Emirates NBD

EMIRATES NBD Q3 2022 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
27 October 2022

CORPORATE PARTICIPANTS

Shayne Nelson – Emirates NBD – Group CEO

Patrick Sullivan – Emirates NBD – Group CFO

Patrick Clerkin – Emirates NBD – Head of Investor Relations

Operator

Ladies and Gentlemen, welcome to the Emirates NBD 2022 third quarter 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. Before I run through the main highlights and performance, let me first of all touch on the operating environment within our footprint.

The outlook for the Middle East remains positive despite the weak global backdrops. Higher oil prices in 2022 have pushed the GCC budget into surplus and strengthened Sovereign balance sheets. The bank's research team revised up its UAE GDP growth forecast to 7% for 2022, whilst revising down their next year's forecast of 3.9% on the weaker global backdrop, a stronger US Dollar, and higher borrowing costs. Inflation in many countries continues to remain at multi-decade highs, leading to global interest rates rising at a faster pace than had earlier been anticipated.

Egypt and Turkey have seen a strong surge in services inflow and tourism revenue offsetting some of the impact from rising energy costs on the current account deficit. The strong regional economy coupled with higher interest rates have helped drive profitability 25% higher to AED9.1 billion for the first nine months of 2022. This almost matches the full year profit for 2021.

In Q3 we delivered profits equivalent to more than $1 billion for the first time in the group's history that this milestone has been achieved without the help of exceptional items. Patrick will provide more details shortly. Some key drivers of performance include all five business units delivering an increase in profit before tax demonstrating that the group's diversified business model continues to deliver. Strong

year lending growth in key sectors including manufacturing, trade, transport, and communications, utilities, and personal lending largely offset our reduction in Sovereign lending.

Higher interest rates are feeding through to margins, which are trending towards the top end of guidance. Asset quality saw a further improvement in the third quarter with further writebacks and recoveries helping keep the cost of risk within guidance. Emirates NBD and EI have a combined 30% market share of total UAE debit and credit card spend. That's bigger than the three next banks combined. Emirates NBD alone processes 1 million card transactions each day, equivalent to 11 per second.

In summary, these strong results demonstrated resilience of our diversified business model, and the strength of our balance sheet. Despite global economic uncertainty, we are very well placed to benefit from the positive regional outlook. I'll now hand over to Patrick, who will go through the results in more detail. Patrick.

Patrick Sullivan

Thank you, Shayne, and a very good afternoon to all of you. Let me start with the usual summary financials for the first nine months of 2022 on page four. This page sets out the group's results together with the NBD and Deniz on one page so that you can more easily see the drivers of earnings. So just running down the numbers.

Total income of AED22.7 billion was up 31% year on year. Within that, both NII and NFI were up substantially. And as you can see, DenizBank was particularly strong relative to last year, up 52% despite FX depreciation. Interest margins in both ENBD and Deniz have widened significantly, and in a moment I will elaborate further. Non-funded income was up 52% year on year, helped by strong customer FX and interest rate hedging. Volume growth in both ENBD and Deniz, wider transaction margins in Turkey, and hedging gains on the DenizBank balance sheet.

Cost increased 12% year on year supporting very strong business volume growth, particularly in retail. And our accelerated investments in our international network and digital. And the cost income ratio at just over 28% remains well within the 33% long-term guidance.

Impairment allowances were down 12% year on year, reflecting the improving operating environment, and strong recoveries in both UAE and Turkey. The Tax chargestepped up on the back of strong earnings in Turkey. This gives us a very strong profit after tax of AED11.5 billion up 58%. The hyperinflation adjustment takes 2.4 billion off earnings year to date, but as I mentioned last quarter, this is a non-cash notional charge, and it's fully offset by a credit to equity via OCI. So, capital neutral. That

gives us a final profit number 9.1 billion up 25% for the nine months. And as Shayne mentioned, that is close to the profit delivered in the whole of last year.

Touching on the third quarter picture on slide five, a particularly strong income. NII lifted from rate rises and NFI growth year on year from increased business volumes, but slightly down on an exceptionally strong Q2. This has boosted the profit to 3.8 billion, up 51% year on year, and 8% quarter on quarter.

In the bottom summary table, you can see the balance sheet metrics are all in good shape, with assets and deposits both up 5%. Loans down marginally, capital and liquidity ratios strong. And the NPL ratio improving, supported by strong recoveries.

