providing these numbers you have seen in front of you.

The last point is on the revised risk standards. And I think it is something which we have been discussing with the regulator for some time.. What will be the impact on ADIB? We will have, at that point, a look at it. I think there are still a few questions which need to be resolved, but the good thing is that our expectation is that implementation, particularly on the value of collateral and hence reflection and provision, there will be an implementation timeline. That's our expectation. I don't want to make assumptions until we see the circular coming out, but usually when these circulars come out, there is a timeline of implementation.

Now, what I would advise also the committee or the analysts to look at is that some of the elements, which are the provisions, particularly against booked equity directly, would be a good proxy to understand the impact to us. And these are publicly available numbers. We disclose them. I think I said 165 million we have on our books, so that’s really the extent you can think about. If that gets recycled, probably, in P&L, that's the 165 million. In ADIB’s context, it’s 165 million, but it's not very material. And hence, we are watching the space. We're waiting for the regulations. But once implemented, I think we'll be in a better position to tell the market what it means for us going forward.

**Naresh Bilandani** Understood. Thank you very much. That's very clear. Just one very quick follow-up. On the GRE loan growth, could you please offer some more insight into what parts of GREs, which areas, what projects basically drove this loan growth in the second quarter?

**Mohamed Abdelbary** It’s quite difficult for us to disclose more information on this, given the confidentiality of the matter. But these, I can classify them as strategically important projects for the government. And hence, it was not ADIB-specific but slightly more banks who would have seen that. But beyond, I think, at that point, it would be difficult for us to disclose.

**Naresh Bilandani** Understood. Thank you very much. Once again, congrats on the results. Thanks a lot.

**Mohamed Abdelbary** Thank you.

**Shabbir Malik** Thank you. We’ll now move to the next question. Aybek, your line should be open.

**Lamia Khaled Hariz** We can't hear the questions, Shabbir. I don’t know if the problem is at our end or the other end.

**Shabbir Malik** Aybek, can you hear us?

**Aybek Islamov** Yes, I can hear you. Can you hear me okay?

**Shabbir Malik** Yes. Please, go ahead.

**Aybek Islamov** Okay, thank you. I think a couple of things I wanted to clarify with you on this call. First is fee income. Very difficult to see what happened with fee income in the second quarter, how it compares to Q1, in particular last year. And your expectations for the remainder of the year, that's one question. And I think otherwise, it will be also interesting to know on your asset quality, if you were to write off your NPLs which are older than five years, what would be the impact on your loan portfolio? Or put another way, what percentage of your loan book is in the NPLs which are older than five years? That will be my second question.

And I think in terms of my third question, your dividend payout, in view of your historical dividend payout ratios, what kind of CET1 ratio are you comfortable with? And do you think your focus will be on continuing to accumulate CET1 heading into the second half of the year?

**Mohamed Abdelbary** Thanks, Aybek. I'll take your questions one by one, not particularly in the same order, but if I miss any one point, let me know. I think that last one first, the dividend payout. Again, while we do not really disclose the number itself, but we have been very consistent in the past few years with the percentage of net income we always recommend as dividends. And at this point, probably, I don't see a reason why this should change. Again, no commitment. There is board recommendation and approval process we have to clear with, but our dividend policy has been consistent over the past few years. It probably will continue as such. Barring any other regulatory approvals.

What it means for us is that we will have to probably hit a CET1 ratio of 13.5 We are, today, very closely monitoring the situation. We see, again, no reason why we will not be able to create internal equity enough to meet that CET1 ratio, and hence meet the requirements of our shareholders or expectations of shareholders, as well as create enough internal equity to support 2025 and beyond those aspirations. And that's on the dividend point.

In terms of the impact, under regulation now, I think it's still yet to be seen. And you mentioned the five-year bucket. So is the five-year bucket, or the collateral in terms of its ageing of five years, when does it start? And if it is a starting point today and we look back and anything older than five years will need to be taken into consideration as a write-off, then how many years do you have to actually to comply with? We do not, at least at this point, expect that… Let's say that we have a collateral value of AED 1 billion or so. We don't expect that this goes into your P&L immediately, but probably you will have time to implement it.

Now, in terms of ageing, if one would just look at our collateral value, we can probably send you separately the ageing of that, but a big portion of what you would see as collateral in property is only taking a haircut of 50%. But also, they are legacy. Will have to be very clear with the market. Because we have been very disciplined in terms of our NPAs for the last two, three years. So what you see today in terms of collateral against non-performing assets is legacy. And probably a lot of it is older than five years.

