# Emirates NBD

## Q2 2009 Financial Results

**27 July 2009**

بنك الامارات
Emirates Bank

NBD بنك دبي الوطني

# Important Information

***Disclaimer***

*The material in this presentation is general background information about Emirates NBD's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.*

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*There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.*

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# Highlights

- **Solid performance** in first half and second quarter 2009;
- **Strong operating profit before impairment allowances**, up 26% in H1 and 27% in Q2 year on year
- **Prudent impairment allowances resulted in net profit decline** by 20% in H1

- **Total income increased** 18% in H1 and 16% in Q2 year on year driven by controlled growth in lending and higher net interest margins
- **Continued cost efficiencies realised** and **core cost to income ratio fell** to 34.6% for H1 2009 vs. 36.7% in H1 2008

- **NPL ratio increased in line with expectations** to 1.56% due to economic climate
- **Overall asset quality remains healthy** across the Bank's corporate & retail portfolios
- **Customer loans and deposits grew** 4% & 5% respectively in the first half of 2009

- **Capital Adequacy Ratio** strengthened significantly to 19.0% CAR and 12.1% Tier 1 from 11.4% and 9.4% respectively at end-2008

- H1 2009 annualised **merger synergies of AED 328m, 33% ahead of FY 2009 target**
- **Integration fully on track** for targeted completion by end-2009

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# Q2 2009 Financial Results

## Group Performance

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### Highlights

- Operating profit before impairment allowances of AED 1,992m
  - up 27% from Q2 2008 of AED 1,565m
  - up 17% from Q1 2009 of AED 1,701m
- Q2 2009 Net Profit of AED 852m
  - down 41% from Q2 2008 of AED 1,452m
  - down 32% from Q1 2009 of AED 1,259m
- Improvement of equity & bond markets resulted in modest positive impact from mark to market valuations during Q2 2009
- Q2 2009 operating costs of AED 896m,
  - down 4% from Q2 2008 of AED 931m
  - down 2% from Q1 2009 of AED 911m
- Credit impairment allowance of AED 1,091m, reflecting expected increase in NPL ratio to 1.56% (FY 2008: 0.95%; Q1 2009: 1.19%) and additional portfolio impairment allowances in Q2 2009 of AED507m
- Total assets at AED 281.9b, stable compared to AED 282.4bn at end-2008
- Customer loans at AED 216.6b, up 4% from AED 208.9b at end-2008
- Customer deposits at AED 170.5b, up 5% from AED 162.3b at end-2008
- Significant strengthening of capital ratios

### Key Performance Indicators

| AED m | Q2 2009 | Variance vs. Q2 2008 |
|---|---|---|
| Net Interest Income | 1,715 | +26% |
| Fee & Other Income | 806 | -27% |
| Investment & CDS MTM | 367 | n/a |
| **Total income** | **2,888** | **+16%** |
| Operating expenses | (896) | -4% |
| **Operating profit before impairment allowances** | **1,992** | **+27%** |
| Impairment allowances: | (1,149) | +362% |
| *Credit* | *(1,091)* | *+901%* |
| *Investments* | *(58)* | *-58%* |
| **Operating profit** | **843** | **-36%** |
| Amortisation on intangibles | (23) | +15% |
| Associates | 32 | -79% |
| **Net profit** | **852** | **-41%** |
| Cost to income ratio (%) | 31.0% | -6.3% |
| Net interest margin (%) | 2.40% | +0.52% |
| EPS (AED) | 0.15 | -41% |
| Return on average shareholders' equity (%) | 15.2% | -14.7% |

| AED b | As at 30 June 2009 | Var vs. 31 Dec 2008 |
|---|---|---|
| Total assets | 281.9 | -0.2% |
| Loans | 216.6 | +3.7% |
| Deposits | 170.5 | +5.1% |
| Capital Adequacy Ratio (%) | 19.0% | +7.6% |

# H1 2009 Financial Results

## Group Performance

EmiratesNBD

### Highlights

- ❑ Operating profit before impairment allowances of AED 3,693m
  - up 26% from H1 2008 of AED 2,928m
  - up 71% from H2 2008 of AED 2,163m
- ❑ H1 2009 Net Profit of AED 2,111m
  - down 20% from H1 2008 of AED 2,648m
  - up 104% from H2 2008 of AED 1,033m
- ❑ Improvement of equity & bond markets resulted in modest positive impact from mark to market valuations during Q2 2009
- ❑ H1 2009 operating costs of AED 1,807m,
  - up 3% from H1 2008 of AED 1,751m
  - up 13% from H2 2008 of AED 1,605m
- ❑ Credit impairment allowance of AED 1,409m, reflecting expected increase in NPL ratio to 1.56% (FY 2008: 0.95%; Q1 2009: 1.19%) and additional portfolio impairment allowances in H1 2009 of AED 731m
- ❑ Total assets at AED 281.9b, stable compared to AED 282.4bn at end-2008
- ❑ Customer loans at AED 216.6b, up 4% from AED 208.9b at end-2008
- ❑ Customer deposits at AED 170.5b, up 5% from AED 162.3b at end-2008
- ❑ Significant strengthening of capital ratios

### Key Performance Indicators

| AED m | H1 2009 | Variance vs. H1 2008 |
|---|---|---|
| Net Interest Income | 3,643 | +33% |
| Fee & Other Income | 1,578 | -22% |
| Investment & CDS MTM | 279 | -409% |
| **Total income** | **5,500** | **+18%** |
| Operating expenses | (1,807) | +3% |
| **Operating profit before impairment allowances** | **3,693** | **+26%** |
| Impairment allowances: | (1,611) | +215% |
| *Credit* | *(1,409)* | *+687%* |
| *Investments* | *(202)* | *-39%* |
| **Operating profit** | **2,082** | **-14%** |
| Amortisation on intangibles | (47) | +15% |
| Associates | 76 | -72% |
| **Net profit** | **2,111** | **-20%** |
| Cost to income ratio (%) | 32.9% | -4.6% |
| Net interest margin (%) | 2.58% | +0.6% |
| EPS (AED) | 0.38 | -20% |
| Return on average shareholders' equity (%) | 18.9% | -8.0% |

| AED b | As at 30 June 2009 | Var vs. 31 Dec 2008 |
|---|---|---|
| Total assets | 281.9 | -0.2% |
| Loans | 216.6 | +3.7% |
| Deposits | 170.5 | +5.1% |
| Capital Adequacy Ratio (%) | 19.0% | +7.6% |

