ADIB 2Q 22 Results Earnings Call

Thursday, 21 July 2022

Janany Vamadeva Good evening, everyone, and thank you for joining us today. This is Janany Vamadeva, on behalf of Arqaam Capital. I'm pleased to welcome you to Abu Dhabi Islamic Bank's Q2 2022 Earnings Conference Call. I have with me here today from ADIB, Mohamed Abdelbary, chief financial officer, Ahsan Akhtar, group financial controller, and Lamia Khaled Hariz, the head of public affairs and investor relations.

Without further ado, I'll now turn the call over to the head of investor relations, Lamia Khaled Hariz. Lamia, over to you.

Lamia Khaled Hariz Thank you, Janany, and good afternoon to everyone on the call. Thank you for joining us today. Before we get started, I just want to remind everyone that today's presentation and all our financial disclosures are already available on the IR section of our corporate website and on our dedicated IR app. As Janany has mentioned, I have with me in the room Mr Mohamed Abdelbary, our group CFO, and Mr Ahsan Akhtar, our group financial controller.

The presentation for today, basically we will start by giving you a quick financial highlight and a progress on what we are doing on our strategy, followed by a detailed analysis of our financial performance for the first half of the year. Then we will open the room for Q&A. As I said, I have with me Mr Mohamed, who can answer your calls. With that, I will now hand over to Mohamed to take you over the presentation. Thank you.

Mohamed Abdelbary Thank you, Lamia, and good morning, and good afternoon, everyone, and thank you for joining us on today's call. We are very pleased to report to you today yet another set of very strong results for the first half of 2022. We have a reporting net income of 30% growth year on year, which translates to AED 1.4 billion. And accordingly, we are also delivering a return equity of 17.3%. As we see later in the presentation, that is an improvement of close to 4% from last year.

This performance was delivered by growing our top line by 7%, predominantly driven by growth in non-funding income but, I think, the important point to note that within that fees have grown by 26% year on year. From a cost perspective, we have maintained our cost discipline, and we are reporting a flat cost to the first half of 2021. And with the growth in top line, we have managed to improve our cost-to-income ratio by 3% to 40.9%.

From a balance sheet perspective, again, a very good story to tell. We have grown both financing and deposits by 10% year on year. We've also seen some really healthy uptake in our investment portfolio, in line with some of our strategic initiatives.

Moving on to the other side of the balance sheet, on the liability side we have grown liabilities by 10%. By still protecting the very healthy mix between CARSA and non-CARSA balances we are still maintaining 75% of our total deposits come from current accounts and savings accounts, and as we will see later in the presentation, our cost of funds has remained resilient and efficient at approximately 30 basis points on average. From a capital perspective, the situation remains robust and resilient. We are reporting a CET1 ratio of 12.8%, and a total CAR ratio of 18%.

Let's move to the strategy. Before we go in to view the financial updates, let's just recap on how we have delivered against our strategy. Just as a reminder, our strategy evolved around four main pillars. Continuous innovation, segment focus, digital excellence, and creating a sustainable future under the ESG framework. Under continuous innovation, if one would just give a few examples of what we managed to deliver recently is that we launched an API developer portal allowing fintech developers to use ADIB APIs for the purpose of developing their own applications.

Also, as you might have noticed in the media, we've partnered exclusively with Visa, creating a strategic partnership in terms of developing solutions which will offer seamless service and superior user experience for ADIB clients. From an Amwali perspective, I think Amwali has continued to do really well, a proposition we have launched towards the later part of last year. Today we have almost 7,500 new Amwali accounts. They are delivering against the very set KPIs, and we are very happy with that performance.

From an asset management perspective also we've launched a Global Sukuk Fund which is now trending towards 160 million dollars in asset under management.

Moving onto the second pillar, which is the segment focus, just a few KPIs on client acquisitions. In the last 12 months we've attracted 55,000 new clients, of which 21,000 have been UAE nationals. From a product mix perspective, we have also managed to enhance our cost ratio to be north of 1.5x.

From a digital excellence perspective, I think ADIB managed to lead the pack in terms of digital capabilities. 99% of all our transfers are consistent and are going through our digital channels end to end. 44% of all our personal finance origination are now coming from digital channels, and our [unclear] ratio has continued to rise.