So what we will do, I'll send, as a follow-up, the bifurcation, we can do that, but this should only be used as a proxy, because the implementation timeline, we still believe that there should be a time frame for implementation, and that's not for ADIB specifically, but it's an industry phenomenon. So we're not talking only ADIB. ADIB is probably not going to be the problem of the market, but given the size of where collapses will sit in the industry, I think there will definitely have to be an implementation timeline, which will be recommended and consulted as such.

And then Aybek had a question on fee income. Now, on fee income, what we have seen is approximately a 52% growth year on year In non funded income I would say that of the growth, moving from 1.3 billion to 2 billion, I would probably say you can shave off approximately 120, 130 m considered as one-offs in our portfolio, in our financial statements. Does it mean that one-offs will not be repeated in the future? No, because I think we've also learned that one-offs after a while become BAU. And we are looking at these. But if you want to normalise the non-funded income of the 52% growth, take probably out 120 million, 130 million.

And it's a mix of many things. So I'm not able to pinpoint one element of it, but part of our core, obviously, we have an investment portfolio, we have a property company which holds a lot of properties and, as we always told the market, as we acquire organic financing opportunities, in some cases we also look at buy-out portfolios, which we have been doing, and they always give you some upside from that as well. And this will continue. It's not new to ADIB, but I just want to flag that, just some of the numbers we have here as well.

**Lamia Khaled Hariz** But just to add, fee income, year on year, went up by 28%.

**Aybek Islamov** This is second quarter or first half?

**Lamia Khaled Hariz** H1, first half. Fee income, only.

**Mohamed Abdelbary** Non-funded income is up 52%, fee and commission alone is 28%, correct.

**Aybek Islamov** This is not in fee income, it's other elements, right?

**Mohamed Abdelbary** Yes, that's what I was talking about. The fee income is pure BAU, you can consider that will continue. And in the other income line, probably take out between 120, 130. Yes, 120, 130 of various items. Some of them are NPB adjustments we had. So I cannot pinpoint one point, but my challenge always to myself and the team is that one-offs become BAU. The business does not go only on BAU. Yes, you build the core, but you also have to continuously look for… I wouldn't call it one-off properties, but more significant transactions, which gives you air cover, as in when required, and they almost become BAU.

**Aybek Islamov** Thank you. Very helpful. Thank you.

**Shabbir Malik** We'll move to the next question. Olga, your line should be open.

**Olga Veselova** Thank you. Good day, and thank you for the presentation. I have several remaining questions. One is on lending to GREs. Can you maybe quantify for us what part of the substantial loan growth in the first half or in the second quarter came from the GREs? And more holistically, do you think that this shift towards GREs will be pressuring your net interest margin and supporting your cost of risk going forward? So this is my first question.

Another question on, on the financing growth, your retail financing growth was so solid, and I'm wondering what helps you to keep delivering such a strong growth in the segment? Do you bring payroll customers from GREs? Do you make special offers? So anything that makes you really different from the rest of the market in the segments. This is on financing growth. The other question is on impairment charge. I didn't have a chance to look in detail at the financials, but I think on one of the slides you show that the credit risk went up in the second quarter, but it wasn't driven by retail or the corporate segment. So what was it? Was there some impairment on non-financing or not? This is my second question.

And third question, back to the previous question, I hear that there were some one-offs in the non-funded income line, but even if I take 120 million to 130 million one-offs, still the non-funded income was extremely solid. Maybe you can share with us what exactly was there in this line in the second quarter? Thank you.

**Mohamed Abdelbary** Thank you. So, I'll start with, again, the first point on the financing growth in corporate and retail. You asked what was specifically big-ticket items on government or GRE sector. It's between 4 billion and 5 billion. It cannot be more than this specific, because, again, we don't disclose too much detail. But as you can see, 8 billion growing. And if you go to Q1, you would almost see it flat, so it's all a Q2 phenomenon in the corporate and government sector, of which probably 4 billion or 5 billion is one specific category of transactions.

So that's why when we said for the rest of the year probably this part will not continue unless this specific situation repeats itself again. But for now, I would caution that maybe take out 4 million or 5 million from the government or public sector financing growth.