# Net Interest Margins

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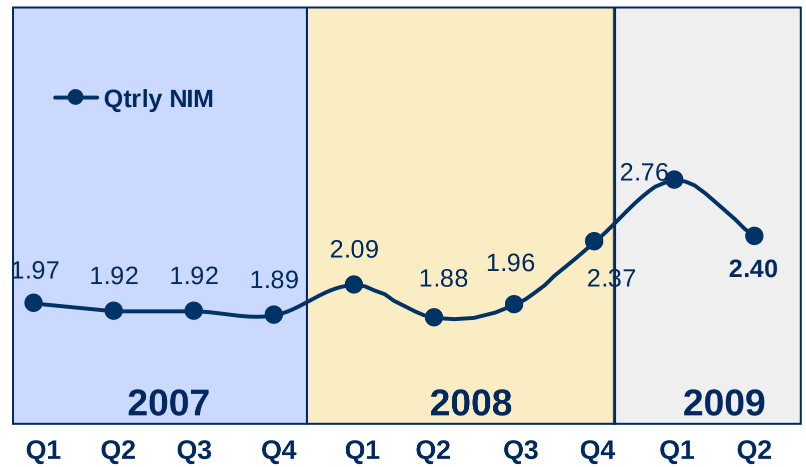
## Highlights

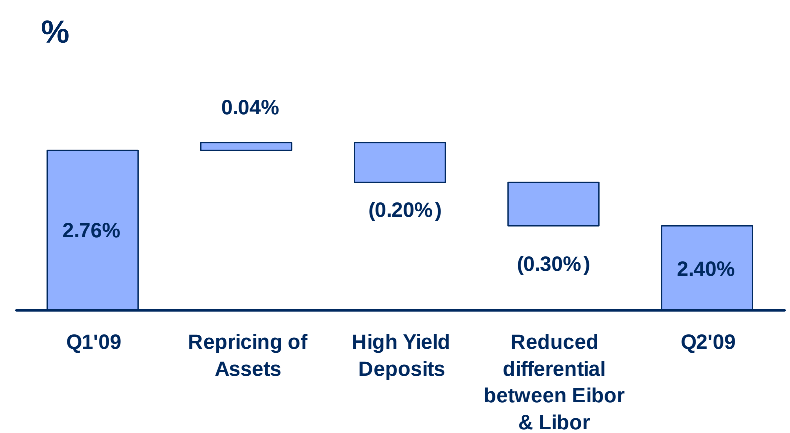
- ❑ H1 2009 Net Interest Margin (NIM) of 2.58%
  - up 60pbs from 1.98% in H1 2008
  - up 38pbs from 2.17% in H2 2008
- ❑ Increase in H1 2009 NIM primarily driven by re-pricing of loans & and the benefit of proactive balance sheet management
- ❑ Q2 2009 NIM of 2.40%
  - up 52pbs from 1.88% in Q2 2008
  - down 34pbs from 2.76% in Q1 2009
- ❑ Reduction in Q2 2009 NIM from Q1 2009 in line with expectations:
  - reduced differential between US$ Libor and Eibor;
  - increased cost of funding deposits; partly offset by
  - benefit of continued re-pricing on assets
- ❑ NIM is expected to reduce further towards the end of the year to c.2.0%:
  - differential between US$ Libor and Eibor is expected to reduce further
  - continued pressure on cost of deposits

## Net Interest Margin Trends




*Note: Net interest margin calculated based on annualised quarterly net interest income divided by Average Total Assets (ATA)*

## Net Interest Margin Drivers

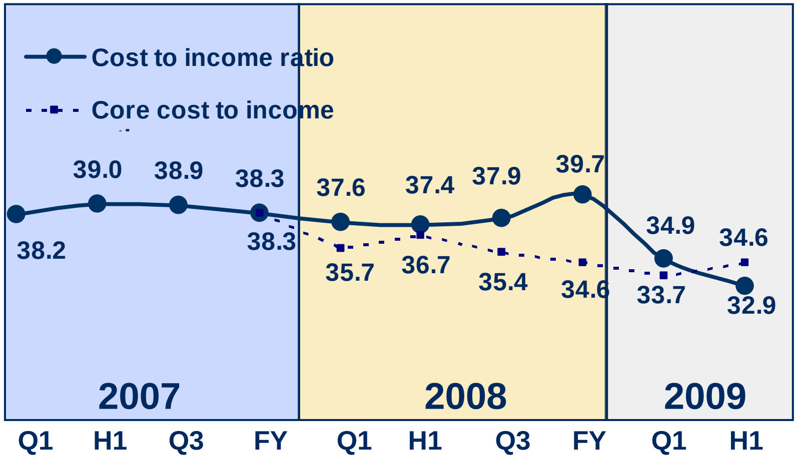


# Operating costs and efficiency

## Highlights

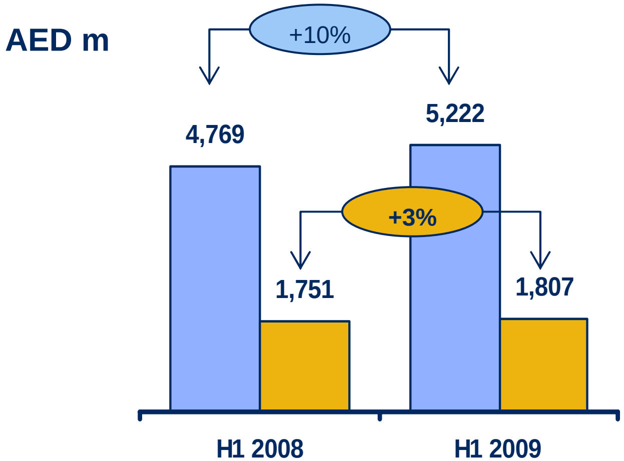
- The cost to income ratio declined by 2.0% from 34.9% in Q1 2009 to 32.9% in H1 2009
- The core cost to income ratio increased from 33.7% for Q1 2009 to 34.6% in H1 2009
- The Group has continued to invest in technology, infrastructure and governance whilst optimising its variable cost base on existing businesses
- Emirates NBD continues to expand its branch network and business capability in Abu Dhabi and is investing in Private Banking and SME businesses
- Emirates NBD is continuing to target a mid-30s core business cost to income ratio for FY 2009

