FAB Q1'2018 Earnings Call Transcript*

Co-hosted by Aybek Islamov, HSBC
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FAB Speakers

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*Edited

Operator: Thank you all for standing by. All participants are in a listen only mode. During the question and answer session, you may press star followed by the number 1. This call is being recorded. If you have any objections, you may disconnect at this point. Now, I will turn the call over to Aybek Islamov of HSBC. You may now begin.

Aybek Islamov: Thank you, good afternoon, good morning everyone. This is Aybek Islamov, Bank Equity Analyst at HSBC. I'm pleased to host you at the First Abu Dhabi Bank First Quarter 2018 Results Conference Call. With this, I would like to hand over the call to Sofia El Boury, Head of Investor Relations at First Abu Dhabi Bank.

Sofia El Boury: Thank you, Aybek. Good afternoon, good morning, and thanks for joining us today to review FAB's financial performance for the first quarter of 2018. On the call today we have our Group Chief Financial Officer, James Burdett, our Group Chief Risk Officer, Arif Shaikh, and our Group Head of Subsidiaries, Strategy and Transformation, Karim Karoui. They will respond to your questions at the end of this short presentation. A quick reminder that the IR deck we will be using today is available on the Investor Relations section of our Corporate Website as well as on our IR App. So before we start, just please note that FAB pro forma condensed consolidated interim financial statements as of 31st of March 2018 serve as the main basis of reference and preparation for our management discussion and analysis report as well as our investor presentation.

So with this, I would pass it onto James for his presentation.

James Burdett: Thank you, Sofia. Good afternoon everybody. Thank you for joining. What I thought I would do is to go through the investor deck quite quickly so we've got room for plenty of questions and answers at the end of the presentation.

So starting with Page 3, I think the key highlights on Page 3 summarise our performance for the first quarter. And we're very proud and pleased to announce a record profit of AED 3.0 billion for the first quarter 2018. And really it's a great start to the year because it is a record profit. We've got significant growth along many of our business lines. And when you look at revenue ex-one off, we've got growth there. We've got significant synergies coming through. We've got growth on the balance sheet. We've got significant uptick in fee income and we've got the tailwind from the Fed rate hikes coming through.

The integration journey is proceeding according to plan. We've hit every single milestone we put out to the market. We're looking for the full cut over (Customer Day 1) to happen before the end of the year when we move to the target stack for the entire UAE customer set, which would be a really significant milestone to take us forward.

You'll also see that we met the synergy target we put out for the market and we're at AED 640 million versus the AED 1.5 billion we put out to the market. And we're making good progress on some of our strategic moves around international, around Saudi Arabia, rebranding, branch closures, and so on.

And on top of all that, the balance sheet remains very robust with good fundamentals. Liquidity is strong both in terms of LCR and advances to deposits ratio. And the core equity Tier 1 well above our comfort range and on track to hit the target we put out to the market. And I think the last point and probably the most important point for you is we're on track to exceed targets that we put out to the market for this year.

Page 4 is just a detailed P&L and I won't go into too much detail because we'll cover the main P&L lines as we go through the presentation. But the one thing I want to call out is revenues on the face of it look like they're down quarter-on-quarter and year-on-year but if you take off the opportunistic gains that we recognised in the first quarter last year in group treasury around our AFS book where we made AED 400 million of AFS gains prior to legal day one, and something around AED 200 million of property gains in the fourth quarter last year, if you back those out, we are showing positive growth and we've tried to highlight it for you on Slide 5 of the presentation.

And if you're looking at Slide 5 now, you can see the adjusted net profit once we've taken out some of those extraordinary items but also the integration costs relating to the merger. And you can see the profit is significant. So we're at AED 3.1 billion vs. AED 2.6 billion last year. And I think that should give you a real flavor of the sustainable underlying growth that we're showing in this business and why we're very pleased with the results.

On Page 6, we will go through some of the integration and strategy update. So we are proceeding on our international rationalisation, which is predominantly around rationalising the retail business but also rationalising some of the countries. So we've already started plans to exit Malaysia and we're looking to downsize where it doesn't make sense for us.

We've also rationalised again within the UAE and I think the number of branches at the end of December was 103, and we're down to 89 now, so another 14 or so branch closures, which in terms of synergies will be realised throughout the rest of this year. And of course, we've completed the rebranding.