Now, in terms of retail growth, this is a recorded call, so I cannot tell you all our secrets of how we are able to deliver such strong performance, but all I can tell you is that it is a mix of redefining our strategy, particularly in the last four or five months, in terms of really using what we have, in simple words. ADIB has potential in its client base, in its corporate relationship, whether it's on retail, linked to its corporate relationship, which I think has been untapped for too long. We focused on that specific element. We did not do any price concession. You can check the market. We're not the cheapest in the market, definitely. We are competitive, but we're not the cheapest.

But these alignments where you create these strategic alliances with some of your corporate relationships and link it to other products, that's the outcome you see on the slide. And hence, when I see these numbers, I'm comfortable because I know they're not a one-off phenomenon, but they will continue as such.

Home finance, again, is a reflection of the market. The market is booming extremely well in the property market, whether it's Dubai, Abu Dhabi, or even in northern Emirates. So we are with the client, we are following the needs of the client, and we try to ensure that we give them best service. And as I said, it's a mix between origination efforts as well as buy-outs. It has to come from both, because the only way to take market share is you capture new demand, and you go after existing financing books as well, which we have done very successfully, particularly in the second quarter of 2022.

And then if you look at personal finance, auto finance, these are the net growth which we are seeing, but from a growth perspective, our personal finance has doubled in terms of origination over the last 12 months. Auto finance has more or less stayed the same. Auto finance, we are competitive, but as the market knows, auto finance is an anchor product, which we sell to our clients, because the clients want it, and we will continue to be there to serve our clients. So that's the financing part.

On impairment charges, I think your question was in terms of what is driving the growth in impairments. It's an element of a few things. One is predominantly that we are looking at usual financing growth, and we want to ensure that we are in line with our origination efforts. It is by no means a reflection of us relaxing our risk or underwriting standards. They have not changed. They show in our staging, you can see in our financial statements, very healthy projection. We are, from a bifurcation of retail book perspective, still 80% of the book is still financed to UAE nationals, 20% is to expats. The pie has become bigger, so we are financing more to expats, but at the same time, can't complain, UAE nationals have also been quite active on that front, and hence the 80% has remained the same.

On the corporate side, this is a recovery which you see due to some repayments which happened. Again, we can't disclose the names, but you might have seen in the news some Dubai entities have repaid, have consolidated and have raised new financing in a different way. And hence, when you get repaid, we released our ECL charges against these names and were able to take some additional provisions to ensure that… I would almost call them overlays to protect our provision coverage ratios, whether it's cash or collection levels as well.

The third question I think you had was on the non-funded income? Okay, non-funded income. So non-funded income overall has grown 52%. Fees and commission alone, it has grown 28%. The main driver, again, if you look at investment income, investment income, this also includes the sukuk part, so this is a reflection of our sukuk book, or the fixed income book, really growing, and hence, that is the reflection of the profits earned on the sukuk book. It is reported as non-funded income, I think this is the accounting standard which we follow, most banks do that, but you could almost say it's on the back of balance sheet financing. That's the investment income side. That is, alone, 38% growth.

Other than that, there's nothing. I mentioned the 120 million, 130 million one-off, I said we need to understand ADIB has as a property company, has a big real estate book. We do crystallise on this from time to time, as well as some of the buy-outs we make, and then we can realise some day-one gain whenever we acquire a portfolio. azs

**Olga Veselova** Yes. Thank you very much. If I may, can I ask a very small question on this central bank proposal about new credit standards? What do you think is behind it? Why are they proposing new standards now?

**Mohamed Abdelbary** I think we understand why, where is coming from. And for us, I think it makes a lot of sense. It brings a lot of stability. It's not uncommon, we've seen it in other markets as well. The only point, I think, which I think the central bank is doing very well is that it's in consultation. We are doing it in a way which will serve the purpose of why we're doing it. And it just gives, I think, more stability to the market.

So what it will do eventually is that it kind of says, if your collateral has not been realised for the last five, six years, maybe, probably the ability to crystallise it when needed becomes a bit smaller. And if you are to crystallise it, it's going to be an upside for you. So we're not saying it has no value, but we're just saying once, after five years, you're able to crystallise it, take it in your P&L. But after five years, just reduce your reliance gradually on it, and hence you're strengthening your position. It could also imply that maybe some categories of collection might be untested, and hence, while it ages, you put less and less reliance on it. From my perspective, and from a team's perspective, we understand the logic. For us, it makes a lot of sense, and it's all about implementation, when and how.