From an ESG or sustainable perspective, and that's really the fourth pillar in our strategy, is that we've maintained our position with an A on the MSCI ESG rating, and you might have noticed we've also launched our ESG report recently, which is available in the public domain and I encourage you to really refer back to that report.

From an employment engagement index, we have also continued to trend very well, and we are maintaining our number one position as in the MPS core for UAE banks.

Moving forward, just reminding everyone of our KPIs for our strategy to really put into a bit of perspective, we remain to be laser-focused on delivering an ROE of 20% by 2025. We will do that by growing the bank and our profitability, and we will do that by becoming a more efficient bank, growing closer to the 36% cost-to-income ratio, and we will do that by continuously enhancing our client experience and maintaining a seamless client experience for our individual clients.

Maybe with that, Lamia, let's go to slide ten and talk a bit more about our financial performance. On slide ten we have our usual dashboard, and I touched on most of these. We will go into details, but I really want to put in perspective that the bank has delivered gross net income from a point of strength by ensuring that the top line with very clear, defined drivers has delivered 7% growth, and our expenses, and that's despite inflationary pressure and the digital investment, has been kept flat. It's been driven by a mix of funded and non-funded income.

And we've done all that by ensuring that we, at any point in time, do not dilute our capital ratios, and create value for our shareholders in the form of return equity.

Moving forward on slide 11. That is, again, a snapshot of our quarterly performance. As you can see, the quarterly numbers have remained resilient. I think one of the points I would maybe like to call out is that while all the businesses have done extremely well, firing on all fronts, Treasury you will, and I'm sure questions might come out of that, of why is Treasury down from a year on year perspective?

And that is predominantly driven by the impact from the rising interest rate environment, particularly on the long range of the curve, which has created some market-to-market losses in the portfolio, whether it's from the trading side, which you see in the P&L, but also some on the AFL hitting our equity position. Nothing which is not manageable, but it is important to call out that this is one of the drivers of the negative waterfall slide.

On slide 12, this is a depiction of how we have delivered and grown our non-funded income. If I just draw your attention first to investment income, I spoke about the decline. Again that's coming predominantly from the impact on Treasury. But the more important thing is that you would have seen that the fees and commission have grown close to 26%, and the driver has been particularly strong performance in our retail bank, where we have seen a nice pick-up, whether it's from fees and commission on the back of higher spend, but also as international travel has opened up we have almost doubled our FX revenue from where we were last year.

On the funded income side, we touched on that but maybe one of the points I would like to dwell on a bit more is our net profit margin. As you can see, for H1 the net profit margin has started to pick up again. This is, again, a six month-average, so in Q2 the number itself would have been higher. This is always a six-month rolling focus. And particularly in the last two months, this net profit margin number has significantly improved. As I mentioned in my opening remarks, our cost-of-fund trending at 30 basis points I think has been quite helpful in creating exponential benefit when we are making decisions regarding re-pricing and passing on the rise of interest rates to our clients.

From a cost perspective, the point I made earlier is that we need to understand that, as ADIB, we are not looking at costs saved, but we're looking at cost optimisation, and there's a big difference between the two. Because what we are seeing today, as our volumes have significantly increased, and I will touch on this also probably later in the pack, is that from a gross sales perspective we have almost grown our retail banking side by 28%. So that's 28% more volume flowing through our system with a lower cost.

And that's not because costs were saved, but because costs were optimised, and we have been able to create digital solutions whereby we're able to provide strong and seamless service to our clients in a much faster and efficient way, and are able to absorb more volume without having to add more costs unnecessarily to our cost base. We will continue to drive cost efficiencies, but I think from now onwards, the benefit on the cost to income ratio will really be driven by improvement in the top line rather than further reductions in costs.

I spoke about the digital adoption for ADIB and I think the number, which we're really happy about, is that we're trending anywhere between 65-70% in terms of digital active clients. Our digital sales are increasing up to 47%, that's half of our sales, almost, coming through our digital channels. We spoke about phase II profiting, and that's particularly on the payment side. That's 95%.

I just want to make one point on that, is that we in ADIB strongly believe that digital is the way forward, but we are equally protecting a client segment which still requires branches. And accordingly we're not serving for either/or, but we're making sure that we cater for our entire client base, some of whom are more comfortable with digital, or are transitioning into digital, but some are also looking at visiting our branches. We have 61 branches, more than 500 ATMs conveniently located in the country, I think one of the highest networks in the UAE, and we are really monitoring the efficiencies very carefully, and clients are very appreciative of the fact that these branches are still operating the way they are.