Turning to net interest income on slide six. The bottom left chart shows that margins improved 59 basis points year on year. Helped by improving loan yields at Emirates NBD, and strong core growth at DenizBank. The chart on the bottom right shows the margins in Q3 improved by 48 basis points on ENBD’s improved loan and deposit mix.

DenizBank margins were stable in Q3 as the impact of new regulations designed to encourage lower lending rates have yet to take effect.

As recent rate rises continue to feed through, despite the competitive market landscape, we see group NIMs trending towards the top end of guidance. As in previous years, we will release next year’s guidance at the announcement of the full year results in January.

Slide seven shows that fee and commission income was up 15% year on year in the third quarter. Mainly from increased local and international retail cards business at both ENBD and DenizBank, and strong investment banking revenue.

Other operating income was up significantly year on year due to higher retail foreign exchange volumes as customers took advantage of the strong Dollar and increased remittance. A pick up in SME activity, and larger gains from DenizBank’s balance sheet hedging compared to Q3 2021.

On slide eight we see that gross lending declined marginally during the first nine months. As strong government repayments were largely replaced by 7 billion of retail lending, 5 billion of lending at Emirates Islamic, and 24 billion of new corporate lending, and real lending growth at DenizBank. Strong demands for new lending reflects the current regional economic confidence amongst corporate and retail customers.

CASA balances grew in Q3 despite rising interest rates. CASA is up 18 billion year to date, reflecting strong system wide liquidity in the UAE. We have signalled earlier that we expect some movement from CASA to fixed deposits as interest rates rise. We are starting to see greater competition for deposit. But given the overall liquidity in the system, deposit pricing pressure has not yet impacted pricing. But may do so in the coming quarters. CASA remains a healthy 63% of total group deposits. And the charts on the bottom right show the progress we're making in improving the diversification of the loan book across product and geography.

On slide nine, the NPL ratio improved by 0.3% to 5.8% helped by strong writebacks and recoveries in both UAE and Turkey. The annualised net cost of risk for 2022 year to date at 90 basis points is somewhat better than guidance at this stage of the year. And we will see how the rest of the year pans out.

Coverage rose by 9% to just over 142%. We are conscious that rising interest rates may put pressure on some customers' ability to service loan repayments in coming quarters as a result, and as shown in the chart on the bottom left. Stage one coverage increase to 1.1%, and stage two coverage increased to 25.5%, reflecting the movement in the macroeconomic assumptions. These are forward looking under IFRS 9, so there usually are movements quarter to quarter. Stage 3 coverage increased to 97.2% on writebacks and recoveries.

Before I hand over to Paddy, I'll just briefly touch on the hyperinflation slide in the appendix. So, let's just jump to slide 15 for a moment. Thank you. I won't go through the concept of hyperinflation again. Just to highlight or rather remind that the adjustment is really a notional non-cash representation of the loss of purchasing power of the net monetary items in DenizBank.

Given the offset in equity to this charge, it is capital neutral. And the table on the right side shows DenizBank's profit movements year on year before and after the hyperinflation adjustment. Current earnings are actually covering this adjustment. And actually the reason that they're down on the comparable period is the FX translation from Turkish Lira to AED, which is down around 50%. Earnings would have been around 2.2 billion if using the prior year rate.

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

Patrick Clerkin

Thanks very much, Patrick. So we'll jump back to slide ten on operating costs. As we see that the costs increase 19% year on year. Staff costs are higher as we invest in human capital for future growth

in digital and international. Depreciation and amortisation costs are also higher this quarter, reflects an increased investment in our digital platform.

If we jump to slide 11 on funding and liquidity, it shows the group continues to operate with very strong liquidity with an AD ratio of just over 87%, and then LCR well over 150%. A small drop in LCR is a function of a greater deployment of liquidity in how we're using interbank deposits this quarter.

Debt capital market issuance globally has been quiet so far this year. We issued AED4.6 billion of term debt in the first nine months. Last week we took advantage of favourable market conditions to issue a $500 million or AED1.8 billion five year benchmark bond that attracted well over 100 orders. We have AED4.8 billion maturing in the remainder of 2022. And we remain comfortable with this given the excess funding issued in both 2020 and 2021. The recent benchmark issue and the regular issuance of private placements.