**Olga Veselova** Fantastic. Thank you very much.

**Mohamed Abdelbary** Thank you.

**Shabbir Malik** Thank you. We have about ten, 15 minutes left. We have a couple of questions in the Q&A box. I'll start with those. This is from Ahmad Bani Hani. The non-performing asset ratio improved to 4.7%, what steps did the bank take to achieve this improvement, and how sustainable is this lower NPA ratio?

**Mohamed Abdelbary** So, yes, this was on the NPA, the 4.7%?

**Shabbir Malik** Yes. The NPA ratio has improved to 4.7. What steps has the bank taken to achieve this improvement, and how sustainable is this lower NPA?

**Mohamed Abdelbary** Very good. I really like this question, because we just started a journey two years ago, and we stayed the course. We said, always, number one, we have to ensure that the in-flow and the NPA has to be controlled. You cannot fix one side, and the other side keeps on pumping NPAs. So over the past two years, our inflow from stage two into three has been, I think, phenomenal. It has shown understanding of credit standards, an early alert system which allows us to clear before it goes into stage three. So that's the first thing we did.

Then, second of all, we have almost bifurcated our non-performing asset book and ensured that a team, a specialised team, has been put on the case to ensure that we recover. We are being pragmatic about our approach, and we do what is best for the client and the bank as well. So on that basis, we have been able to recover significant amounts of legacy exposures, which has been sitting on the books probably for more than five, six years.

The third thing is that as we have been building provisions over time, and again Islamic banks are having a slightly different structure than commercial banks, is that we were able to also proceed with write-offs against a fully-covered exposure. It doesn't mean that we've let go of our legal approach, we still preserve our right to go after the rights of the bank, but it allowed us to write off the exposure against the provision at a time where it will enhance your NPA ratio, but also protects your provision coverage ratio, as well as your coverage with collateral.

So all this combined is what you see today, which means that the 4.7, as I said, will continue to improve over the next few quarters. At one point, it probably will stabilise, because you are in the business of taking risk, and this number dropping too low is actually also not so good, because it means that you almost stalling the machinery. But we are not where we want to be yet. I know we are at market levels today, but we still have ambitions to go even lower than that number.

**Shabbir Malik** Thank you. The next question is from Adnan Farooq. Can you please elaborate on the source of other income booked during this quarter?

**Mohamed Abdelbary** We touched on this in a previous question. Again, it's a combination of a few one-offs. Again, we're not bifurcating as such, but what we can tell you is, number one, we do have properties which are in the money, so that has value. We have, in the process of, particularly in Q2, being able to acquire a few portfolios. And again, as I said, we acquire or we grow the book organically and inorganically. So we go after very specific sets of assets, which then, once booked, have an intrinsic value where you can book it, day one, in. Again, it's not material in the bigger context, but putting this all together, as I mentioned, you can assume a benefit in our quarterly number between 120 and 130.

Again, I need to stress it has to be a recurring element for us, one-off part of the business, we raise, we enhance our organic core business. We look at one-offs, and also we continue to be on the lookout for inorganic opportunities in the form of portfolios which add value to the franchise.

**Shabbir Malik** Thank you. We'll go to the next question. This is from [inaudible 00:48:34]. Given the very strong gross financing growth in H1 2024, when would be the time to upgrade your growth guidance? I think you've done it, if I'm not mistaken?

**Mohamed Abdelbary** Yes, we've done. 16%. We've done it. We're covered 16%. More than 16, yes.

**Shabbir Malik** We now move to the next question. This is, again, a follow-up from Adnan. In addition, what were the sources of FX income?

**Mohamed Abdelbary** FX income, when you say sources, it's very difficult to quantify, because FX income is a product which you offer all your clients. So if the question is which specific segment is driving the growth, I think it's a fairly balanced approach. Our corporate clients, we are able to provide them services within the scope of business, and hence, FX is part of that origination. Our retail clients, particularly on BBD, so SME, BBD, our business banking for us is a big source of FX income as well. It's the nature of the business for what they have, and hence we provide that service.