On the impairment side, on slide 16, a few points to call out. Number one is that the cost of risk, as you can see, is converging to a close-to 40 basis points. And I would just like to remind you of the previous earnings calls we had, where we consistently mentioned that the underlying cost of risk of this bank, corporate and retail combined, is somewhere in that range. And I think having a half year which had really no surprises is a good reflection of the underlying quality of the book we have, and accordingly, what is the true cost of risk of this organisation.

If you see the retail part, which is really low, and I know that it's something that people will look at and say, wow, that's really a very low cost-of-risk, either you're not taking enough risk or there's something with that number. But I can assure you that, given the strong client base we have in the retail space where we've talked about UAE nationals contributing almost 80% of retail financing today, that is not a very surprising number.

We did also speak about the fact that we are opening up more to the expert segment, and accordingly will this number [unclear] change? Probably yes, but not as much as one would expect.

Moving on to talking a bit about how the non-performing book has performed, I think it might be coming in a later slide, but our NPA is currently at 8.4% and the coverage ratio is also somewhere that, maybe we can move to the next one. Yes, we can move to this one. Correct. I think that's probably the slide I wanted to talk about. Very happy to see that the NPA ratio is dropping. Again, very consistent with the messages we have been giving over the last few quarters. The reduction in NPA is driven by our growth in the finance book, but also keeping the NPA number in check.

We are committing and committed to continuously enhance this number. It will come from further actions taken in H2, whether it's from curing some of the more legacy transactions as really light at the end of the tunnel when some of these names appear, but also our strategy in terms of some of the more strategic write-offs we will be taking will enhance this number, and we're probably going to look at a number closer to the 7-7.5% by year-end.

The coverage ratio again without collateral is moving up to 71.4% from a low of 60% in the first quarter of 2021. Again, very, very consistent with what we have been flagging to the market, and this number is going to be closer to 75%. And as we've always been indicating to the market that including collaterals we are at 124%. Very healthy, very comfortable. And given that the majority of our collateral sits in the real estate property sector, and seeing how this specific sector has been performing, we are expecting this number to be continuously improving, just by us continuously revaluing the position of our collaterals.

From a balance sheet perspective we are hitting a high of AED 142 billion of total assets. I think that's a number we have not seen since the inception of this organisation. It is core growth. It is not hot money. It's very, very strategic growth, both on the liabilities side, which is then translating into our ability to grow our funding, whether it's from a financing or investment portfolio.

Our strategy is very clear. We fund before we finance. And that has been working very well for us, and that's why, as we will see in the later slides, that our deposits, when they have grown 10%, we've also grown financing by 10%. And on this slide we are seeing the growth, upper left-hand side of the chart, moving all the way up to 92 billion from a low of 83 billion. That's your 10% growth. And this was entirely funded by client liabilities, so no need to go and tap the financial markets to support this growth, but we've been able to maintain our very healthy liquidity buffers by growing our balance sheet and supported by healthy growth on the liabilities side.

That is exactly the point I was making, from 103 billion deposits going all the way up to 115, our current account and savings account ratio remains at 75%, and the mix, I think, has been quite healthy. Now the expected question that will probably come up is that as interest rates in the market work, will we see some pressure on that?

I would say probably there will be some pressure, but given the efficient mix we have in terms of current accounts, savings accounts, versus wakala or short-term investment accounts, I think the change of the dynamics of that particular funding structure is not going to materially change. There will be some pressure points, but nothing very material.

Moving on to the capital position, I spoke about the CET1 turning at 12.8%, and as well as total correlation of 18%. This number will continue to go up as we create more profitability. And the philosophy of ADIB has always been to be able to create what we call net-generated equity within the bank, and be able to also reward our shareholders with dividends, but also thinking very carefully about how you will support growth for the future. The equation has worked very well for us. It's a winning formula, and we will continue as such.

Our liquidity ratios, as you can see, LD at 80%, very, very liquid, very healthy. We are actually probably going to try to move that a bit higher, but not that much given that we always, as I mentioned, look for funding before financing.

Before we conclude the presentation, a bit on the guidance and particularly of what has changed. In terms of growth financing year on year, it remains to be anywhere between 5-7%. We did grow 10% year on year, but there was also growth in H2 of last year, and we expect that when we compare year on year, we're going to be at that level.