Moving to slide 12 on capital. It shows that the Common Equity Tier 1 ratio strengthened to 15.5% in the first nine months. 8.6 billion of net earnings offset a 10% increase in RWAs as we experience strong new loan growth in retail and a diverse range of corporate sectors. Common Equity Tier 1 ratio was 15% excluding the ECL regulatory add-back. And as Patrick explained earlier, the hyperinflation adjustment is capital neutral.

Then moving to slide 13 on divisional performance. We see RBWM income improved 22% year on year. It was a record period for card acquisitions, fee income, and balance sheet growth. Helped by over 6 billion lending growth and 20 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. NCAP remains very prominent in the capital markets. And help ENBD play a lead role in recent IPOs.

EI's profit was 31% ahead on higher income and lower provisions. Financing and investable receivables and deposits grew by 12% and 16% respectively.

Global markets and treasury 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 performance.

DenizBank's income was up 52%, or AED2.6 billion. And impairment allowances were AED0.4 billion lower on strong writebacks and recoveries. And these helped offset the AED2.4 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 are 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. Maxine, please go ahead.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Waleed Mohsin from Goldman Sachs.

Waleed Mohsin - Goldman Sachs

Good afternoon. My first question, I just wanted to continue on the point that you made on the impact of rates on credit losses. So there's been roughly 400 basis points increase in Emirates interbank rates on the year on year basis. And I was wondering if you could talk about which sectors in particular are you monitoring closely where you think or you have already started seeing early signs of stress? That would be extremely helpful.

Number two, when I look at the Sovereign exposure, it's down something like 39 billion on a year to date basis. And if I recall correctly, this is probably relative to your capital. This is perhaps the lowest ratio that it's been since the large exposure, or government exposure limits came into place. So I was wondering how this will help you in terms of deploying capital. Because this obviously means that the breach is less than what it used to be. And what it means for your dividend payout ratio, because in my understanding this has had an impact on your dividend ratio historically, the breach on the Sovereign exposure.

And the third and final question, local currency liquidity, as you mentioned, looks good. I wanted to hear from you a little bit on the Dollar liquidity, if you could comment on that, that would be very helpful. Thank you.

Shayne Nelson

Let's start with the stress on the portfolio. To be honest, we're not seeing that much stress on the portfolio. The ECL increase that we did is basically we used a Moody's model for our economic forecast that plugs in. And it's one of those models, whether or not you agree with all the assumptions, you can't cherry pick them, you have to take the model how it is. And given their economic outlook, there is duration. Therefore we boosted that, we had the capacity to do it in this quarter, we took it. So that's why you see the jump in that coverage ratio. So it's not that we're seeing substantial impact. But this is forward looking. So that's why it's plugged into this quarter's results.

Where am I seeing some pressures? I'd say not a lot, but where we're being very careful is, one, is around commercial real estate. So I think if you think about where the buy yields are, where the majority of our real estate exposure is, you're probably seeing 5, 6% yield on most properties. And

where interest rates are at the moment, and with the margin, that starts to put cashflows under pressure from principle on interest.

Now most of these loans are conservative loan to value ratios. But there's a cashflow issue that I think that's going to come upon us. So we're proactively looking to reprofile some of those clients to help them through their cashflow crunch that's going to come. Not because of interest, but because of principle repayments that we would have had under the initial structure. So we're proactively going out to those clients where we see there could be pressures in the future to reprofile them before there's any problems.

I think the other one that we're obviously always concerned about is housing, in housing loans, where rates are affecting, obviously, individual borrower's households. And we may need to do some work around restructuring some of those residential mortgages over time. Again, they're conservatively loan to value ratios. But our view is we should always try to help the customer get through this sort of environment, until we get to a lower rate environment. Which, depending on your forecast, we think that rates will start to come off at the backend of 23. And therefore we can revert to principle interest repayments as those rates start to dissipate.

But again, I'll just reiterate, we're not seeing much pressure at the moment. In fact, if you look at our retail lending growth, it's really strong. So as Paddy said earlier, the volumes we're writing in retail are huge. We're taking market share, there's good population growth in the UAE as a whole. And we're getting more and more customers. So, we're in a very strong position in the retail space at the moment.