## Cost to Income Ratio Trends



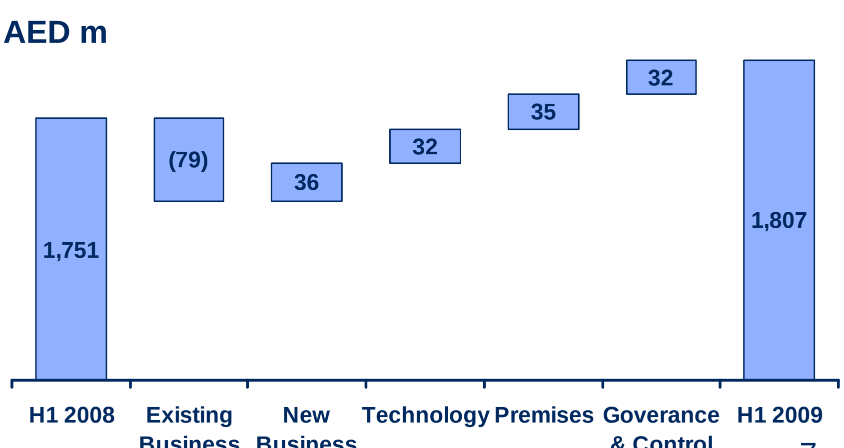

*Note: Cost to income ratios are presented on a year-to-date basis; Core cost to income ratio excludes impact of MTM on investments and other securities in 2008 and 2009*

## Income vs. Cost Growth




*Note: Income is presented excluding MTM/Impairments on Investments/CDS*

## Operating Cost Drivers

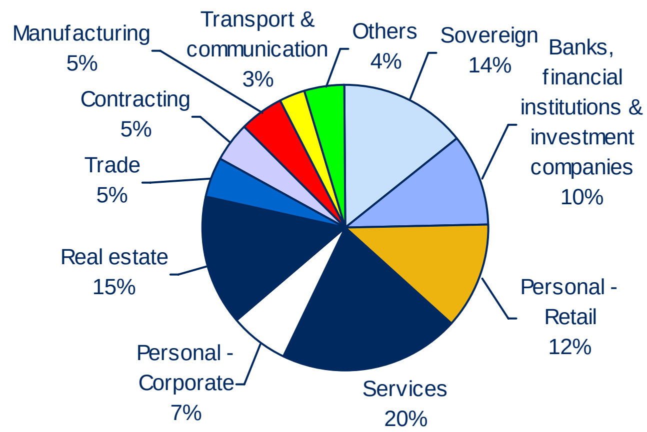


# Credit Quality

## Highlights

- Loan portfolio is balanced and well secured
- Emirates NBD's credit quality remains healthy across the Bank's corporate and retail portfolios; we remain comfortable with our real estate exposure
- Prudently provided for exposure to Al Gosaibi / Saad Groups
- Increase in delinquencies and non-performing loans is within expectations
- NPL ratio, excluding impaired investment securities, increased to 1.56% in H1 2009 from 0.95% reported in FY 2008 (Q1 2009: 1.19%)
- Added AED 731m to portfolio impairment provisions in H1 2009 as a measure of prudence in the current environment (Q1 2009: AED 224m)

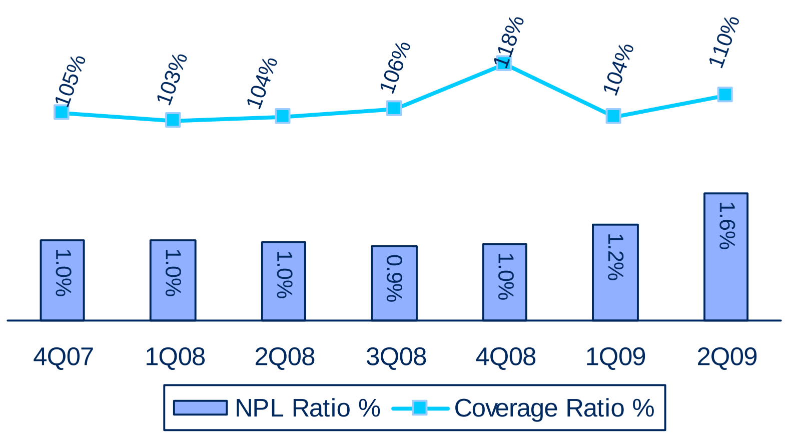
## Loan Portfolio by Sector – H1 2009




**100% = AED 222.1b**

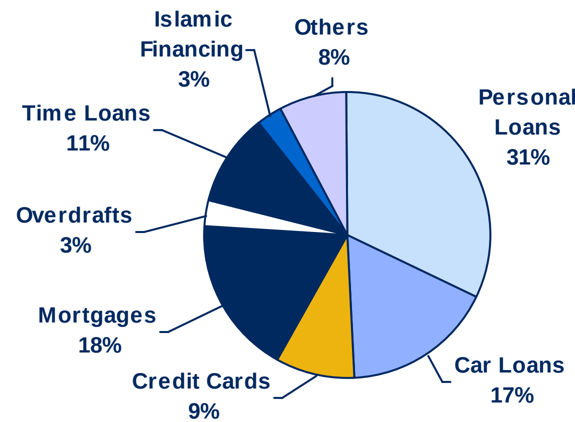
*Note: Loans and Advances before provisions*

## NPL & Coverage Ratios




*Note: NPL and Coverage ratios for 2008 & 2009 ratios exclude investment securities classified as loans & receivables*

