Emirates NBD

EMIRATES NBD FY 2022 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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Operator

Ladies and Gentlemen, welcome to the Emirates NBD 2022 Financial Year results call and webcast for Analysts and Investors. Today's call is being recorded. Please note that this call is open to analysts and investors only. Any media personnel should disconnect immediately. I will now pass the call over to our host Mr. Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Welcome to our Results Call. I'll first touch on the operating environment within our footprint before running through the main highlights of what has been a very successful year for Emirates NBD. 2022 was also a stellar year for the UAE economy. Indeed, GCC economies grew at their fastest pace in almost a decade, driven by increased oil production and strong non-oil activity.

Our research team estimate that GDP growth in the GCC more than doubled to 7.4% last year. UAE's non-oil economy is expected to have grown by 5.6% last year, supported by a recovery in travel and tourism, structural reforms, and population growth.

Global growth is expected to slow in 2023, with the World Bank downgrading its global growth forecast to 1.7%. The outlook for the Middle East remains more positive and research expects UAE GDP to grow by about 4% this year, more than double the World Bank's global growth forecast.

This strong regional economic growth coupled with higher interest rates help drive profitability 40% higher to AED 13 billion for 2022. This is a record year for income and a record profit, and if we exclude exceptional gains booked in 2019 from the sale of Network International. In Q4, we delivered a $1 billion equivalent profit for the second consecutive quarter. These strong results enabled the board to recommend a 20% increase in dividend to 60 fils.

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There are many highlights in the results which underline our key strengths. All five businesses delivered very strong performance, demonstrating the strength of the group's diversified business model. Retail bank and wealth management surpassed AED 10 billion of revenue for 2022, and in December, for the first time ever, monthly income surpassed the AED 1 billion mark.

Wholesale banking generated AED 50 billion of new lending, helping offset large contractual repayments. Emirates Islamic delivered over AED 1 billion in profit for the first time ever. Global markets and treasury also smashed through the AED 1 billion mark for the first time and delivered over 1.5 billion in profit. DenizBank dealt remarkably well with the challenging market conditions, maintaining profitability despite a large hyperinflation adjustment.

Funding continues to be a key strength of the group, deposits growing by AED 47 billion last year, including AED 20 billion of CASA growth despite rising interest rates, demonstrating our strong market penetration across retail and corporate customers. DenizBank continued to benefit from being part of the group, and in November, successfully rolled over their syndicated loan with the highest rollover rate of any Turkish bank.

Emirates NBD Capital were one of the most active dealers in the regional equity capital markets, delivering over AED 31 billion of IPOs. We became the first bank to issue a Dirham bond earlier this month, following the Ministry of Finance development of a Dirham yield curve.

Last year, we appointed a Group Head of ESG who reports directly to me. 2023 will be a defining year for Emirates NBD's commitment to ESG, particularly as UAE hosts COP28 later this year. IT have delivered 100% cloud-native IT architecture, supporting growth and efficiency in the digital age. This has enabled us to launch new cutting-edge products and services. 97% of all sales and servicing transactions are now fully straight-through processing.

Our guidance, issued earlier today, shows that in 2023, we expect margins to improve further, loan growth to resume, cost of risk to be lower and investment in digital data and our international franchises to continue.

Itis worth taking a step back and looking at the Group's remarkable performance over the long term. Income has trebled and profit has risen fivefold over the last ten years. The Group has delivered double-digit growth rates, where we're also transforming the bank into a regional leader in digital and data and significantly strengthening the balance sheet.

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Over the last ten years, we have grown CASA from 43% to 60% of deposits, reduced NPLs from 14% to 6% and doubled coverage, enhanced liquidity with a 20% improvement in the AD ratio and with strengthening the capital base, with Common Equity Tier 1 ratio rising by about 1.5% and in growing our dividend by 140%.

In summary, the Group delivered a record set of results. We have a resilient, diversified business model, state-of-the-art banking infrastructure and a strong balance sheet. The regional economy is expected to outperform, and we are well placed to empower our customers and benefit from this growth.

I will now hand over to Patrick who will go through the numbers to review in more detail.

Patrick Sullivan

Thank you, Shayne, and a very good afternoon to all of you. Now, looking at the usual summary financials for 2022, starting on page five, just to note, I will cover the guidance for 2023 when we get to the relevant slides.