The Saudi Arabia story is progressing well, both in terms of CMA and SAMA. And in terms of the purchase price allocation, we have concluded that now with our auditors, as you would have seen looking through the financial results.

Slide 7 on the core equity Tier 1, this is something we flagged that it would drop to around 12.5% as of the first quarter. That's predominantly as a result of the IFRS 9 and the impact was AED 3.1 billion and within the guidance that we put out under IFRS 8 at the end of last year. So that affected our core equity Tier 1 ratio by 63 basis points. We obviously had the dividend payments and this was partially offset by capital generation, leading us to 12.4%. But with the organic growth and profitability going forward for the next three quarters, we're very comfortable with exceeding the 13% target that we put out to the market.

In terms of the return on risk weighted assets, there has been a jump in risk weighted assets which I'll talk about later, but nevertheless, the return on risk weighted assets is starting to improve and the growth in return on tangible equity you can see on the bottom right hand side is a function of that, but also a function of the dividend payout impacting our equity.

Turning to Page 8, which just gives a snapshot of the NII, you can see there has been an improvement in net interest income or NIM over the period and we're looking at four basis points year-on-year or seven basis points q-on-q. But I think it's important to note that the significant uptick we've got from the Fed rate hike has been offset by a number of factors. One, certainly increased competition that we're starting to see in our CIB business. Two, in the retail business, which we've talked about for a number of quarters, we are tightening risk appetite in that space for higher risk adjusted returns, which I think you can see coming through significantly in the P&L.

But there are also some liquidity movements that are impacting the spreads. So for example, we've got close to AED 60 billion in deposits with the ECB, which is dollars raised in the UAE, placed with the ECB, and swapped back for a positive spread where the income is reflected in FX and trading income, which isn't reflected in the NII, which obviously impacts our NIM to the tune of 6 to 8 basis points.

So when you back all of that out, plus the healthy pipeline that we've got, we're very confident on positive NII growth going forward into the foreseeable future. Page 9 on non-interest income, you can see significant growth in fee income, which is up nearly 20% year-on-year. Good growth across most of the fee line items, which I think represents the pickup in activity that we're starting to see come through in our balance sheet.

Overall, non-interest income fell mainly because of those opportunistic gains I mentioned as of the first quarter of last year. But nevertheless, there are always one-offs and we expect a few one-offs to come through the subsequent quarters this year.

In terms of operating efficiency on Page 10, you can see our BAU costs are now at AED 1.2 billion, down nearly 200 million or 14% over the prior comparative period. That reflects significant synergy saves, which we flagged to you previously and in effect, you can see the cost to income ratio at 25.8%. If you back out the merger related amortisation of intangible costs, ratio is actually below 25%. The costs for integration were in line with guidance. Percentages are also in line or exceeding guidance and we expect further synergies to happen throughout this year.

Page 11, this is probably one of the most significant changes because the cost of risk has fallen sharply to 49 basis points. That's mainly as a result of the purchase price allocation where we have fair valued the legacy NBAD portfolio but also we had the impact of IFRS 9, where we took a AED 3 billion adjustment to equity. I think that plus tighter risk appetite in our retail business is starting to flow through into a lower cost of risk, setting a new basis as we go forward.

In terms of NPLs, they remain stable at 3.1% NPL ratio but the coverage has jumped up with the additional provisions around IFRS 9 at 127%. Looking at loans and deposits, we've got some growth. We're up 2% q-on-q, mainly led by CIB. But also remember that we've taken I think AED 3 billion of PPA adjustments and AED 3 billion of IFRS 9 adjustments, which have netted that figure. So it reflects stronger growth, which I think you can see reflected in the fee pipeline. And we have a strong pipeline going forward, particularly in CIB.

Customer deposits are up, particularly CASA which was up 11% sequentially, which is strong growth and obviously, a very profitable product for us. And overall liquidity remains very strong with the Liquidity coverage ratio at 112%, well above the regulatory minimum and the AD ratio very comfortable.

Slide 15 is just a snapshot of the wholesale funding. So we rose close to USD 2 billion as of the end of April. We've raised it through private placements at a number of issuances all at very favorable rates. So we're quite pleased with that despite the volatility in the market.