Patrick Sullivan

On the sovereign, Waleed, you see on page eight in the loan chart there. We've broken out Sovereign there for the first time. Because of that dynamic of the repayments that are coming through, we also wanted to underline that we have got strong corporate lending growth underlying. So actually, if you strip out the Sovereign repayment, the loan growth for year to date is around 12%. And corporate loan growth is around 17%. It's up AED24 billion.

But your point really is… Oh, sorry, and just above that, you can see the overall Sovereign is coming down at 38. And you made a point, yes, as you replace Sovereign risk weightingit's typically lower than corporate. So inevitably it gets replaced by RWAs. But I'm not quite sure what you're referring to on the dividend itself. So we haven't had that. So obviously, the dividend is a part of the board decision that's made at the year end, and it isn't tied to any constraint.

Waleed Mohsin - Goldman Sachs

Yes. So on dividend, what I was saying was that because the limit is measured as a percentage of total capital, and you were significantly above that limit. I think at some point you were sitting at 240%, that meant that the base, which is capital that you're paying the dividend from, was a constraint in terms of how much you can pay as a dividend. Not the capital ratio, but the absolute capital level. Because if you were paying that out, then the ratio doesn't come down.

Shayne Nelson

I know what you're saying, but that's actually not true. There was no restriction on that versus… I mean any dividend, firstly it has to be approved by the board. And you're right, it has to be approved by the central bank. The central bank has 50% dividend pay-out ratio, unless you get specific approval to pay above that. But the choice of dividend has always been with the board.

Patrick Sullivan

And you can see with our current earnings per share already, even if you use last year's dividend, the DPR on that is well under any 50% limit.

Patrick Clerkin

Just on Dollar liquidity, Waleed. I think the Middle East is undoubtedly a beneficiary of the high oil price. We're even seeing it in credit spread across the global banking sector where UAE banks, for example, the credit spreads are trading well in, say, UK and US banks. And as a result of that you're seeing three UAE banks come to the market this month to tap the debt capital markets. There's good days and bad days. And there seems to be a bit of a rush whenever there is a good window. But I think that, again, is reflective that UAE banks worry about a comment there was a regional government's successfully issued earlier this month as well. So, again, I think it is correlated to the high oil price and the benefit that the region is getting from that.

Waleed Mohsin - Goldman Sachs

Got it. Thank you much. And lastly, maybe again, I can try on the dividend part. Then relative to your peers, what stops you from paying closer to 50% which is allowed by the central bank?

Patrick Sullivan

It's a board decision at the end of each year, and there's always a balance between having a reasonable dividend pay-out and retaining capital to support growth in the future.

Waleed Mohsin – Goldman Sachs

Got it, thank you. Thank you much.

Operator

Thank you. Our next question comes from Rahul Bajaj from Citi.

Rahul Bajaj – Citi Bank

Hi, thank you, thanks for taking my question. I have three quick ones. The first one is on dividends. If I think about your 2022 dividend, should I think about it adjusted, and should I think about your earnings adjusted for the hyperinflation charge, or you will be making dividend recommendations based on reported net profit, or will it be adjusted for non-cash charge? So that's my first question.

The second one is on costs. We're seeing substantial cost increases this year in digital investments, etcetera. How should we think about cost growth over the next couple of years? Do you expect the growth rate to subside as we go into the next couple of years, or do you think this low double digit growth rate could continue in the near future? Mainly because the top line growth is pretty strong. So that's my second question.

The third and final one, you mentioned about taking special caution around housing loans, residential housing loans. But this is more on those broader retail loans. Are you seeing customers coming to renegotiate stress that they have with the bank given that the rates have gone up so much? And I'm not coming so much from an asset quality perspective, I'm coming more from a margin perspective. Should we expect the [unclear] rate hikes to be lower in terms of sensitivity as these customers come and they try to renegotiate spreads, etcetera? Should we expect that sensitivity to decline compared to the sensitivity seen so far? So those are my three questions. Thank you.

Patrick Sullivan

Let me see if I can take the first two first. Just on dividends, the short answer is no, it's likely to be a moot point, actually. So the first nine months, for example, even after the hyperinflation adjustment, the earnings per share is 138 fill , which is similar to the EPS for the whole of last year. So whether you do it before or after is kind of a moot point. Last year's dividend pay-out ratio was 36%, and we don't provide EPS guidance and the dividend view at this point, because that's something for year end.