Net profit margins. I have, with the team, updated our outlook to 335 to 345. I am conscious that we had this discussion in the last call and it was perceived initially to be a very conservative number. The number at that point is something we believed will happen, but interest rates in the markets have moved much faster than we anticipated. The Fed rates have hiked the prices much more aggressively, and that is translated into the markets in the UAE also much faster, and accordingly, we are advising on that profit margin to these levels.

Our cost of risk, currently at 42 basis points, and I did say that this is probably our normalised level. We are taking it anywhere between 60-70% basis points, and that's on the back of us trying to assume a bit more of it, particularly on the corporate bank, where we are moving slightly more into the large corp and selectively mixed-corp segments, again, very much aligned to our strategy. And within the retail bank we are moving to the expat segment, which tends to be always a bit more risky.

On the cost-to-income ratio, we are expecting anywhere between 37-39%. I am cautiously optimistic that we could actually be on the lower range of the number, given the momentum we have seen, particularly in the second quarter of this year, from a top-line perspective, so this number is very much in reach and we are finally breaking the back on the 40% number.

Net income growth, we are, by H1, at 30%. We are looking at anywhere between 20-25% by the end of this year, and again, equally cautiously optimistic that this is a number within reach, and we are looking at delivering that by year-end.

The term equity, our 20-25 target is 20%. We are at 17.3%. We believe that by the year end, given the strong momentum, we are going to be anywhere between 17.5-18.5%. We are hopeful that's probably closer to the higher number, but let's see how things play out, because again, we are very conscious to ensure that we still write capital accretive products, despite our high liquidity, so it's always the liquidity.

We need to be very mindful of is that liquidity is available, but it doesn't mean that you go off strategy. You remain focused and drive business which is accretive for the organisation, for our shareholders, not only on the short term but also on the long arm. So with that, I am concluding my presentation, and we are happy to open it up for any Q&A. Lamia, over to you, please.

Lamia Khaled Hariz Yes, we're ready for Q&As.

Operator Thank you. For our Q&A, if you would like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two. Those who have joined online, please press the flag icon, and when preparing to ask your question, please ensure your device is unmuted locally. Our first question comes from Edmond Cristou from Bloomberg Intelligence. Your line is open. Please go ahead.

Edmond Cristou Good afternoon. Excellent set of results. I just want to follow up on the inflation. I can see the inflation number you have on the guidance is slightly below what's going on in the market now and the expectation for the year-end. How do you envision this impact, if it continues to be sustainable into a high inflation environment on the cash flow, the corporate? And also on your expectation for the cost of risk, I understand that corporate is not a large part of your loan books, but any thought on this would be much appreciated.

The second one on the excellent credit growth out of the market, and I just want to understand, you are taking market share on the corporate, or so you find a new loan origination on the corporate side? And if that's true from which, Abu Dhabi, Dubai, Corporate, where do you see the sentiment and how do you see this is evolving in the second half of the year will be important to understand. I think you mentioned on TV that you see a slowdown in the retail demand given the increase in borrowing, so also it will be interesting to see what is the driver for credit growth in the second half of this year and next year if possible. Thank you.

Mohamed Abdelbary Thank you. I'll take the questions one by one, and please, if I do miss any points remind me. In terms of the cost of risk coupled with the inflation numbers, really it is inflation numbers we are able to extract from various sources. I know that they are becoming very dynamic. We initially had, I think, sub-4%, which might be a bit higher. Now the world outside the UAE is reporting plus-9% numbers. I believe that at these levels of inflation the UAE, I would say, has tailwind and is still able to grow and some level of inflation is always good. It does stimulate very specific sectors, and allows investors to make investment decisions knowing that there is an element of price appreciation.

Now, having said that, some of the inflation numbers, as they translate also into cost of financing, yes, you're absolutely correct. So there will be impact on some of the corporate, who will find it more and more challenging to finance their operations, and accordingly this is a sector where you have to be very careful when you make financing decisions, to ensure that the cash flow, which is, I think, more important in this situation, will support servicing these transactions, at least in the near future.

For ADIB in specific, our corporate book, as you rightly called out, is not very big, especially if you see it in a bigger bank-wide context. So we are predominantly retail-heavy, and within the Wholesale bank more than 25% of the book just comes purely from GREs, and then the rest comes from the ecosystem from GREs. We don't expect a material impact, but having said that, we are very, very closely monitoring all the Corporate activities and will ensure that we have early signs of intervention if required.