## Retail Loan Portfolio by Type – H1 2009



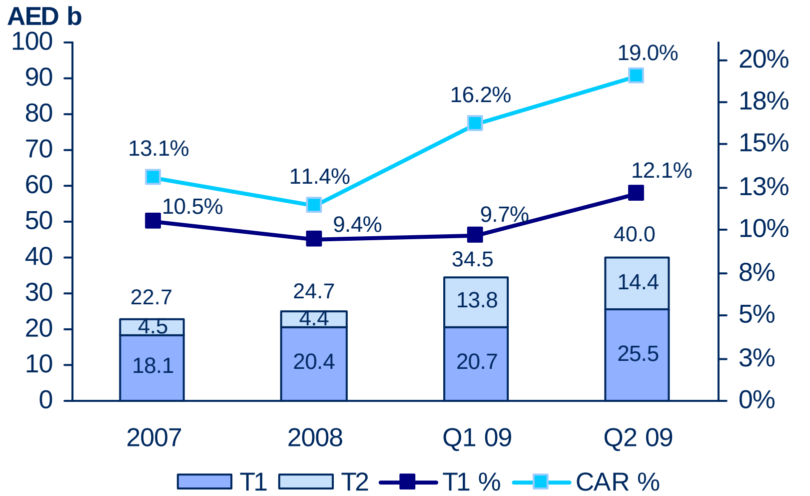

**100% = AED 26.5b**

# Capital Adequacy

## Highlights

- Capital adequacy ratio at 19.0% in Q2 2009 (FY 2008: 11.4%)
- Tier 1 capital increased from 9.4% at end-2008 to 12.1% at Q2 2009 due to:
  - profit generation for H1 2009 exceeding FY 2008 dividend payment by AED 1.1b
  - Issuance of AED 4b Tier 1 perpetual securities in Q2 2009 to ICD
- Tier 2 capital increased by AED 10.0b in H1 2009 due to:
  - Conversion of MOF deposits into LT2 capital (AED 10.2b of the AED 12.6b qualifies as T2 capital as at 30.06.09)
  - Redemption of AED 500m LT2 bonds in exchange for 3 year senior unsecured debt
- Risk Weighted Assets (RWAs) fell by 3% from FY 2008 due to continued focus on RWA by management

## Capital Ratios




## Capital Movement Schedule

| FY 2008 to Q2 2009 (AED b) | Tier 1 | Tier 2 | Total |
|---|---|---|---|
| **Capital as at 31.12.08** | **20.4** | **4.4** | **24.7** |
| Net profits generated | 2.1 | - | 2.1 |
| FY 2008 dividend paid | (1.0) | - | (1.0) |
| Conversion of MOF deposits | - | 10.2 | 10.2 |
| Issuance of T1 securities | 4.0 | - | 4.0 |
| Cumulative changes in FV | - | 0.3 | 0.3 |
| Redemption of T2 securities | - | (0.5) | (0.5) |
| Other | 0.0 | 0.0 | 0.2 |
| **Capital as at 30.06.09** | **25.5** | **14.4** | **40.0** |

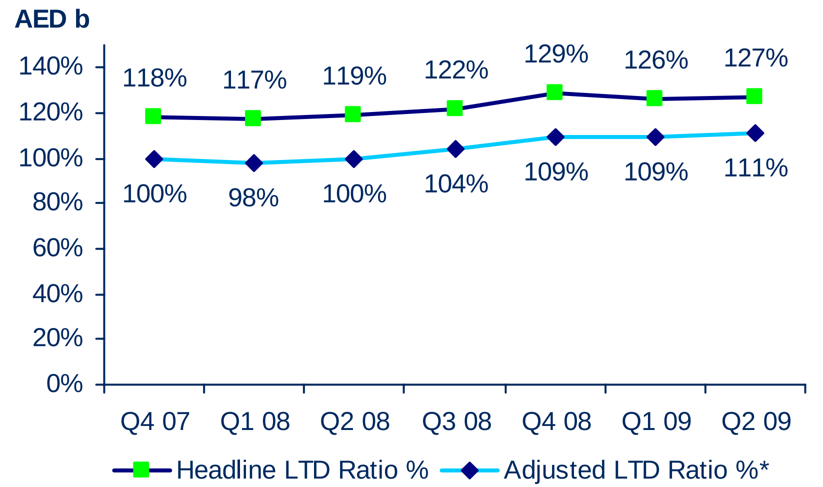
| AED b | Q2 09 | FY 08 | Diff % |
|---|---|---|---|
| **Risk Weighted Assets** | 210.8 | 217.3 | -3% |

# Funding and Liquidity

## Highlights

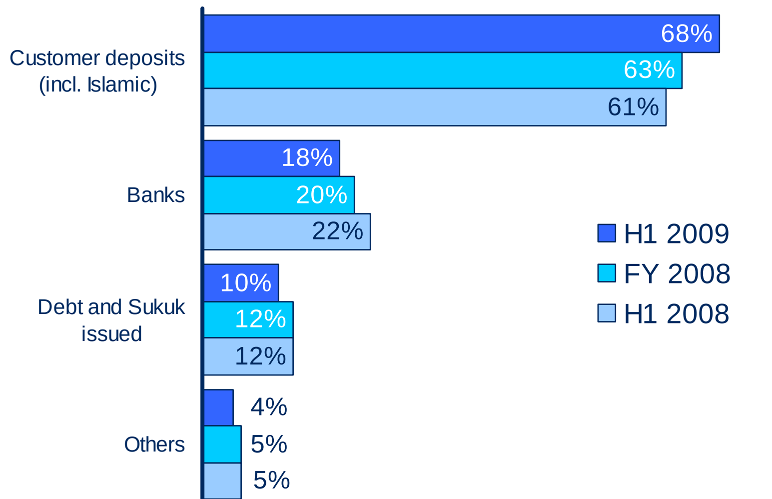
- Liquidity in the UAE Banking system improved in H1 2009, helped by various Government initiatives
- Formal deposit and capital markets guarantee documentation expected soon
- Funding remains stable and deposit mobilisation initiatives proving successful
- Continue to access stable interbank lines and ECP market opening up
- Liquidity backstop facilities of c. AED 14b remain unused
- Term debt maturity profile is well within our funding capacity; repaid scheduled AED 3.7b in H1 2009