And your point just on the costs. Yes, in Q4, there has been an uptick in costs that is supporting sales growth, it's supporting our investment in digital. There's an element in there of competition for

talent. But even so, at this level, our costs in Q3 are lower than the Q4 2019 level, and staff costs have morally got back to about that level. Yet income is up significantly.

What's it doing for the next couple of years? Actually, we don't give specific guidance on that. What we do is give you a long-term cost income ratio guidance, which is up to 33%. But we are mindful of ensuring that when we invest and add to the cost, that it's generating revenue and shareholder value as well. What we are also focused on is investing now, looking forward into 2024, 25, the point when interest rates may indeed come down.

Just on the third one, Shayne, any thoughts on the third point there?

Shayne Nelson

I think the first point I'd make is if you look at our retail performance with 30 days past due, 60 days past due, 90 days past due, it's relatively flat. It's beating our budget, to be honest. We were a lot more pessimistic around where we would be at this juncture of the interest rate cycle. So it's better than we're seeing. Them and that we forecast. So it's quite robust. And to be honest, surprisingly robust, better than we forecast. But that doesn't mean that we're not cautious about the outlook.

Are we seeing some pressure on corporate spreads? The answer is, yes. And corporates are pretty savvy, they know there's lots of liquidity in the market. But no, overall, even though our loan growth ex Sovereign has been very strong, there hasn't been a massive amount of loan growth in the system. And therefore there is pretty robust competition for corporate loans there.

In the retail side, we haven't seen a lot of pressure at the juncture, on pricing, on both sides of the balance sheet, both on deposits, and on the lending side. So we're still managing to, as you see from our results, attracting very strong CASA, very strong CASA. I know some other competitors have not been able to do that. But we've been able to attract very strong CASA over the nine months. And even in the last quarter. And that's low cost, obviously, which is also helping our spread. So I think at the moment we're in a very robust position. However, we are cautious about the outlook. As you know, we run the bank very conservatively, and we'll continue to do so.

Rahul Bajaj – Citi Bank

Understood, thank you.

Operator

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

Shabbir Malik – EFG Hermes

Hi, thank you very much for this presentation. And congratulations on a good set of results. I have a couple of questions. My first one is, says now you're seeing some repayments on the corporate, especially on the Sovereign side. How do you intend to compensate for that in terms of growth areas, what do you think would the key growth areas for you to compensate for the repayment that's going to come on the Sovereign side? That's my first question.

My second question is on Turkey. So, we've seen almost two quarters of provision reversals for DenizBank. I was wondering if you can give some stance on the provisioning out of, or how should we think about provisioning, or the underlying provisioning terms in Turkey, or in DenizBank in the coming quarters? And also some colour on the margins in Turkey which have been stable in three Q versus the second quarter.

And maybe a question on Egypt. We have seen some devaluation valuation in the Egyptian Pound. Can you give us any sense of the sensitivity to your earnings or your book value to EGP devaluation? That would be great.

And one final question, a bullet point that you've made in your divisional performance, successfully launched a series of UAE strategic investment funds. Can you talk about what these funds are? Is this something that ENBD has launched, or is it something that you facilitated for the government or for Dubai government?

Patrick Sullivan

Shabbir, hi, Patrick here. Just on your repayments question, and what we're doing to compensate. Hopefully you can see on page eight that, yes, as we have significant repayments, it means we do have to run a lot faster to keep the loans and advances balance growing. But as I said on the earlier question, I think we've been doing a very strong job in doing that across all the business lines. Emirates Islamic, retail, corporate. And which sectors you asked specifically. Actually, if you look on page 13, I think, of the accounts, note six, you'll see which sectors that we have been growing in.

We're almost building a pretty good pipeline. You can also see committed loans is growing. We haven't been growing so much in construction and real estate. We are starting to see some demand there. But I would say the growth and demand is across really all sectors.

Just on your second question on Turkey provisioning. You may recall when we acquired Turkey for the first couple of years we were hitting the provision line pretty hard. They had a cost to risk at the end of 2019 of about 400 basis points. Still in the high 300s, 400s through 2020, 21. But since then, you'll be able to see that it's coming down fairly consistently. Their cover ratios have been improving. There were down 50% at acquisition. Last quarter they were just over 70%. And actually with the repayments they have had, it means that what's been left in stage three actually has even higher coverage. So on a local basis they're getting to over 80% cover.