Now, the loan growth in the economy itself, accordingly, we expect it to slightly slow down. So why are we saying that? If one looks at the GREs, the liquidity buffers they have created from behind oil prices have encouraged them to do very large repayments, and we did see them in the business as well, and you cannot really blame them for that. So if you are in a position to refinance your loans and you depend on your own sources, that is probably a good time to do so, because most of these financing activities are on a floating rate basis. So they will be hurt by the rising interest rate environment.

So that is going to be one of the factors which will slow down financing in the economy, and the other part which I mention is that some of the corporates will find it difficult to grow their financing needs, and banks will be a bit more cautious in terms of when they make these decisions.

Particularly for ADIB, where did our growth come from year on year? From the retail perspective, our sales numbers, we are mainly, if we look at our retail book, 20 billion or so comes from personal finance, 20 from home finance, then we have a bit of auto loans, 4-5 billion, and then cards, 2 billion. So we are market leaders in the main core two pillars of personal finance and home finance, and we have managed to grow our sales numbers in these two sectors by 28% year on year.

So the sales numbers we've done last year compared to this year are up 28%, and that's not by trying to go into a price war. We kept our prices the same. But we were able to find other avenues, channels, open slightly our risk appetite, as I mentioned, to the expert segment, and accordingly we've seen that healthy, sustainable growth without really impacting our profitability or even our cost of risk.

On the corporate side perspective we have managed to grow what we said mainly on the large corporate segment and again they have done very well. And again, they are within our risk appetite and within our ecosystem. We do not wander away from the strategy. We keep really the focus, because it's easy in this environment to make short-term decisions which will give you very healthy margins, only to come and bite you, maybe, in a year or two. And ADIB is known for not doing these tactical measures, and we are not about to do that at this stage. Please tell me if I missed any of your points. I'm happy to elaborate.

Edmond Cristou Just on the mortgage, do you see mortgage slowing because the cost of borrowing is rising significantly in the second half?

Mohamed Abdelbary There could be a possibility of some slowdown. There are two things we need to consider. The property market has not slowed down, so Q1, so Q2 was higher than Q2 in terms of actual transactions, and the property market has been a very, very active market. But 70% of the transactions are actually on a cash basis, and some people might not notice that, but it's only 30% who are being financed by banks, and then there's an LTD component of it. So property markets I don't think will slow down, will continue. It's a very good avenue for investment if you have the ability to deploy some of your spare cash.

But then the banks from their side will continue to benefit from it to the extent that clients are asking for home finance or mortgage. Most of the home finance transactions are on a floating rate basis. There was always a fixed element there as well but I'm seeing it disappearing from the market, and everyone is moving now fully to floating. So, banks, whoever is able to grab market share, and we're definitely one of them. And this also addresses your question. I think we have grown faster than the market. We have taken market share and we've grown very, very sustainably in that fund.

Edmond Cristou And you have taken market share in the corporate, right, from other players? Or is this organic growth in the market that is expanding? It's organic, right?

Mohamed Abdelbary It is organic, and if you look at the central bank's data of growth in specific sectors, and looking at our growth, almost 16% in the corporate side, we definitely have taken market share.

Edmond Cristou Sorry, last one. It's on the property. You said valuation of property would be higher. There is a calibration of collateral values. When I look at your collateral, if I look at the coverage and try to calculate it on the back of it, it's falling sequentially. I think you are yet to see a revaluation of this collateral, and what does it mean for the books, for dividend? Just an idea on how we should think about it. Thank you.

Mohamed Abdelbary I can comment on the first part. The dividend part I cannot comment on yet. It's a bit too early in the day. But in terms of collateral value, yes, there is more appreciation to come, and the reason why we have not factored in all these two upticks in the property markets in the valuation is that we try to take a bit more time to ensure that the growth is sustainable and does not create volatility in our collateral valuation.

It's been, I think, more than 12 months now where property markets have done very well, and I see no reason why towards the end of the year we run a proper, detailed valuation, with a bit of a haircut. We're always a bit more on the conservative side and adjust our collateral value accordingly, and that's why I think the coverage with collateral will definitely improve even further.

Edmond Cristou Thank you, and good luck.

Operator Our next question comes from Shabbir Malik from EFG Hermes. Your line is open.