## Loan to Deposit Ratio



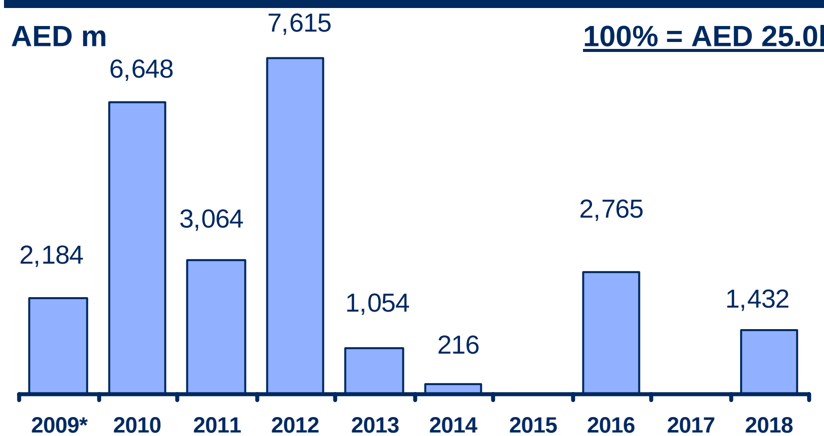

* Adjusted LTD ratio includes Debt Issues and Other Borrowed Funds in the denominator

## Composition of Liabilities – Q2 2009




**H1 2009 100% = AED 250.7b**

## Maturity Profile: Debt Issued




*•For 2009, AED 2,184m represents remaining maturities for the 6 months ended 31.12.2009*

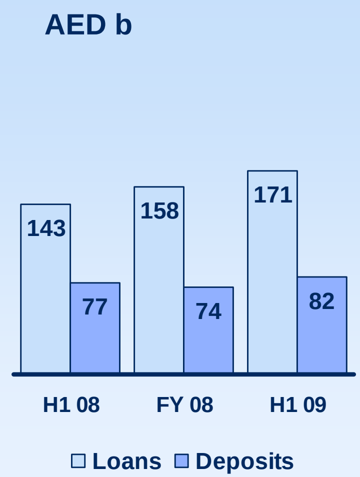
*Note: Debt Issued includes EMTNs of AED 19.5b and syndicated borrowings from banks of AED 5.5b*

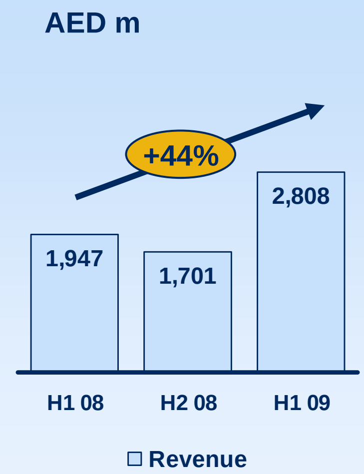
# H1 2009 Financial Results

## Divisional Performance

### Wholesale Banking

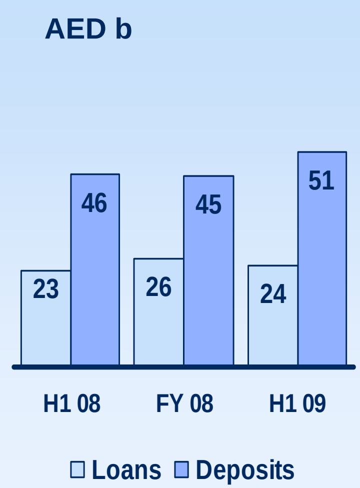
- Wholesale banking had another successful half year
  - Continued success of transactions business
  - Key focus during the first half of 2009 was on balance sheet optimisation, continued proactive management of credit quality, building non-risk based and fee generating businesses
- Revenue grew 44% year-on-year and 65% from H2 2008
- Loans grew by 8% from end-2008
- Deposits grew 12% from end-2008

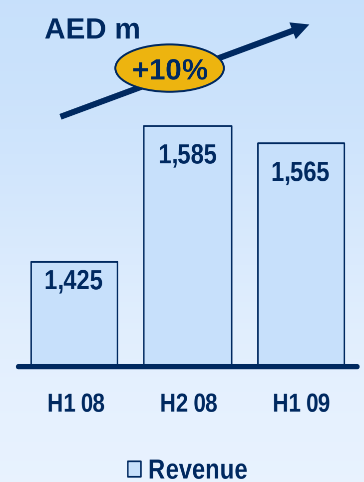



### Consumer Banking & Wealth Management

- CWM continues to expand and build on distribution reach
  - Distribution network now at 99 branches
  - ATM and SDM network now at 550
- Revenue grew 10% year-on-year and decreased by 1% from H2 2008 due to lower fee income
- Loans declined by 7% from end-2008
- Deposits grew 13% from end-2008



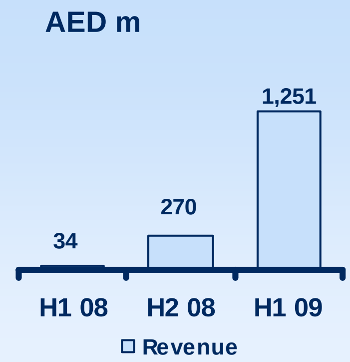



# H1 2009 Financial Results

## Divisional Performance (cont'd)

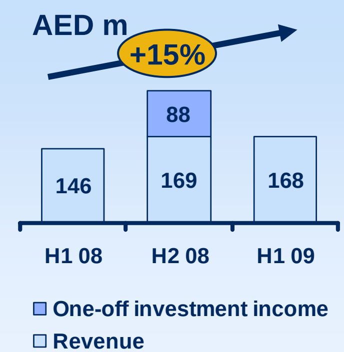
### Global Markets & Treasury

- Improved market conditions worldwide, specifically a recovery in equity markets, tightening of credit spreads and volatility of foreign exchange markets resulted in stronger client activity.
- Revenues for the first half of 2009 were AED 1,251 million compared with AED 34 million in the comparable period in 2008.