So we're still cognisant that, okay, in the world we live in at the moment there are credit pressures. So it's hard to predict exactly where, what direction the impairment line will take. And on the corporate side you have to take them as and when they come by quarter. But we're not seeing any particular pressure coming through. In fact we're seeing more recoveries than anything.

Shayne Nelson

And just on Turkey, so the one thing you have seen in Turkey is a substantial increase in real estate prices in Dollar terms. It's been substantial there. So I think that's also been helping with the recoveries, given how robust the property market is in Dollar terms in Turkey versus the returns.

Patrick Sullivan

And Shabbir, you also just asked within that same question about margins in Turkey. We have set out on page four, you can see the year to date margins for Turkey, they have increased significantly year on year from 4.2, 4.3% to 6%. So even though the base rates are coming down, the lending rates commercially have been significantly higher. There is a number of reasons regulations that have come in that are trying to reduce the cost of lending for particular sectors and reduce the lending in some sectors as well. They're trying to direct it into the SME and certain sectors to encourage growth and penalise the others.

So while that wouldn't affect this quarter so much, we would expect the margins to have some sort of compression through next year. But we still need to digest all those regulations and see how that pans out. Because it also depends on the shape of your overall portfolio. And they're trying to regulate to change the shape of that as well. So we'll have to watch that space through next year.

Shayne Nelson

And on the Egyptian Pound, unfortunately Egypt is not a material business for us. We wish it was far more material. It's somewhere that I've spoken to you before on a call that we're trying to grow that business as fast as we can organically. But it's also a market that from an inorganic perspective we're very interested in. We think it's a good market. But the realities at the moment is that the translation both from capital or profitability is pretty immaterial to us, unfortunately. I wish it was more material as a business than it is currently.

Patrick Clerkin

And Shabbir, just your final question on strategic investment funds. Yes, those were launched by our retail bank in the management unit, really just to give increased access to the opportunity to invest in IPOs to customers.

Shayne Nelson

Yes, so it's not our money.

Shabbir Malik – EFG Hermes

Okay, great. Thanks.

Operator

Our next question comes from Aybek Islamov from HSBC. Please go ahead, your line is now open.

Aybek Islamov – HSBC

Thank you for the conference call. So I think I would like to ask a couple of questions. And the first one, we've seen quite a decent reclassification of some public sector entities in the private sector post IPO. But the risk weighted asset to asset ratios or risk [unclear] assets hasn't increased that much, right? It's quite stable. So, how should we think about this risk weighted asset density, risk asset density?

And the second is, will there be any implications for [Unclear].

Shayne Nelson

Are you talking about capital with a movement from Sovereign to…

Aybek Islamov – HSBC

Yes, will the trigger increase in risk ratings on these entities which now are part of the private sector? And will the trigger repricing of loans, as they rollover facilities, because they're now private sector entities. That's one question.

Second is, I agree with you that your deposit performance is outstanding, in particular the CASA deposit ratio is holding out really nicely. Can you explain to us what are you doing differently compared to other big banks in this country which are not able to achieve such a strong CASA deposit performance in a rising rate environment?

And I think, thirdly, when I look at your core business. A retail banking wealth management stands out by a big mile in terms of the NII growth in the first place. So, what's driving such a strong performance in the retail, I'm just curious. Yes, that's pretty much it.

Patrick Sullivan

Thanks, Aybek. I think you mean, for the first question, just on the reclassification, you're talking about the public entities that have IPOs, and therefore have a different classification, is that right?

Or any of those sort of if they have changed their status. Where we do lend to those entities, yes, they become GREs and you apply the risk weighted assets for that. We've set out the walk on page 12 of our increase in RWA. So just the scale of any of those reclassifications, to the extent there are, we're easily able to absorb any of that change in risk weighted assets. But that doesn't mean we were necessarily lending to any of those beforehand, etcetera. So it's all within the mix. So it's not really a significant part of it. And it also depends on the ratings of the entities as well.