Shabbir Malik Hi, thank you very much. A few questions from my side. The first one, year to date, or first half, your cost of risk has been about 42 basis points. However, you've kept your guidance intact at 60 to 70 basis points. I think you've talked about collateral values not yet being reflecting the ground realities of the real estate sector. Is it fair to say that you're still looking at it, your cost of risk guidance through a conservative lens, or as you mentioned earlier in the call that as you're focusing more on, or you've increased your risk appetite, you still believe that 60 to 70 basis points is where you'll end the year at?

That's my first question. My second question is on your margins. Were there any one-offs in your financing incomes this quarter? You've raised your NIM guidance. I would like to know how many rate hikes have you baked into your forecast for this revised NIM guidance.

And one more question is on your disclosure yesterday, that you stated that you've received a green light, so to speak, from the US authorities about, after they reviewed your dollar transactions. How serious was this in terms of potential negative impact? Where there any provisions that you have taken as a measure of precaution that could potentially be reversed now? So those are my questions. Thank you.

Mohamed Abdelbary Thanks, Shabbir. Again, let me start, maybe, from the last question and work myself up. From an [unclear] perspective let me just give a bit of background for the audience of what it was. In 2014 ADIB received an enquiry, and it's very important to call it an enquiry, about certain transactions which went through our systems and which had a Sudan angle in it. And the request was to provide an internal investigation and details about that transaction.

ADIB took all the measures in terms of doing an internal independent review, supported by some external help, and was keeping the central bank and regulators fully appraised of that investigation. This was then shared with the US regulators, who from their side conducted their review as well. And accordingly the conclusion, and these things obviously take years to really conclude, but eventually the conclusion was a no-action letter, which means that the investigation or enquiry has been officially closed with absolutely no consequences or actions on ADIB's side.

In terms of provision, we have not disclosed any of that, and accordingly at this stage we can really not comment on that too much, unfortunately. But I think the outcome is very favourable, and ADIB, at least from our side, has always felt very comfortably that this would probably be the outcome, knowing these transactions very well, and given the strength of our internal systems. So that's on the US side.

If one now talks about the net profit margins, we are updating our net profit margins on the basis of, as I mentioned, some of the recent developments in the interest rate environment. We're assuming an exit rate of, I think, 3.5% by December. I think that's probably nine hikes happening over a period of time. There's a recent, shortly coming up, possibly 50 basis point discussion, but 3.5 is what we've priced into our outlook.

Maybe I can cover a point also on the behaviour of our portfolio and the sensitivity we've got related to that point. Just to remind the audience, our book is 60% re-priced within one year, and close to 76-80% within three years. So it's a fairly agile book, if you want to call it this way, and responds to a price movement fairly quickly. The majority of the 60% re-pricing in year one is coming from the entire corporate book, as well as 25% from the retail book, which is in the form of home finance. The remaining of the retail book is on a fixed-rate basis with an average duration of three years.

From a sensitivity perspective, anywhere between AED 100-120 million is the sensitivity for every 50 basis point movement on an annual basis, so we are looking very, very optimistically not only for this year but as we enter next year as well, the benefits which we will get from this rate hike which we are deploying very sensibly.

And the last point on the cost of risk guidance, yes, the guidance is driven by the fact that we do start to expect some uptick given the segments which we are exploring and banking. There's always a time lag, but the models do capture these fairly quickly. You asked whether it's a conservative number. I would put it probably anywhere between conservative to realistic, so it's definitely not an aggressive number.

It's conservative to realistic, but that is not unusual given that this is a new segment which we are exploring, we are learning, we are testing it, and accordingly we are putting that number in place. Every quarter we will be updating our forecast based on what we learn and how the models will behave from these segments. Did that cover all your points?

Shabbir Malik Thanks for that. I would just also check that were there any one-offs in the financing income in 2Q, or was that all driven by re-pricing of assets?

Mohamed Abdelbary Very happy to say that this is all core and not a single one-off in our six-month numbers, which again, we are very happy that the core itself is growing. And it has room for one-offs, so actually the one-off you could consider is a negative one-off due to the losses under the group portfolio we have. So if we even would have kept our group performance, and this is a market-driven phenomena, flagged, this number would have actually increased quite significantly as well. But it is what it is. It is the market. It's unrealised losses mainly, and we do hope to recover some of it in the near future.