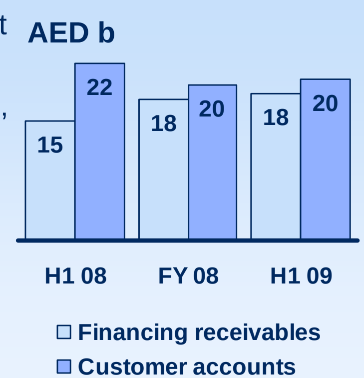

### Network International

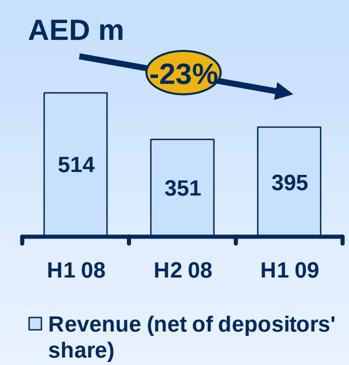
- 15% increase in revenue versus H1 2008 due to 28% increase in processing revenues and 8% growth in acquiring revenues
- Serves over 10,000 merchants and 47 banks and financial institutions in the region




### Emirates Islamic Bank

- Key focus during the first half of 2009 was on balance sheet optimisation and increased caution on new underwriting
- EIB revenue declined by 23% in H1 2009 (net of depositors' share of profit) year-on-year
- Financing receivables grew by 5% to AED 18.5b from end-2008; Customer Deposits grew 3% to AED 20.2b from end-2008
- 4 new branches in 1H 2009 taking the total to 30



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# We have achieved major milestones during the last year

| | |
|---|---|
| 29-Apr-2008 | Successful integration of 92 smart deposit machines |
| 09-Jul-2008 | First staff move to Al Barsha, our new IT and Operations Processing Center |
| 10-Jul-2008 | Emirates NBD's Large Corporate Unit (LCU) is inaugurated |
| 14-Jul-2008 | Integration of ATMs completed to form the largest network in the UAE (485 ATMs) |
| 18-Aug-2008 | Treasury team-up together in single premises, and are now working as a single integrated FX trading entity |
| 27-Aug-2008 | Living the values - Emirates NBD Culture Workshops complete the first phase; 107 workshops and 5,000 employees |
| 11-Oct-2008 | Mobile and Online Banking integrated; enhanced functionalities and 13 payment partners available to all our customers |
| 17-Dec-2008 | Branch Simulation started – end to end testing of systems and processes with Finacle, the new Core Banking system |
| 20-Feb-2009 | Credit cards platform at Network International integrated (Vision Plus) |
| 09-May-2009 | **New Core Banking system rolled-out in EBI** |

# Integration milestones going forward

**Rebranding across all branches will be completed – One bank across all channels**

**July** **2009** **Dec**

**Legal merger will be completed**
Emirates Bank and NBD legally merged into one entity

**Core-Banking Roll-out to NBD branches: New system online for combined entity**
Integration of all support units will be completed

# Target Synergies : AED 246m by 2009 & AED 372m by 2010

- AED 346m of recurring annual synergies by the third year post merger, plus AED 26m of one-off synergies totalling AED 372m
- The recurring synergies include:

| Synergies (2010) | Total, AED m | % of Smaller Base[1] Actual | % of Smaller Base[1] Benchmark | % of Combined Base[1] Actual |
|---|---|---|---|---|
| Revenue | 195 | 10.5% | 5–10% | 4.1% |
| Costs | 151 | 22.2% | 14– 26% | 8.3% |

- Each will be delivered 33% in year 1 (2008), 66% in year 2 (2009) and fully by 2010.
- **Year 2 target therefore AED 246m (66% of AED 372m) of which, recurring synergies represent:**

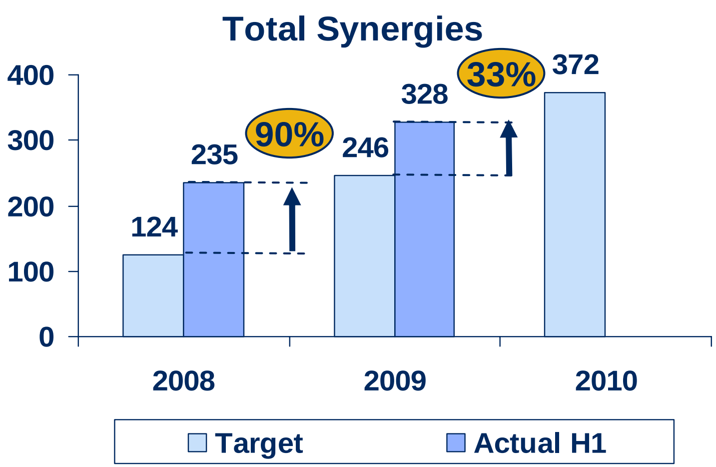
| Synergies (2009) | Total, AED m | % of Smaller Base[1] Actual | % of Smaller Base[1] Benchmark | % of Combined Base[1] Actual |
|---|---|---|---|---|
| Revenue | 129 | 6.9% | 3.3-6.6% | 2.7% |
| Costs | 100 | 14.7% | 9.2-17.2% | 5.5% |

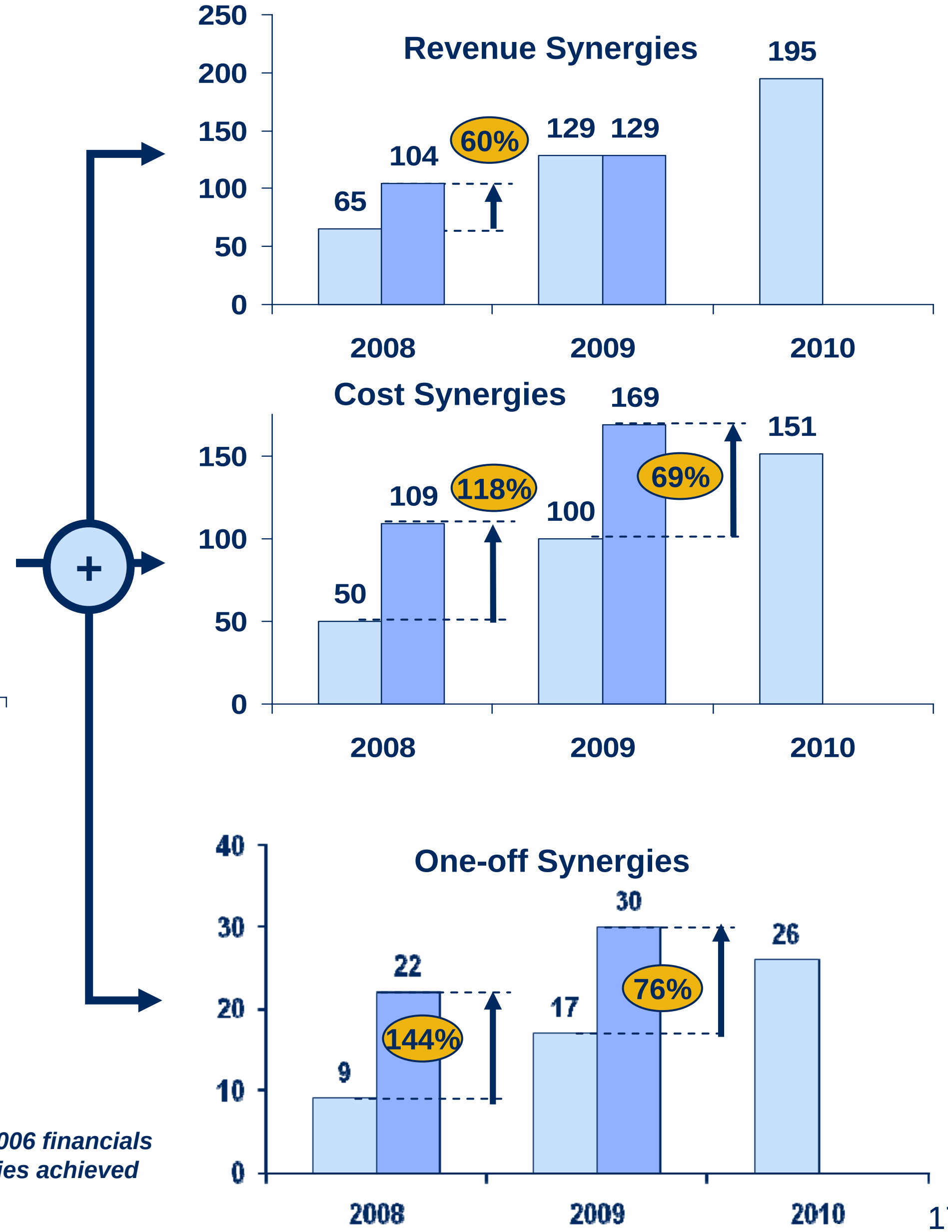
- One-off synergy commitment by 2009 is AED 17m