So just running down the P&L, total income of AED 32.5 billion was up 36% year on year. Within that, both NII and NFI were up substantially, by similar percentages. As we can see, DenizBank was particularly strong, up 50% despite FX depreciation.

The key driver of this performance is not only the quality of our funding base, which in turn benefits from rate rises in net interest income, but also, business segments are all performing well across the board, with strong volume growth. The stand-out drivers in non-funded income were strong customer FX and interest rate hedging, volume growth in both ENBD and Deniz, wider transaction margins in Turkey and low derivative funding costs in Turkey.

Costs increased 16% year on year, supporting very strong business volume growth, particularly in retail and our accelerated investment in our international network and digital. Cost-income ratio at 28.5% remains well within the 33% long-term guidance.

Impairment allowances are down 12% year on year, continuing the downward trend from 2020 and reflecting strong recoveries in both the UAE and Turkey. The tax charge has stepped up on the back of strong earnings in Turkey, with an effective tax rate of 11%. This gives us a very strong profit after tax of AED 16.1 billion, up 73%.

It's worth just noting at this point that the UAE is introducing corporate tax at 9%, which for us starts from 1 January 2024. The rules for the 9% have been released, but as yet, the anticipated 15% rate for larger companies, such as ENBD, has not been confirmed. We'll update you on expected impact later in the year.

The hyperinflation adjustment takes 3.1 billion off earnings, but as I mentioned last quarter, this is a non-cash notional charge and is fully offset by a credit to equity via OCI for capital neutral. It gives us a final profit number of 13.0 billion, up 40% for 2022. This is, by some considerable distance, the highest ever annual profit delivered by the Group, excluding gains from the Network International sale in 2019.

Just turning to page six, touching on the fourth quarter picture, particularly strong income, NII lifted from rate rises and NFI down slightly from the very strong level in Q3. We maintained positive jaws again in the fourth quarter, and it's helped boost profit to 3.9 billion, up 94% year on year and 3% quarter on quarter. In the bottom summary table, you can see the balance sheet metrics, all in good shape, with assets up 8%, deposits up 10%, loans down marginally, capital liquidity and credit quality metrics all stronger than 12 months ago.

Turning to net interest income on slide seven, the bottom charts show that margins improved by 90 basis points year on year and 83 basis points quarter on quarter, helped by the improving loan yields at both Emirates NBD and DenizBank.

Our entry NIM for 2023 is around 4.4%, that's what we saw in Q4 2022, and we have set NIM guidance for the coming year at 3.8% to 4%, which is well above the 2022 NIM, at 3.43%. NIM guidance incorporates a number of drivers, including, on the upside, the impact of recent rate rises still to flow through and the impact from one to two potential rate rises in the first half of 2023.

And on the downside, we anticipate some CASA migration to fixed deposits as customers increasingly see the summit in the rate rises being reached, we see competitive corporate loan pricing continuing, and we do expect a lower DenizBank NIM, as the impact of new regulations designed to encourage lower lending rates begins to take effect in Turkey. As we saw through last year, the interest rate landscape changed quarter to quarter, and I suspect it will be the same this year. We'll keep you up to date each quarter to see how the main NIM variables are panning out.

Slide eight shows that fee and commission income was up 8% in 2022, with a solid trend of quarterly growth mainly from increased local and international retail card business at both ENBD and DenizBank, trade finance growth and strong investment banking revenue.

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Other operating income in 2022 increased significantly, by 77%, due to higher customer remittance volumes, a pick-up in SME activity, and in Turkey, there was a much lower derivatives funding cost as the official rates were cut by 500 basis points. Other operating income was lower in Q4 versus Q3, with relatively lower hedge mark-to-market gains in Turkey. ENBD client income remained strong.

On slide nine, we see that gross lending declined marginally in 2022, as almost AED 40 billion of government repayments were largely replaced with AED 7 billion of retail lending, AED 6 billion of lending in EI, almost AED 20 billion of net new corporate lending and real lending growth in DenizBank. We have increased loan growth guidance for 2023 to mid-single-digit, as we continue to see strong demand for new lending, in line with GDP growth expectations and regional economic confidence.

Total deposits increased by 47 billion, up 10%, and within that, CASA up 20 billion, having grown again in Q4. The ability to attract and retain CASA remains one of NBD's core strengths, and CASA remains a very healthy 60% of total Group deposits, which gives a lower funding cost. As we drive liabilities, we can profitably deploy surplus liquidity and attractive yielding bonds.