And then lastly most importantly, Slide 14, the guidance going forward. I think we're well on track to exceed a number of targets. Revenue which was down 4% year-on-year will pick up throughout the year and end up at low-single digit as we've guided. Cost to income ratio is almost at the 2020 ambitious target that we set right at the outset of the merger. Cost of risk, we put out 65 to 75 bps but we're setting a new benchmark at 50 basis points, back or around that level going forward for the foreseeable future. So there's upside there.

And therefore, the net profit growth and return on tangible equity we think will exceed guidance, whilst maintaining CET1 above 13%. So that's a quick snapshot of the results. We're very pleased, as I said before, with the growth we're seeing in the business, particularly when you take out some of the noise relating to one-offs in prior comparative period adjustments, PPA, IFRS 9, and so on. And we're very confident of exceeding our targets that we set out to the market at the beginning of the year.

So with that, we'll hand over for Q&A.

Sofia El Boury: Operator, please open the line for Q&A.

Operator: Sure thing. We will now begin the question and answer session. If you would like to ask a question, you may press star followed by the number 1. Please unmute your phone and record your name clearly when prompted. Your name is required to introduce your question. To cancel your request, you may press star followed by the number 2. One moment please while we wait for the question.

All right, we have a question from the queue now. Our first question is coming from the line of Hootan Yazhari of Bank of America. Your line is now open.

Hootan Yazhari: Hi, there. Just a quick question regarding your cost of funding, this obviously went up during the quarter. I want to see if there's any moves that you're making to address that, whether we can see cost of funding being brought under control, or whether given the rate hike cycle that we're observing, whether we should expect that to keep moving up and putting pressure on margins. Thank you.

James Burdett: Yes, the cost of funds did rise basically in line with the Fed rate hikes, as you would expect. But yes, we have a number of opportunities and options to improve NIM and we're exploring all of them. So this longer-term funding optimisation that we're looking to do, there's particularly strong growth in CASA, which as you know we pay 0% on. So it's an incredibly profitable product for us and that's up 11% year-on-year. We're looking to reduce our reliance on term funding. We've got various projects underway to diversify our funding base, particularly offshore using our rating to diversify our profit stream and recycle money back on shore to the credit markets that we know the best. But I do think it's important to understand that the balance sheet is complex, that we do have a lot of surplus liquidity. That surplus liquidity we spread around to the various banks and I think it's important to note that the 60 or so billion that we've got sitting in the ECB in negative spreads creates a negative arbitrage on our net interest income line. But overall, economically positive because it's reflected in the FX and investment income line. So there's a number of things there that you need to disentangle when you look at our cost of funding and also our return on funding.

Hootan Yazhari: Understood. Thank you.

Operator: Our next question is coming from the line of Shabbir Malik. Your line is now open.

Shabbir Malik: Hi, thank you very much for this presentation. A couple of questions from my side, one is on CASA. You've talked about it as well. Very good growth in CASA during this quarter. Maybe if you could tell me a bit about the source of these CASA deposits and how sticky do you think these can be in a rising interest rate environment.

My second question is on your operating costs. So in one of your slides you've shown how your BAU operating costs have come down from AED 1.4 billion in first quarter last year to about AED 1.2 billion this year. And you talked about your cost synergies, which are about AED 640 million against your target of AED 1.5 billion. If you could put those cost synergies in context of your operating costs, because it appears that the drop compared to last year is about AED 200 million, which translates to about AED 800 million on an annualised basis. So just wanted to get a sense of how these numbers have worked out to get a sense of a normalised base for the cost. Thanks.

James Burdett: Okay, yes, look, in terms of the CASA, there's a big drive by our colleagues in CIB to grow that business. We as a management team have recognised that it's an incredibly profitable product. Our CASAs at the moment are AED 166 billion. We're looking to significantly push that upwards. What I can say about the customers in terms of CASA is they're very good customers. It's very good liquidity for us and that's one of those products you really want because it locks people in and you get foreign exchange remittances and various other bits and pieces associated with it.

So there is a big push and there is a significant uptick in cash management mandates and we're investing in that product as well in terms of systems. So it's an ongoing focus for us to really push it up and reduce the reliance on term funding. And as you know, it's very sticky liquidity. We behaviourise it between three to five years based on the various regulations of Basel III liquidity guidelines and so on. So it's an important product for us.