Operator As a reminder, to ask any further questions please press star followed by one on your telephone keypad or the flag icon if you've joined online. Our next question comes from Vikram Vis from MBK Capital. Your line is open. Please go ahead.

Vikram Vis Hi, Mohamed. Congrats on a good set of results and thank you for the presentation. My first question is on the fees and commissions. As you rightly mentioned there's a very strong increase in fees and commissions in the first half. Can you elaborate what's driving this? You have mentioned earlier about the establishment of a new wealth management platform, and also enhancing your trade financing platforms. Are these now beginning to give you more free income? That's my first question.

You mentioned that there were some market-to-market losses in the investment income line. Will that somewhat normalise in the second half? That's my second question. My third question is, clearly you've been increasing market share in financing. The financing book is up, I think, around 10% or 12 % year on year. You mentioned something about opening up your loan book to the expats. Is that the only factor which is driving this market share, or are there other factors which are leading to an increase in market share in the financing segment? These are my three questions. Thank you.

Mohamed Abdelbary Thanks, Vikram. Not in any particular order, and again please, Vikram, do tell me if I miss any of your points. The market-to-market losses in our trading book, and these are things which are disclosing, you could have comfortably added 100 million to that number if you just had kept it where it is, but again, it's market. That's how it is. That's how your fixed income book will behave.

But it's meant also that for the first half of this year 100 million, predominantly on unrealised losses, has been booked from the trading book, and we do hope that the market on the long, because I have to look at the long curve, where the rates are, that they start to stabilise and trend slightly downwards, and you start seeing some of that being recovered. Having said that, the hit has been taken. We do not anticipate any further hits, but any recovery will be very welcome. That's really on the market-to-market losses we had.

Market share, indeed we have definitely taken market share, both retail and the wholesale banking side. The driver of increasing our market share on the retail side is predominantly on the back of our, I wouldn't call it just the fact that it's open to expat segment. That has to do with it, but we're happy that both the UAE national segment as well as the newly created segment [unclear] bank's focus segment has increased. Our UAE national segment has performed extremely well, and that's a reflection of the strength of our product offerings.

And as I say, we are always ensuring that we tailor products to our clients' needs and we provide an end-to-end holistic experience. How do we measure that? We measure it by the number of products we're able to offer to a single client, and the average has trended upwards to 1.5x from almost 1.2x, 1.3x. So that tells us that we are being much more relevant to our clients and able to cross-sell more.

And our risk appetite, which is reflected in opening new segments, has played a very important part of it. Our digital capabilities, which allow us to capture more volume in a much easier way, definitely has helped as well, because we are able to process much faster, much more seamless. It's good for the clients. It's good for us. And accordingly I think we have been running much faster than the markets.

When it comes to the fees and commission part, and I think, Lamia, you've pulled it up on the slide, the fees and commissions have come from various angles. So from within the retail banking side you would have more wealth management, and that's a question you have. So our wealth management fees have gone up.

We've also seen a growth in what we call debit card-related fees. So our spend on debit cards has close to doubled year-on-year, and that attracts, also, the fees which come with these transactions, and clients just swiping their cards. So that has helped us a lot, both on debit cards and credit cards, and accordingly, also the international spend. Opening up for travel has helped to fuel that performance as well.

From a corporate bank perspective we've seen a healthy pick-up, particularly in our corporate finance division on the back of some of these indications, but also bilateral transactions have helped. So net-net, we are very pleased with the performance because I always would like to see that my non-funded income grows faster than funded income. It's good business. It's out of the [unclear], and gives me the additional [unclear].

The wealth management platform we spoke about. I think you're talking more about the asset management proposition. More on this will be shared but so far it's trending very well. We are offering the right level of investment opportunities to our clients and we will continue building on it. Wealth management is a key strategic pillar which we will continue investing in and grow, not only for the bank but also something the clients continuously ask for. Vikram, did that cover all your points, or is there anything I missed out?

Vikram Vis Yes, thank you, Mohamed. Just one follow-up question on the market share. The increase in market share, is it going to be sustainable for a few more quarters? Can you increase market share, let's say for the next four or five quarters, or do you think you've reached a space where you've already attained enough market share?

Mohamed Abdelbary I think the way we come up with the answer is that market share, taking market share, will have to be the result of us following our strategy. If following our strategy and our risk appetite does not translate into taking more market share, actually so be it. We will then leave it on the table and we will not only follow for market share. We will follow our strategy. It has worked for us so far very well. It will continue in the next quarters to work for us well. Great.