On slide ten, we see that the NPL ratio improved by 0.3% to 6% during 2022, helped by strong writebacks and recoveries in both the UAE and Turkey. The annualised net cost of risk for 2022 of 108 basis points was just under the mid-point guidance. We are expecting a lower cost of risk in 2023, below 100 basis points. We see a good pipeline of recoveries in Turkey and the UAE.

We are mindful of the impact of rising rates on affordability. We do expect a relatively short window for higher rates before they are expected to start falling, so we won't overreact. The first half could be better, with a pipeline of recoveries, and H2 may see a greater impact from higher rates. So cost of risk won't be linear through the year, but overall, lower than 2022.

We have also built up DenizBank's coverage, so we can expect lower charge levels compared to prior years. Coverage rose by 17% to 145% during 2022, with stage one, two and three coverage all increasing.

I'll hand over to Paddy to take us through the remaining slides.

Patrick Clerkin

Thanks, Patrick. On slide 11, we see that the cost-to-income ratio improved from 33.5% to 28.5%. Rising income enabled the Group to proactively accelerate our investment in human capital for future

growth in digital and international and drive underlying earnings through incentives for sales staff. Long-term cost-to-income guidance is within 33%. However, we expect this year's cost-to-income ratio to be closer to the 30% area.

Slide 12 shows that the Group continues to operate with very strong liquidity, with an AD ratio of 82% and an LCR of 182%. As Patrick mentioned, given the higher rate environment, we are able to deploy excess liquidity and attractive yielding debt securities.

In 2022, despite the most challenging debt capital market conditions in over a decade, we were able to raise AED 6.6 billion of term debt. In prior years, we typically issued AED 12 billion to AED 15 billion of debt. This year, we have AED 8.6 billion of term debt maturing, which is well within our normal issuance capabilities. We've already issued a AED 1 billion bond in the first week of January, becoming the first issuer to access the market since the UAE Ministry of Finance developed the local yield curve.

Slide 13 shows that the Common Equity Tier 1 ratio strengthened to 15.4% during the year as AED 8.9 billion of net earnings more than offset a 12% increase in RWAs. These capital ratios already allow for a 20% increase in the proposed dividend, although any dividend will not be paid until approved at next month's AGM. The Common Equity Tier 1 ratio was 14.7%, excluding the ECL regulatory add-back. And as Patrick explained earlier, the hyperinflation adjustment is capital neutral.

On slide 14, we see that RBWM income improved 27% during the year. It was a record year for card acquisitions, fee income and balance sheet growth, helped by 7 billion lending growth and 27 billion of CASA growth. ENBD and EI combined have a 30% market share of debit and credit card spend within the UAE.

Corporate and institutional banking profit was ahead of last year despite a small decline in income on lower lending balances. EmCap remains very prominent in the capital markets and helped ENBD play a lead role in recent IPOs. EI's net profit was up 51% year on year to a record AED 1.2 billion on higher income. Financing and investing receivables and deposits grew by 13% and 19% respectively. Global markets and treasury delivered an outstanding performance, with profits surpassing the AED 1.5 billion mark for the first time ever.

Net interest income jumped year on year on higher income from balance sheet positioning, hedging and an increase in banking book investment income. Non-funded income was substantially higher on a strong trading and sales performance.

DenizBank income was up by 50% or AED 3.5 billion, and impairment allowances were AED 1 billion lower on strong writebacks and recoveries. And this helped offset the AED 3.1 billion hyperinflation adjustment.

With that, I'll pass you back to Shayne for his closing remarks.

Shayne Nelson

Thanks, Paddy. These strong results demonstrate the success of our resilient, diversified business model and the strength of our balance sheet. We have focused on investment for the future, supporting our next stage of growth. We are very well placed to benefit from the positive regional economic outlook. With that, I'd like to open the call to questions.

Adam, please go ahead.

QUESTIONS AND ANSWERS

Operator

Our first question today comes from Waleed Mohsin from Goldman Sachs. Waleed, please go ahead. Your line is open.

Waleed Mohsin - Goldman Sachs

Good afternoon. Thank you for the presentation, and congratulations on the very strong set of results.