In terms of your second question, in terms of operating costs, yes, you're right. So if you look back pre-2015 to combined cost base of the two banks, we were AED 6 billion, about AED 4 billion NBAD, AED 2 billion FGB. If you take that sort of run rate forward, AED 4.8 billion, it implies save of AED 1.2 billion. The synergy targets we put out there are over a specific period from 2017 till 2020, so by 2020 the AED 1.5 billion will be fully realised.

So there's a difference between what's reflected in the P&L and what's reflected in the total synergy saves year to date, which is essentially a life to date number. But if you look at its logical progression, so it may appear significant q-o-q, but if you look at the evolution of it, you can see fourth quarter was AED 1.2 billion so it's down about AED 50 million from Q4 to Q1.

Shabbir Malik: At the moment, your cost synergies run rate would be around how much, AED 640 million? How would you translate that in quarterly save? Can that be translated in that way? Again, how much would that translate on a quarterly basis?

Sofia El Boury: Hi Shabbir, This is Sofia. So the quarterly save that we have achieved in Q1 is around AED 140 million and this is basically to be added to what was realised last year (AED 500 million). This is not a run rate that should be extrapolated over the next three quarters. So all in all, we are definitely completely in line with the AED 1.5 billion target by 2020, as well as the target that we have announced for this year.

But when you look at the BAU expenses, obviously, there is an element of synergy that explains the reduction in expenses. But you also have an element of P&L saves that are not part of the merger synergies, but rather reflect cost discipline. There are other elements to take into consideration in those numbers, including the normal growth in operating expenses that you would have in any business.

James Burdett: I think the way I'd look at it is we're quite confident of getting around the 25% cost to income ratio for the full year and we believe that's a really good achievement for 2018.

Shabbir Malik: Sure, thanks a lot.

Operator: Our next question is coming from the line of Elena Ponceca of Al Ramz Capital. Please go ahead.

Elena Ponceca: Hello, everyone. Cheers for a very strong set of 1Q numbers. A handful of questions from my end. First off, your international operations contributed roughly 14% to your group revenues in the first quarter. With your push towards more presence in the Saudi market, where do you see this for the rest of this year?

Second would be, your NPL level jumped by I think 4% q-on-q to around AED 11 billion. Did you see a similar growth in past due loans? And lastly, I'm not sure if I heard it correctly earlier, are you changing your new guidance for your COR from 65-75 bps to 50bps?

James Burdett: Okay, let me take a couple of the questions and then pass a couple of them on. So the first one in terms of international operations, I think you can factor in a very immaterial impact from the Saudi push this year. It's an evolving process to set up a CMA license and SAMA license. With the CMA, we'll certainly be first off the mark and there may be a bit of fee income that we can pick up under the CMA license this year. But I wouldn't factor anything in significantly.

In terms of the dynamics of the international P&L guidance going forward what we really looking to do is exit the sub optimal businesses. So if you look at the retail operations in some of the smaller countries - The cost income to ratio is invariably well above 100% when you add, you know, cost of risk associated with that it is generally underwater.

So there will be revenue and a cost save and a provision save which ultimately will improve all the ratios as we execute that strategy. So we are looking in the future for significant growth out of Saudi. But I think that is something that will play out over the next three years or so.

In terms of guidance we are not changing guidance at first quarter because we believe it is premature to do so. But we are confident of exceeding the overall guidance particularly I guess from your perspective around the return on tangible equity and the net profit.

Your other question was around NPLs and past due.

Arif Shaikh: If I can answer your third question in terms of the change in cost of risk, I think James said it clearly we have done well. But in terms of changing guidance we are not changing guidance for the year for the time being, we will re-consider our guidance post half year results.

We are quite optimistic that we will come within the range specified. In terms of the NPL it is a gradual movement that is hardly flagged quarter-on-quarter as you can see. It has been in the 3% to 3.1% range and we expect that to be the story going forward in terms of the next three quarters. Was there anything specific on NPL which we missed? Maybe if you can repeat.

Elena Ponceca: No I was just wondering if you saw a similar growth rate in your past due loans. Past due but not impaired.

Arif Shaikh: No not at all. We are flattish. In fact we have had a number of recoveries in the last quarter. In the quarter ended December 2017 and in the first quarter as well. So it is pretty flattish. The view out until the end of the year is almost in the same range.