***Note: Base used when computing synergy targets were 2006 financials, smaller base was NBD and combined was aggregated EBI and NBD***

# H1 2009 : Achieved Synergies of AED 328m –ahead of 2009 full year target by 33%

AED Millions




*Note 1: Base used when computing synergy targets were 2006 financials*
*Note 2: Actual 2009 synergies represent annualised synergies achieved in H1 2009*

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# Strategic Imperatives

| | |
|---|---|
| **Optimise balance sheet** | **Prudent lending growth**<br>• Support growth of important Group relationships in line with targeted asset/deposit ratios<br>**Focus on funding**<br>• Renewed focus on key market segments<br>• Leverage distribution network<br>• Continue to maintain and develop wholesale sources of medium to long term funding<br>• Continued government action / support |
| **Drive profitability** | **Improve product/customer profitability**<br>• Re-price and maximise product yields<br>• Increase fee based income<br>**Improve overall cost position**<br>• Drive performance improvement program<br>• Increase process efficiency<br>• Migrate customers to lower cost channels |
| **Enhance risk management** | • Implementation of Basel II IRB approach<br>• Advancement of Liquidity Risk Control and Management<br>• Alignment and integration of Economic Capital and Stress testing Framework<br>• Strengthen credit management and improve collection processes |

# Strategic Imperatives

### *Evidence of success in H1 2009:*

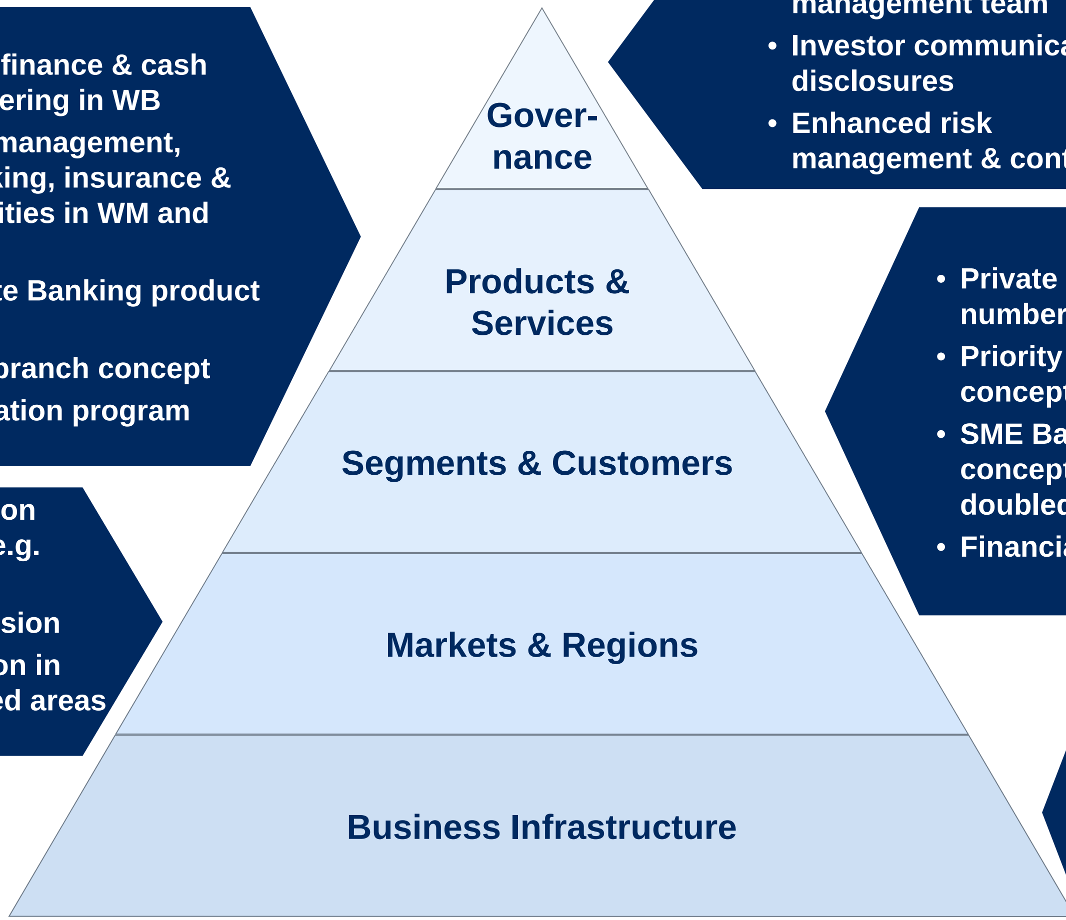
| | |
|---|---|
| **Optimise balance sheet** | • **Capital Adequacy Ratio strengthened** to 19.0% from 11.4% at end-2008<br>• **Tier 1** increased in H1 2009 to 12.1% from 9.4% at end-2008<br>• **Risk Weighted Assets declined** by 3% from end-2008 compared to 4% growth in loans<br>• Customer **deposits grew by 5%** from end-2008 compared to 4% growth in loans, improving the LTD ratio |
| **Drive profitability** | • **Net interest margin improved** to 2.58% for H1 2009 from 2.01% in FY 2008 due to re-pricing of assets and benefits of balance sheet management<br>• **Core cost to income ratio** of 34.6% for H1 2009 stable vs 34.6% for FY 2008 and remains within target range of 35%<br>• H1 2009 **ROA** of 1.50% vs. 1.37% for FY 2008<br>• H1 2009 **ROE** of 18.9% vs. 19.1% for FY 2008 |
| **Enhance risk management** | • **Credit metrics remain healthy** and **within expectations**<br>• **NPL ratio increased** to 1.56% from 1.19% in Q1 2009 and 0.95% at end-2008 |