So three questions from my side. So first, starting with the net interest margin, obviously a very strong set for the full year 2022, but your exit net interest margin for the fourth quarter, 4.4%. And when we look at your guidance of 3.8% to 4%, and Patrick, you mentioned that you still see the impact or a passthrough of rates coming through in the first quarter, so actually, that implies, your guidance implies a significant margin contraction in the second half or beyond the first quarter.

So if you could please explain what kind of assumptions are you incorporating in terms of your rate outlook or whether it's basically a big reversal in the Turkish margin because of rising deposit rates and/or yields. So that would be very helpful, to take us through your underlying assumptions for NIMs.

Number two, you presented a positive outlook on loan growth. Now, given rising rates, where are you seeing these opportunities? Obviously, in 2022, excluding the sovereign, you had very strong double-digit loan growth. So which particular segments do you see repeating strong growth? Because I think there seems to be somewhat of a slowdown within, or should be a slowdown within retail, given where rates are on the mortgage side, or corporate, given where rates.

And my third and final question. You had a 40% increase in your profits, only a 20% increase in your dividend. Your pay-out declined further, now slightly below 30 or around 30, which is on the lower end of where regional banks pay. The reason to hold such high levels of capital, is it to do with the M&A strategy that the bank is going to pursue, given headlines around you looking at assets outside? Thank you.

Patrick Sullivan

Thanks, Waleed. Maybe if I pick up the first two questions, and I'll hand over to Shayne for that third one, perhaps. Just on the margins, you're right, there is. Just to help reconcile between that 4.4%

exit rate and, let's say, the top end of the guidance we have given, look, it's the UAE that benefits the most from the Fed rate rises.

So on one hand, we still have the upside from the flow-through from the prior rate cuts to come through into the first part of the year, yes, plus a couple of rate rises, and then possibly, who knows, let's see, some rate cuts later in the year.

Overall, I would say the margin in the UAE would be more neutral from end point to end point. So the actual negative part or the part that's lowering it will be the impact from DenizBank. DenizBank's margin expanded very strongly through last year. So you can actually see, on page five, they were up 246 basis points to 6.8%. So their exit rate was also a bit higher than that, so the margins had been getting wider and wider within this year.

In Q4, I think we also pointed out that there was some regulations that had come into Turkey that was designed to moderate the pace of loan growth, also reduce the cost of borrowing in sectors, and also new regulations that are coming in that inevitably will push up the cost of funding. So we do see something of a reversal of their upward pace of margins that they're seeing through this year to something more akin to the beginning of last year.

There's also the impact of inflation as well. There's an assumption that inflation will be lower next year, and therefore, any income connected to inflation rates, like CPI linkers, inevitably is lower as well. So that's the main driver that brings the overall margin back from the 4.4% to around 3.8% to 4%. Obviously, the rate landscape will change through the year, so we'll make sure we keep you up to date quarter to quarter.

Just on loan growth, on page nine, that excluding the government borrowing, the overall growth has been 12%. So when we guide to mid-single digits, that's around a 4%, 5%, 6% level. What we're seeing through this year is strong growth in utilities, personal. Retail has been very strong. EI has been very strong, transport, management, financial institutions as well.

So we haven't seen so much growth in other areas like construction and real estate. So for next year, as part of that, I think corporate lending will probably still be relatively moderate, but we still see good momentum in Emirates Islamic and in the retail business.

Shayne Nelson

And on the dividend, as you're well aware, that's a board and a shareholder decision, not a management decision. But we did increase the dividend by 25% last year and another 20% this year. I

think you linked that also with an acquisition question, and I think my response on that is we have always made no secret that we are looking for inorganic opportunities. But again, it's a board decision on what dividend is paid.

Waleed Mohsin - Goldman Sachs

Got it. Thank you very much.

Operator

Our next question comes from Naresh Bilandani from JP Morgan. Naresh, your line is open. Please go ahead.

Naresh Bilandani – JP Morgan

Great. Thank you very much. Hi. It's Naresh from JP Morgan. Congrats on the good set of results. A bunch of questions from my side, please. The first one is on asset quality. You mentioned you expect to have benefits from recoveries into supporting your cost of risk for FY 23. Would you be able to provide some insights on where these benefits are effectively coming from?

And also, would you say in any form that the cost of risk guidance incorporates the fact that there could potentially be some pressure as corporate tax is implemented in the UAE this year. Or is that not still an element of worry in your expectations, and below 100 BPS is a very comfortable number for cost of risk for FY 23? So just some thoughts on that.