James Burdett: Just on guidance generally for everyone. You know obviously when we get through the half year we will relook at things and depending on how we go we might update.

Operator: Our next question is coming from the line of Chiradeep Ghosh of SICO you may now begin.

Chiradeep Ghosh: Hi thanks for hosting this call. My two questions are what about the cross sell potential between the two banks that are merged? If you can throw some light on that any update. Because top line growth has not been that significant. That is my first one.

Second one is I am looking at the return on tangible equity. In first quarter it sat on 17.2% and by 2020 you expect it to taper down towards between 16% to 17% with loan growing very modest. Also improving with an interest rate cycle going up. Why do you believe that return on equity will come down? I mean where are you seeing pressure?

James Burdett: Yes, second one first. The return on tangible equity you can see takes a jump up in the first quarter and that is simply the result of the dividend payment reducing the tangible equity. So you know this need to be factored in when you extrapolate out the tangible equity.

So this year the guidance I think was 15% and we are looking to uptick that to the 16% to 17%. We are quite confident we will get there.

In terms of cross sell, you know, it is a slow process. At the moment we are doing cross sell. Cross sell as you would expect is different in CIB than in retail banking because CIB has moved from a systems perspective.

And the retail segment there is a lot of risk appetite tightening, re-establishing a mix change in the business to lower risk and higher risk adjusted return items. The cross sell has started there but it is not something that we are putting out to the market yet and it is something that will evolve over time.

Chiradeep Ghosh: Just one quick one if I may. What about the lending and borrowing appetite in the UAE market? If you can throw some light. Is there a demand from the corporate side?

Arif Shaikh: Yes. So if I can take retail first. I think for retail demand, there is a slow pickup. It has been really flattish over the last two quarters and we see that trend continue potentially for another one quarter.

In terms of CIB there has been a positive uptick. I think the government is back in the market especially the Abu Dhabi government in terms of the borrowing that it does.

In terms of the large corporates, again we see a lot of traction happening. You saw the trade pickup and you saw the fees and commission pick up. I think the rationalisation of the international network and the reach we have now is kind of paying off in terms of more financing business that we get.

So there is a lot of pickup. You will see the traction as you go into the next quarter. The government is back. The large corporates are borrowing again. And I think the investment cycle in a way has kicked in.

Chiradeep Ghosh: That is perfect. Thank you very much.

Operator: And our next question is coming from the line of Naresh Bilandani of JP Morgan Dubai. Your line is now open.

Naresh Bilandani: Great thank you. Thanks for the call. It is Naresh from JP Morgan. Just two quick questions please. One, we have recently seen a lot of negative news around certain UAE corporates in entertainment and contracting. So I am just trying to understand of how much of these could form a risk on the impairment line going into the medium term? Especially since you have seen a good development on cost of risk and you are expecting the same in future quarters? So that is my first question.

And the second one is if you could please throw some light on the strong growth that we have seen in the RWAs quarter-on-quarter. I understand from Sofia and Karim that this could have been due to higher market risk. But if you could kindly share some light on how we should see this developing in future quarters. That would be super helpful. Thanks.

Arif Shaikh: Hi Naresh. In the contracting segment – yes; entertainment - maybe you can tell me who you are talking about and I can answer. On the contracting segment - yes - we all know there are a couple of big names. Now if you remember, the big name, you know, the elephant in the room who we are all talking about is something which we have taken care of in the last quarter of 2017 and a little bit in 2018 as well.

There is a lot of action going on there. But largely speaking in terms of the contracting book we have seen more positive activity in terms of the payment being made by the government, the collection, the time taken to collect by the contractors has been much more positive.

There are a couple of elephants in the room. We all know who we are talking about. And in that sense we have taken care of that through the PPA process in the last quarter of 2017. In terms of entertainment, really, I don’t know. We don’t have probably exposure and that is the reason I cannot comment on that.

James Burdett: Yes and I think it is worth Naresh just to sort of supplement that. The Purchase Price Allocation (PPA) was really an in depth exercise so we are quite confident we have got that portfolio fairly valued. Reflective of all the risks associated with the environment.

