

Treasury and Investments

Amidst a volatile interest rate environment, the Treasury and Investments division performed strongly during 2023, effectively managing the Bank's liquidity, its foreign exchange positions, and the investment securities including other assets and liabilities.

By deriving such strong returns on the investment & placement portfolios, the division achieved record-breaking results in terms of the operating income for the bank – including increasing placement income by nearly 270% – and overall contribution to profitability, while ensuring sufficient liquidity to fuel asset growth.

In addition, the division made further progress in its multi-year strategy to grow the Bank's liabilities and diversify its funding sources. This included continuing to attract term deposits from corporates, which has the added benefit of offering an additional cash management solution to Bank's customers.

Alongside these developments, the division continued to act as the custodian of EDB's cash and other liquid assets, while managing a diverse portfolio of high-quality assets with the long-term goal of achieving strong and sustainable returns. Through treasury liabilities products, the division aims to obtain long-term, stable deposits at a viable cost to fund its assets and develop sustainable long-term relationships.

Fixed income

The Bank's fixed income portfolio delivered expected results given its hold-to maturity strategy. If the Bank had adopted a more aggressive tactic, given there was a sharp move up in interest rates, that would have resulted in substantial P&L volatility through mark-to-market gyrations.

During the year, Treasury and Investments maintained the Bank's conservative approach to investments regarding criteria such as sector, geography, duration and rating. This meant that by the end of 2023, more than 60% of these instruments were issued in the UAE, while the balance originated in the GCC.

Real estate

The division manages two buildings owned by the Bank in Dubai along with 191 apartment units in a tower in Abu Dhabi plus some vacant plots of land across the Emirates. During 2023, it developed a leasing strategy that seeks to maximize annuity returns from rental income, raising the occupancy level in the apartment units to nearly 90% as a result.

Governance

Within Treasury and Investments, the Risk Management department continued its independent oversight of division investments, subjecting all portfolios to continuous cyclical monitoring that ensures compliance with the Bank's guidelines and alerts the division when rebalancing is required. During monthly reporting to the Bank's Asset and Liability Committee (ALCO), Risk Management reviewed criteria such as the valuations, composition, tenor, and actual average portfolio credit rating for the various portfolios.

Especially in a dynamic market environment, this ongoing review and oversight, ensured the division managed its assets and liabilities in line with both governance and strategic guidelines.

Supporting Customers

During the year, the division supported Wholesale and Institutional Banking, and Micro, Small and Medium Enterprises in its offering of risk management solutions to customers, including a new 30-year US dollar-denominated interest rate swap executed in 2023.



The division also expanded the Bank's collaborations with financial institutions by deepening its correspondent banking relationships. This is preparing the way for a complete dollar clearing capability with US banking partners that will position the WIB and mSME teams to offer more seamless trade finance and cash management solutions in the future.



Exceptional Ratings

The division led the engagement with international ratings agencies conducting their assessments during 2023. The resulting outcomes saw both Fitch and S&P Global Ratings maintain the Bank's AA- credit rating – the only UAE government-related entity with such high rating, and one of only two banks in the UAE and one of three across the entire GCC to achieve this rating.

Both agencies included a "Stable" outlook, reflecting the Bank's strong creditworthiness and strategic importance to UAE government policy and confidence in EDB's ability to maintain its financial stability.

The Year Ahead

The division has set four priorities for 2024 in the areas of funding diversification, investment optimization, operational efficiency, and ethical banking.

Funding diversification

Throughout 2024, the division will continue to diversify its funding sources, exploring options such as bilateral borrowings, standby and revolving credit facilities, plain vanilla or structured repurchase transactions, and private placements.

The goal is to build a diverse portfolio of long- and short-term funding instruments that delivers an average medium-term tenor that addresses credit risks and ensures a reasonable match between assets and liabilities.

Investments

Given the forecasted interest rate environment, investments will continue to flow to fixed-income securities of a longer duration that deliver attractive returns. Given the run-up in the value of select equity holdings, the Bank anticipates selling some of these positions. The Division will continue to boost income growth through the active management and continued push to increase occupancy of its properties.

Funds transfer pricing

Having completed the funds transfer pricing (FTP) framework for the asset side of the business during 2023, in the new year, Treasury and Investments will complete the Bank's FTP setup by adding the liability side of the ledger and establishing a funding center that will accurately allocate costs and value the operations of the customer-facing businesses.

Back-office automation

In anticipation of the broad digitization necessary to support the ability of the Bank to scale exponentially, the division during 2024 will add further automation capabilities. This will include integrating Bloomberg's functionality acquired in 2023 for both, front-office and risk management, into EDB's core internal banking system, creating the infrastructure required for the ambitious digitization strategy to be implemented in coming years.

Sharia-compliant products

The division will support the ongoing expansion of the Bank's product offerings with the development of Sharia-compliant solutions that introduce a new avenue for expanded trade finance and cash management businesses, in areas such as Sharia-compliant risk management financial instruments.

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