Also, how should we think of the sensitivity on your net interest margin overall for a 25 BPS passthrough, assuming, as we go further into the year, we get some surprises from the Fed which affect the yield curve? So just to have some sensitivity in place would be extremely helpful.

And my third question is, in your press release, I think there's an indication that you are creating a further foray into merchant acquiring business. Just trying to understand, is this a shift away from any business that you are currently doing with Network International and bringing it more in-house? Is there any guidance you can provide on the revenue stream from this business? That would be super helpful. Thank you.

Patrick Sullivan

Naresh, good afternoon. I'll take the first two and then maybe hand over that third one to Shayne. Just on the recoveries you'll find, there's a pipeline for recoveries that's quite strong on both Turkey and the UAE.

I think in the last quarter, we had been talking about the resilience or the improving property market, where even the foreign currency value of property has been rising significantly. And so when we've been hedging provisions pretty hard in some previous periods, we've been able to turn that around to some pretty strong recoveries, and we still see some more in that pipeline.

And even in the UAE, where the recovery process can take somewhat longer, we do see a pipeline of recoveries coming through. It is not that it was specifically from provisioning through the beginning of 2022. Sometimes, it can take a year, two years, three years to work through some of these things. It just happens that we see more positive signs of recoveries.

And also, that also reflects the recovering economy as well. So that's what we see, and that's why we put into our guidance that we think the first half is likely to be quite a good pipeline of recovery, but then managing overall expectations, that may not continue necessarily into the second half.

And your point around the cost of risk pressure on tax. We don't see that at the moment. 9% tax is a reasonable level. It is less than double-digit. It is much lower than many other economies. So that is something, and I have given some timeline to lead into that. It is one of those factors, along with rising interest rates, that we are mindful of as we look at affordability and any delinquencies in the loan portfolios.

Just on your second question around the margins, just to refresh memories, we actually do set out the impact in the notes to the accounts somewhere quite near the back, page 110, note 46P, if you want something specific, where we say 200 basis points up would be about a 3 billion increase in NIMs.

That equates to about 376 million for 25 basis points. Let's call that 30 million a month. So that 376 coincidentally is around $100 million. And 25 basis points also equates to around six basis points on the overall group NIM. So you can take a view on what you think any further ups and downs to the rates are and use some of that to figure out margins and interest income.

Shayne Nelson

There's also a question, Patrick, from Vijay Harpalani from Al Tayer Group on the CASA. And I'll try because he's linking it to the NIMs as well. I think the question is around do you basically expect a lot of movement from CASA to time deposits.

At this stage, yes, we have seen some, but even in the last month of December, we grew our CASA again. So if you look at our percentages, it's still at 60%, but actually, it's really the denominator,

not the numerator. So the numerator is up, but the denominator is bigger. So that's why you're seeing a slight decrease in the percentage. But in overall terms, the CASA has grown in volume.

So have we seen some shift? Yes, we have seen some shift. Did we model some shifts? Yes, we did model some shift. But actually, at this stage, we're actually beating our model of where we think we would behaviourally shift from CASA to term deposits.

So I think the other advantage we have at the moment is there is a lot of liquidity in the market, and even the rates having to be paid on term deposits is not that elevated. And therefore, you would notice that historically, because we had so much liquidity, we were bleeding off quite a lot of our higher cost liquidity in term deposits. But now, with rates having moved up, there is a profitable play by taking term deposits and reinvesting it. So we are now trying to attract term deposits again because we see that there is positive margins within the term deposit space.

I will talk about the merchant acquiring business. And basically, that question was around we announced that we did a collaboration for merchant acquiring through ENBD Pay. That collaboration is with Network International. So it's not like we're cutting out Network International there. It's part of the programme.

And basically what we're trying to do is provide holistic cash management services for our customers, one-stop. And that's really what we're trying to do. As you know, we're very, very focused on growing our CASA, and this is part of one of our pieces out of our toolbox to try to really capture all of the CASA flows that we possibly can from our clients.

As you know, for many years, we've been talking about this. It's been one of our core strategies for a very, very long time to build CASA out. And you can see the benefit that it's having within our financials because we've had that strategy for such a long time, and we'll continue to drive that forward. To me, I've always said CASA is a no-regret strategy. You just need to grow it as much as you can.