On your question on risk weighted assets. Yes. So there are a couple of things. One is we obviously had growth in the CIB book which was to be expected. We also had reclassification from credit risk assets to market risk assets. Where we put some of the portfolios into that space because we have got a view further down the line that we want to exit some of those businesses as part of risk weighted assets optimisation initiative. And I think as a result of that crossover it obviously results in reclassification because that is moving into the trading books. So there was a pickup in market risk. What I would say is that we expect to normalise that with some RWA optimisation initiatives that we have got planned for the rest of the year. But potentially think of it as a one-time adjustment.

Naresh Bilandani: Okay thanks James and Arif, Thank you.

Operator: At this time I am not seeing any questions in the queue. If you have any questions you may press star followed by the 1.

Aybek Islamov: Well I think while we are waiting for questions one question from me if I may and that has to do with your IFRS 9 disclosures. You provided a good amount of information here on this front. And I am just curious to think how you are thinking about your coverage metrics on IFRS 9 specifically, you know, I look at Stage 3 loans and coverage of Stage 3 loans by Stage 3 loan allowances. You know which is kind of at 50% or slightly below 50%. How do you sort of what are the metrics you will be targeting on the sort of IFRS 9 and if you can comment about the cost of risk on IFRS 9. There is a lot of movement potentially in Stage 2 as well. So any comments will be very helpful. Thank you.

Arif Shaikh: Yes Hi a long question. So in terms of the Stage 3 as you can see I think we are adequately covered. This is a process which has been run by two external agencies or two of the Big four. So we have ‘auditor 1’ in house who help us with all of this from the source till the engine output and the validation of the numbers. And then of course the KPMG auditors who actually check and verify this.

In terms of coverage I think we are very, very well covered and really there is no room for concern as far as we are concerned. Is there anything specific you would like to maybe we missed the question.

James Burdett: Maybe I can just supplement. I got a feeling your question may be more targeted around does IFRS 9 change our risk appetite framework? And I think the answer is you know we look at risk the same way. We have got a proper risk appetite statement at the board level which we execute down through, you know, credit limits, approval processes and strong governance. I think where it does make an impact is you know when corporate is looking to price an asset we need to be cognisant of the new IFRS 9 accounting. And that is an incredibly complex, you know, set of equations that we are working through and we do take into consideration.

Aybek Islamov: Okay thanks for that. And if I just add a couple of questions here. For example, speaking of coverage I am looking at Stage 3 loan coverage right? It is 52% as of first quarter. Is that a good number? Is it a low number? I am just comparing Stage 3 coverage for example. How do you think of that? And secondly how do you think your position in your Stage 2 loans would peak at the cycle, mid-cycle or you expect Stage 2 loans to decline going forward.

James Burdett: On your first question you know KPMG our auditors have signed off on the coverage ratios Stage 1, 2, and 3. When we looked at them this is within the benchmark range for Stage 1, 2, and 3 and so on. So yes we think it is about right and we are adequately covered as Arif was alluding to earlier.

Arif Shaikh: In terms of the flow from Stage 2 to Stage 3 is that is what you are alluding to. Well that is a normal BAU thing which will impact. In terms of specific guidance, there is no specific guidance in terms of what the coverage ratio is. But it is verified by two of the Big 4.

James Burdett: The models need refining and it is new to the market. So I think as we go through time we will get a much better handle on how these things work.

Aybek Islamov: Okay all right well thank you very much. Thank you this has been helpful.

Operator: And our question is coming from the line of Shabbir Malik of EFG Hermes. You may now begin.

Shabbir Malik: Yes thanks. Just a quick follow up question. Just talking about the IFRS 9 disclosure you have talked about Stage 1, Stage 2 and Stage 3 and there is another category called purchased assets originally credit impaired. Can you just quickly talk about what this means? Is this a separate category or what does it allude to? And in terms of non-performing loans, are non-performing loans going to be part of Stage 3? Or is it like the entire number AED 7.4 billion in Stage 3 should that be NPL or NPL would be a part of that?

Arif Shaikh: All the NPLs are part of Stage 3. So that is by default in a way. In terms of the other assets because of the reverse acquisition these are credit impaired assets purchased or either bought from National Bank of Abu Dhabi. And so there are certain numbers or adjustments which are there without getting into the full details of the numbers. These were taken in and they have been accordingly classified into Stage 3 and Stage 2 as required. So this is verified with the auditors and they can add it up and they actually go into the Stage 1, Stage 2, Stage 3 which we have actually shown you on Slide Number 11.