# Emerging Stronger from the Crisis

EmiratesNBD

- Enhanced trade finance & cash management offering in WB
- Leverage asset management, investment banking, insurance & treasury capabilities in WM and CWM
- Enhanced Private Banking product scope
- Roll-out of new branch concept
- Sales transformation program

- Organic expansion internationally (e.g. KSA)
- Inorganic Expansion
- Branch expansion in underrepresented areas (e.g. Abu Dhabi)




- Refocused senior management team
- Investor communication / disclosures
- Enhanced risk management & controls

- Private Banking: Doubled number of RMs in UAE
- Priority Banking: New RM concept being rolled out
- SME Banking: New SME center concept being rolled-out and doubled number of RMs in UAE
- Financial Institutions / DCM

- Finacle core banking system
- Oracle ERP
- Calypso & KTP
- CRM system
- Al Barsha IT and Operations Centre (OPC)

# Outlook

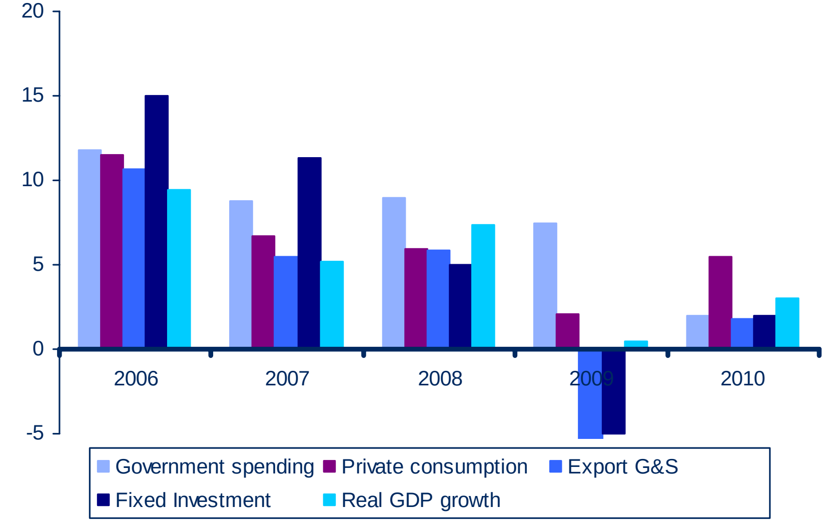
## Outlook

- In 2009 the external environment combined with liquidity tightening and weakening demand should bring GDP growth towards 0% in UAE
- UAE's accumulated surpluses over recent years enable it to engage in counter-cyclical policies, providing a powerful fiscal stimulus
- Monetary policy is also responding to the crisis, with rates being cut and liquidity provided
- Current market correction provides potential to put growth back on a more sustainable long-term path
- H1 2009 witnessed signs of stabilisation in the international debt and equity markets and an improvement in local liquidity conditions and sentiment.
- Uncertainties remain in the Global and regional environment and we remain cautious and are taking measures to offset the possible effects
- The fundamentals of Emirates NBD's core business remains strong
- Success of Emirates NBD's merger even more pronounced in the current climate as the Bank is more resilient due to scale and is seen as a stronger counterparty
- We are a consolidator of choice in the region and are well placed to take advantage of any attractive opportunities that may arise

## Real GDP Growth Forecasts*

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **UAE** | **7.4%** | **0%** | **3.0%** |
| UK | 0.7% | -3.5% | -0.3% |
| Eurozone | 0.7% | -3.0% | -0.2% |
| Germany | 1.0% | -3.3% | -0.2% |
| US | 1.1% | -3.5% | 1.4% |
| China | 9.0% | 5.7% | 7.6% |
| Japan | -0.7% | -6.7% | 0.8% |
| Singapore | 1.3% | -4.6% | 2.2% |

## UAE Real GDP % y/y*




*Source: EIU, Emirates NBD forecasts

# Summary

- H1 2009 annualised merger synergies achieved of AED 328m; ahead of FY 2009 target by 33%
- Integration fully on track for targeted completion by end-2009

- Solid first half and second quarter performance
- H1 2009 Net profit reached AED 2.1b, a reduction of 20% versus H1 2008
- Total income grew 18% year on year to AED 5.5b

- Credit quality remains healthy
- Expected moderate increase in NPLs in H1 2009 to 1.56% from 0.95% in FY 2008

- Capitalisation strengthened significantly; CAR at 19.0% & T1 at 12.1%
- Liquidity has improved in H1 2009

- Emirates NBD has a clear plan to navigate through the current environment
- Strategic imperatives include balance sheet optimisation, driving profitability and risk management enhancement
- At the same time, the Bank is taking steps to ensure it emerges stronger from the crisis

- Growth of the UAE economy is expected to slow down to 0% in 2009
- H1 2009 has witnessed some stabilisation in the environment. However, uncertainties remain and Emirates NBD is retaining its cautious stance
- Emirates NBD is well positioned to take advantage of attractive opportunities

# Emirates NBD

## Q2 2009 Financial Results

**27 July 2009**