And some of you have asked, how is it that some banks are losing a lot more CASA? And really, a lot of it is around we have completely focused on it. We reward our staff for it with payments, and we also skew our FTP, funds transfer pricing, to ensure that attracting CASA remains a very profitable business for retail and corporate, etc.

Naresh Bilandani – JP Morgan

Thank you. That was very clear. Thanks a lot.

Operator

We return to the line of Nida Iqbal from Morgan Stanley. Nida, your line is open. Please go ahead.

Nida Iqbal – Morgan Stanley

Thank you for the call, and congratulations on the great set of results. I just had a follow-up on the question about inorganic growth. So we've seen press reports of ENBD's interest in certain assets in India. I just wanted to get a better understanding of how you are thinking about inorganic and international growth? So which countries or regions are you most interested in, and what are the factors that make these markets attractive from your perspective? So that's one question.

And then the second question is on the operating expenses side. As you mentioned, opex has been increasing in recent quarters. If we can get some colour on where you're seeing the most inflationary pressures. So just trying to get a sense of to what extent will they increase in 2023? Will costs be driven by investments into the business versus underlying cost pressures. Thank you.

Shayne Nelson

Thanks, Nida. I'll take the first one. On inorganic, we've talked about this before. I'll just reiterate the comments I've made before on it. Always, when we're looking to expand externally, is where are our clients going, where are they investing, where are the trade and capital flows from our core Gulf footprint, where are they going, and does the market have favourable economics for banking? And I think lastly would be, do we have absolute control?

So one of our key metrics always, when we're looking at an acquisition, is we want board control and we absolutely have to be able to consolidate it into our financials. So they're really the key metrics. And we've talked before, large populations are important, so we want strong demographics. That's why we picked Turkey, strong demographics, a strong economy, albeit it has some challenges of late. The same with Egypt when we acquired in Egypt, big population, good economics there.

India, as you know, you mentioned India, we opened another two branches there last year. For us, India remains an attractive market, and it's a market that obviously there's huge capital and trade flows between the UAE and India. So it remains an attractive market.

Obviously, I can't talk about any specific acquisitions, but what I would say is as an organisation, we have run the slide rule over dozens of acquisitions over the last ten years. We've only actually closed on two. So for us, unless it meets our performance criteria, and obviously price is critical for us,

then we'll walk away. So we have walked away from many transactions if it doesn't really meet our criteria, and we're quite picky on what we'll actually spend our shareholders' capital on.

Patrick Sullivan

And Nida, just on the cost question you had there, maybe I'll pick that one up. Where are we seeing inflationary pressures? Look, you can see on page 11 of our deck, we've put out the quarterly trend of costs. Yes, they are up from 26% Q4 to Q4. But actually, if we look back to 2019, that cost base for that quarter is really only up 14% over three years. So that's not too bad, particularly when you contrast it to the pace of our income growth which is a much higher percentage than that.

So, the most significant part of our cost build is in the staff costs, and that includes incentives that Shayne referred to when we're building the business, so they're what I would classify as good costs and directly contributing to the top line of the business as well.

When you talk about inflationary pressures, actually, it's probably the competition for talent that drives some part of the increase as well. Particularly if you're in digital and the competition for the right resources for the future of banking, that's something that's not necessarily avoidable.

Don't forget we underpin our overall cost base at 33% in the long term, with 28.5% this year. I don't see it going too much higher for this coming year, perhaps, around the 30% mark. And we are quite mindful that as we invest, that means you do get the amortisation coming through in the future, so we are prioritising investment to build revenue streams for the future periods when interest rates do start to come down.

Shayne Nelson

Yes. And I think the other thing I'd mention, and you'll see it through the staff costs line, is the volumes we've been writing in retail have been quite exceptional. I mean quite exceptional. If we go back to pre-COVID, some products, we're writing double the volumes we did previously.

That's Patrick's point on good costs. We have to pay incentives to our staff, who are largely incentive-based for sales and not with big base salaries. So that for us is a good cost because you're getting that growth in your balance sheet and cards, for example, on issuance. Card numbers have literally doubled from where we were pre-COVID. So the retail business has been going exceptionally well across all products.

It was an outstanding performance in 2022, and what we're seeing so far in 23, the momentum is still there. And why is that? Yes, we are taking some market share from our competitors, but also, UAE is seeing quite substantial population growth and we're getting a lot of those new accounts banking with us.