And then on the retail side, our FX proposition is again a digital proposition. It's automated, so clients are quite comfortable transacting on the mobile app. And that's, again, a source, but never underestimate the FX made on international spend on our cards. We are the biggest spend on cards, full stop, in the UAE. We just look at the numbers. We are number one. So in terms of debit and credit cards combined spend, we are number one in the UAE. And particularly when there's international spend, that attracts FX income as well.

**Shabbir Malik** Thank you. I think we don't have any other questions. Maybe we can give another minute for people to log in any follow-up questions? Maybe one question from my side. Your mortgage growth has been pretty good this year, if you think about mortgage growth this year and last year, do you think that mortgages, the volume of growth you've seen in mortgages this year, is better than last year? Or is it similar or lower? Considering that interest rates are high and property prices have gone up, have you seen a slowdown or still there is a decent demand on the mortgage front?

**Mohamed Abdelbary** Shabbir, I think that if I compare this year to last year, definitely there has been a very healthy growth, particularly for us. We have grown faster than the markets. This number, I wouldn't say it's reflective of the market. It's actually us going with the market and taking market share as well.

But demand for property is still very high. The numbers are very healthy. There's lots of confidence from residents as well as international investors in the market. People just need to be mindful that of the numbers they see in terms of covered transactions, probably 67% are cash versus being financed by banks. And once you capture that market share, you see the projection. But answering your question, I think this year will definitely continue to be higher than last year in terms of the home financing book.

**Shabbir Malik** Great. I see a raised hand. Just let me try this one more time. Adnan, your line should be open. Please, go ahead.

**Adnan Farooq** Hello?

**Shabbir Malik** Yes, I can hear you now. Please, go ahead.

**Adnan Farooq** Sorry about that. Thank you so much for taking my question. And sorry for going back to it, but the income book during this quarter is 331 million, which is significantly higher than your normal run rate. You did mention that there are 120 million to 130 million in one-offs, and you highlighted some of the sources of that. So would it be fair to assume that other income on a quarterly basis could be in the range of 200 million going forward?

**Mohamed Abdelbary** Yes, I would say [inaudible 00:52:46]. I think if you want to model a projection, I probably would put 150. But as I mentioned, I would want to target for more, because while it is one-off, one-off has to continue. Because you have a book, you have to find opportunities, and you almost [inaudible 00:53:05] and distribute and create more value to what you create today, and replace it with something which can be monetised in the future as well. It's almost like a rolling activity which we have. But for your modelling perspective, I would probably put 150 there for the future.

**Shabbir Malik** Thank you. There's one question in the Q&A box. What will be the impact on funded income, considering one to two possible rate cuts by the end of 2024?

**Mohamed Abdelbary** So actually your question, is that the impact on our funded income if rate cuts happen this year or next year?

**Shabbir Malik** This year. One to two rate cuts by the end of 2024,

**Mohamed Abdelbary** This year, I think minimal impact, because, again, there are different views in the market, and our guess is probably as good as anyone's guess. Some views are now September and November. It used to be only November. We don't really know. So I think we will eventually know, but if one cut or two cuts this year, I would not be too concerned about any material impact on the numbers.

Going into next year, we would have, hopefully, optionality. We would have grown the book enough to compensate for any compression in the valuable portion of the financing book, and we'll take it from there. But this year, I'm not seeing any material impact. The whole focus for us is really exiting on a strong note to give us air cover next year as rates start to moderate.

**Shabbir Malik** Got it. Maybe one more question, this is in the Q&A box. The strong loan growth that we saw in Q2 2024, would it be fair to say a large component came through towards the end of the quarter? Or was the growth fairly balanced during the second quarter? This is from Alok.

**Mohamed Abdelbary** Or retail, balanced, except for May. May, when the flood happened. I think the flood was in May, right?

**Shabbir Malik** April.

**Mohamed Abdelbary** April, yes. So April was soft, and made up for it in the following month. But overall, on average, retail has been fairly consistent. You are right, the corporate book has been at the later part of the quarter, really not in the beginning.

**Shabbir Malik** Thanks. I think that's all the questions that I can see. I can hand it back over to you for any concluding remarks.

**Lamia Khaled Hariz** Thank you, Shabbir. Thank you, everyone. As I said, I know you didn't have time to digest it, but we're available for questions, so if you have any follow-up questions, we are available here.

**Mohamed Abdelbary** Thank you, everyone. Thank you so much. Appreciate your time today.

**Shabbir Malik** Thank you very much. Take care. Have a good evening, everyone.