Just on the CASA, what's retail doing compared with others in the industry? You're right, we do have a very strong, well established retail business. And that's actually driven the CASA levels to 63%. I think that's one of the best in the market. Doesn't just happen by itself. Part of that is of course our strong brand. Sometimes a bigger bank does have its advantages. There has been some population growth, and ENBD is often the first choice. We do run campaigns. They're quite well known in the market. So we are investing in that. The CASA doesn't just walk in the door. We've also increased our digital marketing. We've also increased our digital capabilities to make it easier for you to bank, to join the bank as well. And that comes with our straight through processing as well.

And with that we also incentivise our sales teams, and you can see that within our cost base with some of the staff costs increases. So those things all come together with the right ingredients to give us that step up.

Shayne Nelson

I'll just give you just one example of how we're doing some things a bit differently. If you go into a branch and ask for a credit card, every credit card application will be on the tablet. Which also has a cross-sell feature into it. So it's not just a pure credit card. The team within that application also has the capability to open you up a cheque or a savings account immediately. And that's a straight through process. So it's an immediate approval on the credit card.

Now, we also have that for all our sales teams. So all our sales teams on the road have the tablet as well. All our third party outsource providers have the tablet as well. So, we've had a huge pickup in volumes in credit cards just with this technology. That the sales teams can give an instant approval at the site, the customer's house, the customer's office, immediately. They don't have to shop around. And as part of that there's also cross-sell within that.

So some of it is around the technology, and some of it's around the incentivisation we have. We've historically heavily incentivised CASA growth, because for us it was always something strategically that we will benefit substantially when we had interest rate increases. And that's how we've positioned ourselves for a long time.

Also our wholesale bank business has improved their cash management capability immensely with our only capability. So that's also improved our wholesale capabilities in the cash management space, which also helps CASA.

Patrick Sullivan

And that, Aybek, also answers your third question, I think, on retail returns and NII, and why that's gone up. It's because they have that 62% CASA, so they get a higher return on that, and that's the main function. Rather than having a higher cost to funding with term deposits. And as interest rates go up, the benefit from that.

Aybek Islamov – HSBC

Okay, that's clear, thank you. And just to clarify, the entities which are now labelled as private sector, okay, their high credit rating. Could there be an impact on their lending stress? Can you revise their lending stress higher going forward? Is that a possibility, or not really?

Shayne Nelson

I think what you're saying is, until they've got, even if they're IPOd, there's still going to be a GRE unless they're publicly rated, yes? And to get out of a GRE classification, they need to be investment grade, publicly graded to get out of GRE classification. So, they'd still be under your GRE exposure limits.

Aybek Islamov – HSBC

Understood. Okay, excellent. Thank you. Thank you very much.

Operator

Thank you. Our next question comes from Chander Kumar from Al Ramz Capital. Please go ahead, your line is now open.

Chander Kumar – Al Ramz Capital

Hi everyone. Thank you so much for taking up my questions. And I would like to congratulate the management for delivering a good set of results. So my question is related to… Hello?

Yes. So my question is related to this FX and derivatives gain. Form last few quarters we have noticed a sizeable amount of gains related to FX and derivatives. So just wanted to check, are these related to Deniz operation or UAE operation? And how can we see the trend going forward regarding this FX and derivative gain?

Patrick Sullivan

Sure, I'll take that. So you can see on page seven the trends that we have had over the last four quarters. It is strong. That is a mix of ENBD and Deniz. What we have seen through this year has been very strong demand for FX. But the levels of FX sales is closer to double, I think, what it had been a year or so ago. So that's both from remittances, SMEs have been very active. So with the strong Dollar what we're seeing is a lot of demand to buy other currencies while it's in that position.

And then also within Turkey, when it comes to foreign exchange transactions, there's a wider spread that we're seeing coming through the year. In Q3 2021 it was low because there were some reversals of market to market gains from previous quarters when there'd been some of the disruption in Turkey, and a longer end of the yield curve rose, and therefore when they were hedging their liabilities,

they had some gains that that was reversing. So you can see we've got a fairly stable FX and derivative line for the last four quarters.

Chander Kumar – Al Ramz Capital

My second question is related to loan growth from DenizBank. So we have seen exceptional growth, around 50% growth in local currency. So just wanted to check, will that create asset quality issue in the near future?