I think the other thing I'd just like to point out on the acceleration of costs is that we have the room, and now we have a 100% cloud-native platform that, if you remember, was that we had to stop quite a lot of staff as we rebuilt the architecture. That's now stopped, so we've completed the architecture. Now we need to accelerate the customer-facing side of our digital.

And those of you who bank with us, you would see we've just launched a new app in December, and now we will also have the capability with that app to do like you do in the normal App Store, you're getting updates regularly. Now we'll be able to do that, where before we were holding back on a lot of our development because we wanted to get the new architecture rather than invest in legacy apps.

We are now going to be building out and spending quite a lot of money at the customer-facing side, which also over time will provide cost benefits for us, because there's a lot of self-use within those apps that will no longer need call centre calls. So I think over time, one, it will be more efficient for the customer, but two, more efficient for us as an organisation.

Patrick Sullivan

Nida, I'll just add one more point. When you mentioned the word inflation as well, Turkey is perhaps an obvious location of that. So there has been inflation coming through, but for us, when we report in AED, a substantial amount of that gets offset by the FX.

And maybe the full impact of that has not fully come through in 2022, so we'll see some of that come through into 2023. But given it is quite dynamic in Turkey at the top line, the cost line, we do look to maintain the bottom line at the end of the day, and they've done a good job over the last three years of coming in around the 1.6 billion mark.

Shayne Nelson

We will see some effect on inflation in Egypt, but it's a relatively small part of our operation, so will be a miniscule effect coming from that.

Nida Iqbal – Morgan Stanley

Thank you very much. That was very clear.

Operator

The next question comes from Shabbir Malik from EFG Hermes. Shabbir, your line is open. Please go ahead.

Shabbir Malik – EFG Hermes

Hi. Thank you very much. Most of my questions have been answered. Maybe one or two questions, please. In terms of hyperinflation adjustment, what kind of expectations should we build into our model for next year? Would this hyperinflation adjustment be meaningfully lower next year? That's my first question.

And I guess the other one is a follow-up to some of the questions that were asked earlier. So if my understanding is correct, ENBD strategy has largely been a MENA plus Turkey-focused strategy. But it seems to me that you're open to doing something beyond those two markets if an opportunity arises. So is that a correct assessment?

Patrick Sullivan

Shabbir, good afternoon. I'll just pick that first part on hyperinflation. There are two reference points that I can give you, and maybe we can take a midpoint. The first one, the Turkish Central Bank Loan Survey, that they do has come out at an expectation of 35% for next year. There's a Bloomberg estimate of around 45%. Let's take a midpoint of 40%, remembering, that it is relative to a higher inflated base effect from the prior year as well.

So that is the reasonable assumption that we're making in our thinking as well when we're thinking about related income, whether it's CPI linkers or even the hyperinflation adjustment. So that adjustment itself would naturally come down if the inflation rates are at 40%.

Shayne Nelson

On the acquisition strategy, I think you're trying to back-door allude to India. And what I would say is that has been part of our strategy for a long time. There's substantial trade and capital flows, and you would know from being in this market that there's been a lot of investment going into Indian companies, significantly from Abu Dhabi. So it's always been on our radar. We opened two branches there last year to make it three, so we've been there a long time.

But basically on acquisitions for us is where are our customers going, where are they investing, where are the trade and capital flows from our core markets, where are they going? I went through the

other bits and pieces of what we look at, but I think the important thing is how does it fit within our core footprint, with anything that we buy, and that's basically how we measure it.

Shabbir Malik – EFG Hermes

Got it. Thank you very much.

Operator

Our final question from the phone lines today is from Chander Kumar from Al Ramz Capital. Your line is now open. Please go ahead.

Chander Kumar – Al Ramz Capital

Hi, everyone. First of all, I would like to extend my congratulations to the management for delivering an outstanding set of results. I have just three quick questions. The first one is related to DenizBank margin. DenizBank margin, fourth quarter of 2022, increased to 9.1% from 4.6% in fourth quarter of 2021, which is an increase of around 450 basis points. So can we expect some reversal in DenizBank NIM in upcoming quarters as the impact of recent monetary easing in Turkey gets fully repriced on the asset side of the balance sheet?

Patrick Sullivan

Chander, the answer to that is yes, that will come down significantly, because they've been able to have quite strong pricing with a lower cost of funding this year. But now, there are regulations that came in in Q4 last year that pushes pricing on lending down, and there's also a push to convert Dollar deposits into Lira, so to attract those Lira deposits.