Abhishek Kumat: Just for your clarification if you look at the reviewed financials Page 20 where it shows you the breakdown. You can look at the footnote on the bottom which just specifies how much of the purchased assets are considered NPL.

So Stage 3 exposure plus the NPL component within the purchased assets and net of interest suspense will tie up to the AED 11 billion in the presentation.

Shabbir Malik: Oh thanks for that.

Operator: Our next question is coming from the line of Waleed Mohsin from Goldman Sachs. You may now begin.

Waleed Mohsin: Thank you very much for the presentation. It is Waleed Mohsin from Goldman Sachs. Just following up. I am just trying to understand in the presentation you mentioned that a part of the improvement on cost of risk is coming on the back of IFRS 9 implementation. Just want to understand which stage has actually provided that benefit? Have there been any reversals on the NPL bucket on Stage 3 which has led to the lower cost to risk during the first quarter? And why do you expect IFRS 9 to have a positive impact on cost to risk? Obviously you made the comment that the bank continues to adhere so that is quite understandable. But just wanted to get a sense of why IFRS 9 would have a positive impact.

And then if I look at the breakup by region in terms of the impairment charges. We noticed that there have been some recoveries outside. So in the MENA portfolio outside UAE as well as Europe and Americas region. And then there has been a bit of a pickup in the Asia region. Just wanted to get a sense of the different moving parts from a regional perspective which have impacted cost to risk during the quarter.

And just a final question. I mean given that overall credit and economic activity remain muted, asset quality in general for the banking space has, you know, behaved quite well especially at FAB. Just wondering if it is a function of improved liquidity in the system which is helping asset quality? Because generally with a slowdown in economic growth we would have expected a little bit more of stress on the asset quality space. Thank you.

Arif Shaikh: I think I picked up one out of the multiple questions that you asked. In terms of cost of risk. If you remember in the last quarter of 2017 there was a PPA adjustment plus IFRS 9 adjustment on the FAB side. So combined effectively there has been an impact in terms of the cost of risk going forward in this particular year. Plus mostly the portfolio quality has also improved. The flows on the retail side although they continue to happen but they are much better. I will take the second question and then I will pass it onto my colleague. In terms of the NPL and in terms of how is the market behaving? I think I covered that earlier as well. In terms of the retail side we still see some stress in terms of the flows which are happening. Although they have slowed and improved, in CIB, it has been very, very positive. And we see good traction in terms of the loans that we have given and even in terms of the recovery efforts. The two that you asked I think I got a couple which I have covered. So the ones we have not really answered we can come back to that.

James Burdett: Just to supplement. So if you think about the AED 3 billion in PPA and AED 3 billion in IFRS 9 that is essentially a AED 6 billion hit that we have taken through core equity Tier 1 which is obviously bolstered our provisions which obviously hold us in good shape. You could assume a lower cost of risk simply because of that. I think you had another question around international versus UAE recovery. I think our portfolio internationally is quite strong. We had one significant provision in fourth quarter last year that we are working our way through. But other than that you are seeing few risks from a credit risk perspective which I think reflects the quality of our international portfolio. And then just, you know, we are seeing, you know, yes there was a slowdown in GDP growth last year. And we are expecting that to cut to 2% from 3% this year. So if anything you should be seeing an improving economy come through and liquidity is very strong in the market.

Waleed Mohsin: Thank you that pretty much answers all the questions. Thank you very much.

Operator: Our next question is coming from the line of Ahmed Hussein of CI Capital. Your line is now open.

Ahmed Hussein: Thank you gentlemen. My question has been answered. Thank you so much.

Operator: At this time I am not seeing any questions. If you have any questions just press star 1.

Aybek Islamov: Operator this is Aybek Islamov HSBC. So I guess if there are no questions I will check with Sofia and the team of First Abu Dhabi Bank if they are happy to close the call.

Operator: All right certainly. I am not seeing any questions.

Sofia El Boury: Thank you Aybek. I think we can close the call. I mean obviously if there are any further questions or if any clarifications are required both Abhishek and I are here to help out. So reach out at any time. And thanks very much to everyone who participated in this call.

Operator: That concludes today's conference. Thank you for participating. You may now disconnect.