Patrick Sullivan

We haven't seen any credit quality issues emerging from that rate of growth. You've got to remember they're also in an inflationary environment. So, yes, you do need to borrow more for the same thing, that doesn't imply it's adding credit risk to that. And as we said earlier, if anything, we're seeing where some of the loan credits have been weaker before. We're seeing with the strong collateral, particularly with property. We're making good recoveries there. We haven't seen any particular issues emerging at this point in time in their credit book.

Chander Kumar – Al Ramz Capital

So my third and last question is related to loan growth outlook on UAE operation. So if you could provide some colour on it.

Patrick Sullivan

We provided guidance through the year that it would be low single digits. And that's including the pace of Sovereign repayments, or the government repayments. That's why it is as low as that when the underlying, you can see for yourself on page eight, is actually up around 12%. So there has been strong demand this year. Will that continue into next year? We'll update our guidance in January about our expected pace of loan growth. Looking more forward, it might be that with interest rates rising the way they are, it wouldn't be an unreasonable expectation for the pace of lending overall to slow in the industry-wide, regionally, and globally.

Chander Kumar – Al Ramz Capital

Okay, thank you so much.

Patrick Clerkin

Okay, thank you, Chander. I believe, Maxine, that's all the audio questions. We have a few questions, I'm going to run through those. I will ask Patrick and Shayne maybe to jump in on a couple.

We have one question about higher NMs did that… Higher interest rates, will that affect asset quality? I think we've really addressed that, that we're not seeing, as Shayne mentioned, we're not seeing any pressure yet in terms of asset quality. But hypothetically you would expect higher interest rates to have an impact. And as per the MEVs, etcetera, we have seen an increase in, for example, stage one and stage two coverage.

We have another question here from Vijay about, again, the first part of that in terms of lending appetite. Patrick's addressed that. Also asked about a departure from other banks in terms of higher loan impairments. Again, as we said before, we're comfortable with our coverage ratios. So we can't speak on behalf of other banks. But we're certainly…

Shayne Nelson

Some of that is the MEV stage one and two that we've built in. So at one stage, are we likely to see any impact on lending volumes and risk? Well we've frontloaded it. We've taken that impact in our calculations for stage one, stage two in this quarter. But we've built that in for any deterioration in the economic outlook and consumer behaviour for… That goes through to 23.

Patrick Sullivan

And Vijay, you can see the details of that on note 24 in the accounts.

Patrick Clerkin

And your final point, Vijay, in terms of dividends. Patrick did address that earlier. There's one coming up for you, Patrick, in terms of new lending rules in Turkey. How they will affect DenizBank once implemented. The first part of your question, Marina, we've already answered, in terms of the split of derivatives and the effect to income. And…

Patrick Sullivan

I think we have answered the point on the lending growth. The regulations are trying to reduce the lending in the corporate sector and direct it to sectors that they think will generate an economic growth. So that's just something we have to manage within the normal course of business. But inevitably, it could slow overall for the industry, the pace of loan growth.

Shayne Nelson

I don't know if Orin is thinking on number two, the new lending rules, whether she's…

Emirates NBD

Patrick Clerkin

What are the new lending rules in Turkey?

Shayne Nelson

I'd say that's probably around the rules that were announced last Friday, yes? Which is basically a mix between deposit and where you need to put monies…

Patrick Sullivan

The one last week was having to hold at least 50% of your deposit in local currency.

Which we were close to in any case. And they have the pace of lending growth. Anything over 10% for this year. And then the interest rates regulation are probably the three main ones that… Yes.

Patrick Clerkin

And then final question is on corporate income tax rate, or corporate tax rate. The 9% expectation is going to be 9% starting in 2024, graduating up to 15% over time. Patrick, I think you answered that on the last call that we had.

Patrick Sullivan

Yes, that's right. As a larger multinational, the 15% would apply to us rather than 9%. 9% will be the UAE base rate, unless you are a large multinational. Yes, there's a corporate tax in Turkey. So that gets added on as well, and that's coming in in 2024 for us. So a year and a bit down the road.

Patrick Clerkin

Okay. I believe that's all the questions answered. Final check, Maxine, there's no further calls on the audio.

Operator

We have no further questions.

Shayne Nelson

Well thank you very much. And I'd like to thank you all for your participation in today's call. And I'll hand you back to Maxine, our operator, to provide further details for any follow up questions. And we'll conclude the call. Thank you very much for joining us today. And I hope you liked our results.

END