Inevitably, that's going to push the cost of funding up there. So we do see significant margin pressure there. And that'll be the main driver that also drives the Group's overall margin down from the Q4 4.4%, down to that 3.2% to 4% range.

Chander Kumar – Al Ramz Capital

Secondly, I just wanted to get a sense, in your overall NIM assumption, Group-level NIM assumption, how much interest rate for Turkey have you assumed?

Patrick Sullivan

We have assumed that through the year, and potentially after the election, macroeconomic policy may become more conservative, and therefore, interest rates could go up. And that would mean, again,

cost of funding goes up and your liabilities would potentially reprice faster than the asset repricing upwards with that. I won't give you an exact number, but we are making an assumption that it would go up from the current single-digit 9% now.

Chander Kumar – Al Ramz Capital

Second part to that question is fair value loss reserves decreased from 2 billion to 1.3 billion quarter on quarter. So I just wanted to check if this is on the back of improvement in bond prices, or something else.

So can we expect further improvement, a further reduction in the loss?

Patrick Sullivan

That's correct and yes, that includes CPI linkers. So if inflation comes down, then the market value also changes with that. So that's a variable that we have suggested is a midpoint of around 40%. So that will change through the year, but I can't tell you exactly by how much.

Chander Kumar – Al Ramz Capital

My third and last question is on loan-to-deposit ratio. So loan-to-deposit ratio down significantly to 83% from 93% last year. So how should we be thinking about the strength for this metric in 2023?

Patrick Sullivan

Yes, that loan-to-deposit ratio is definitely a function of the strength of our liability gathering capability. So the denominator has gone up a lot, and overall, the numerator has not given the same. Albeit we had strong business growth, they've been offset by government repayments. So we're actually regulated to the LCR ratio, but we put the AD ratio in there by convention and convenience, for you to compare to other banks that are not D-SIBs and not regulated on the LCR basis.

Patrick Clerkin

Thanks, Chander. There's a few questions come in over the NetRoadshow. Rakesh asked about what percentage of rate hikes pass through. We've already addressed that. And Vijay asked about CASA migration. We've addressed that.

Vijay also asked about the sequential increase in impairment provisions. You're absolutely right, Q4 was fairly higher. But again, Vijay, I would really point that there is some volatility quarter on quarter. I would really point you to the fact that we have lowered our guidance for cost of risk from what was 100 to 125 last year to less than 100 basis points.

Shayne Nelson

There was a question around recoveries, but I'm not sure that we addressed quite well where it was going to come from. And a lot of that, if you think about where we have got biggest exposures, the UAE obviously and Turkey, both those markets, property prices have increased substantially.

And hence, that gives you the capacity for generating better recoveries with the improvement in the property markets in both those markets. So even Turkey, in Dollar terms, good quality property doubled in price, and we've seen big jumps, as you know, in the UAE and property prices.

Patrick Clerkin

Yes, thanks, Shayne. Vikram and Waruna both mentioned about the foreign exchange and derivative, the 4.1-4.2 billion income. Can we repeat that? And how much is from core clients? So about 80% to 90% is from core clients.

I would just also point you to Q2 and Q3, where we did see an increase. And we mentioned at the time that that was coinciding with higher remittance business because of the strong Dollar, and also higher corporate hedging because of interest rates starting to go up and corporates looking. But if you look at the underlying rate, you can see that it was about 900, which was similar to Q1 of 2022.

Edmund asked about are we seeing a slowdown in personal lending. We have looked on a quarter-by-quarter basis, Edmund, in terms of mortgage growth, auto loans, personal loans, credit cards. They are all continuing. From Q1 to Q4, they have been quite stable, and in fact, there's been a slight growth in all of those products through the quarters. So from Q4, we still saw good demand, and we didn't see a slowdown in Q4.

And then finally, a question about oil. Given the high oil price, can we expect further government repayment? As you know, we don't comment on individual customer behaviour, but I would just mention that the percentage of oil in Dubai's GDP is in the low single digits. So you can bear that in mind.

That's all the questions covered on the NetRoadshow. I believe there's no more audio questions, and it is five to. We promised we would let you go. So Shayne, if you just want to close off.

Shayne Nelson

Yes. Well, I'd like to thank you all for joining the call today. I hope you're as pleased with our results as we are, and I really look forward to hearing from you all for the next quarter's results. Thank you all very much.

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