If not, we will very much keep the course and make sure that we underwrite the business which is good for the bank and the franchise and our clients, and hopefully we will take market share as well in that context.

Operator Our next question comes from Mahmood Akbar, from Value Capital Partners. Your line is open. Please go ahead.

Mahmood Akbar Hello, Hi, Mr Mohamed. Thank you very much for this presentation and for taking my question. Just going through the last quarter, I was going through your guidance, and to achieve that ROE and particularly the 20% ROE over the medium term would require a level of higher leverage. If that is the case, could you kindly go through how you would increase that leverage? Would it be through increasing the dividend payout ratio or do you expect that in 2023-2024 there will be significantly higher loan growth that will push up the leverage ratio?

Mohamed Abdelbary Just to recap, and thank you for the question. The 20% target is for 2025. So that is something which we are building for. And I think the short answer would be, no, we would not want to increase the leverage. I think what you're saying is that you'd use the denominator, right? So you're dividing the income, probably, on a smaller...

Mahmood Akbar [Overtalking].

Mohamed Abdelbary Which I'm not in favour of. It's not within our strategy, because we are very mindful to ensure that our capital ratios, at the same time, they're meant to be at very healthy levels and the healthy levels are probably the ones which we are today. Do I want to take it significantly above that level? Probably not, because it becomes inefficient for us. But do I also want to take it significantly below, to achieve an ROE by running a bigger risk for our shareholders? Also the answer is no. So it has to be going hand in hand. We will continue to drive business by focusing on what we call capital-accretive business.

ADIB, historically, has been very consistent in its dividend payout policy. I don't see at this point any reason why this should change, especially that we are performing very well. But as we all know, any dividend decision is subject to broad AGM and central bank approval, very specific approval. But from where we are sitting today as management we believe that our dividend policy is fit for purpose and we continue to be subject to these approvals. Sorry for the long answer, but we will not increase our leverage by doing [overtalking]. We will drive... Sorry?

Mahmood Akbar So basically you're expecting that your return on assets will be the key driver of returns going forward.

Mohamed Abdelbary Yes, that's correct.

Mahmood Akbar And I know we're close to the one-hour mark, but since I have you on the line, [unclear], when we look at the forward market and swaps, it basically, despite the noise that people talk about, it seems that there are no expectations for further rate hikes beyond 2023. So that's what we can look at through the poorest swap per market. So how can I look at the spread to the benchmark interest rates? Will it converge the historic average, your spread to EIBOR, your interest deal spread to EIBOR, and if so, should I look at the average or will it be lower than the average because the interest rates will be raised significantly? If you could just help me understand that, please.

Mohamed Abdelbary I think the market is pricing the curve in a way, as you rightly said, that by mid of 2023, some conversion or some reversal of these hikes would happen. Now, that's worked twice in the curve. Whether it's going to happen or not, I think we'll have to wait and see. Because we've also had some signals six months before which have completely changed from where we are today. But you're right. By the second half of 2023, that's where the easing should start to happen.

If I were to build a model to try to understand what is a good outcome of the margins beyond that point, I would probably not use the average because by half of 2023, a lot of assets on the book would have been re-priced, and they would take time again to start converting to a lower level. So I would take a starting point by H2 of 2023, and build another, probably, year or year-and-a-half before you probably go to historical lows or normalisation of interest rates. There's no perfect formula for it but I think you just have to take it step by step to see how the market reacts to these movements.

Mahmood Akbar Just so that I understood correctly, what you would advise is I look at the first half of the year, look at the interest yield and then look at the spread to the average EIBOR to the corresponding period and use that as a base for the future.

Mohamed Abdelbary Probably yes, probably yes.

Mahmood Akbar Thank you so very much. I have a question, I didn't reach it, but I'll take it with the management there. Thank you, Sir. Thank you very much.

Mohamed Abdelbary Thank you so much. I appreciate it.

Operator This concludes our Q&A session. I'll now hand over to Janany Vamadeva with Arqaan Capital for final remarks.

Janany Vamadeva Thank you. I just want to thank everyone for joining the call. Thank you, Mohamed, Lamia and team. Have a good evening.

Lamia Khaled Hariz Thank you, all, and if you have any follow-up questions please do email us. Thank you, all.

Mohamed Abdelbary Thank you, guys. I appreciate the time. Thank you.