EMIRATES NBD Q3 2014 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL 22 OCTOBER 2014

CORPORATE PARTICIPANTS

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Surya Subramanian - Group CFO
Patrick Clerkin – Head of Investor Relations

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD third quarter 2014 results announcement analyst and investor call. If we are all ready to begin, I will now pass the call over to our host Mr Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson - Group CEO

Thank you, operator. I would like to welcome you all to the Emirates NBD 2014 results conference call for the third quarter of 2014. Supporting me today, as per usual, are Surya the Group's Chief financial Officer and Paddy our Head of Investor Relations, and together, we will review the operational and financial highlights for the third quarter of 2014. We will refer to the results presentation which was made available to you earlier today, after which you will have the opportunity to ask us some questions.

I am delighted to report that we have delivered another healthy set of results with profit up 51% in the first nine months of 2014 to AED 3.9 billion. This has been driven by strong growth in both our net interest income and non-interest income, with all parts of the business making a significant contribution. I have been with the Bank now for about a year, and actually it will be a year on the 1st November, and I am very pleased with the areas that we have focused Senior Management's attention on has had a real value to the Group. Addressing the legacy asset quality has been one of my top priorities. Since we established the Financial Restructuring and Remedial unit, it has overseen repayments and recoveries of over AED 2.8 billion up to the 30th September, up from AED 1.4 billion as at the 30th June. This is having a real impact with the NPL ratio improving by 0.9% during the third quarter to 12.6% and coverage ratios have also improved significantly. We continue to optimise our balance sheet; the asset profile has been helped by growth in higher margin Retail and Islamic products. The liability profile continues to improve helped by growth in current and savings account balances. This changing profile is reflected in our ability to maintain NIM at more profitable levels than in 2013. We see good growth in non-interest income from a wide variety of sources. The Investment Bank continues to have impressive market share in arranging Sukuks and syndicated loans. Emirates NBD Asset Management delivered another milestone for the Group in the third quarter, when assets under management passed the AED 10 billion mark. This is timely recognition for our asset management business, who have also seen Morningstar award a five-star rating for two of its [audio]. We also saw a strengthening of our capital position. In the third quarter, we repaid the remaining AED 4.8 billion outstanding of funding provided by the ministry of Finance. We also issued USD 500 million of Tier 1 equity. The result of these two trades were to maintain the overall capital level, whilst boosting the Tier 1 component and improving cost efficiency of our capital base. This cover would retain earnings and it improved our Tier 1 ratio to 17.2% and our capital ratio to a very respectable 20.4%. Emirates NBD was the first bank in the UAE to offer an electronic subscription platform, or eIPO for the recent Emaar Malls IPO, allowing customers to subscribe to the IPO via the Bank's ATM and online banking channels.

Overall, I am very pleased with the performance of the Bank in the third quarter. We see real progress in key metrics and are proud of the milestones, which different parts of the Group have achieved. I am confident that we will continue to deliver a strong performance and we will successfully draw a line under the legacy NPL position in the coming quarters. We will continue to deliver excellent customer service to our clients and deliver superior value to our shareholders.

I will now hand you over to Surya, who will start going through the details of the presentation, Surya.

Surya Subramanian - Group CFO

Thank you, Shayne. I will speak through the financial results on slide 3 and slide 4 showing the year-to-date view and quarterly view respectively. Third quarter year-to-date revenues at AED 10.9 billion maintained the growth momentum seen in the first half of the year. Year-over-year growth in total income is maintained at 25% and quarter-over-quarter growth is 4%, as margins improved a bit, costs were held flat, and we continued to book profit on legacy investments. This together with our conservative provisioning policy and the continued success in our Retail and Islamic franchise helped deliver a third quarter year-to-date net profit of AED 3.91 billion, an improvement of 51% on the previous year and 20% over the last quarter. I would also like to remind those on the call that our full year profit for 2013 was AED 3.26 billion and we have beat that in nine months of this year by a wide margin.

Net interest margin for the quarter at 2.95% saw a pick up compared to the last quarter as we optimised capital and maintained our strategy to improve our asset and funding mix across customer loans and deposits. Non-interest income was maintained at the levels seen in the previous quarter, supported by transactional income linked to trade, banking services, and treasury sales. During the quarter, we also had further sales on our inventory and reduced our holdings in Union Properties by a further 4%. Headline advances to deposits ratio tweaked up to 99.2% as a result of repayment of the Ministry of Finance Tier 2 deposit and a short-term spike in IPO related financing. The system continues to remain flush with liquidity and stable deposits grow to improve our funding mix. Emirates NBD remains, as always, well placed to meet relevant prudential liquidity requirements. Total costs for the quarter at AED 1.1 billion remained flat over the previous quarter, though we have already committed further investments within our cost guidance to support staff and customer development for the rest of the year. Provisions for the quarter are AED 1.2 billion, and this remains largely in line with our conservative stance until we achieve our medium-term target coverage ratio of 80% including Dubai World.

Moving onto slide 5 that shows how our net interest income has evolved, the asset and liability mix rebalancing, taken together with the repayment of the Ministry of Finance Tier 2 deposit drove net interest margin higher at 2.95% for the quarter. While we expect these levels will come off a bit in the last quarter, our guidance for full year 2014 net interest margin is now raised to the upper end of the 2.7-2.8% range we have advised in earlier quarters. Competition for loan growth and resultant spread compression is here to stay for a while, but we are cautious in extending credit without ancillary benefits. Improved margin equally give us the ability to reset higher the term profile of our funding base as EMTNs currently form only 5% of total liability, which brings us to the funding and liquidity slide (6).

Advances to deposits ratio slipped to 99.2% for the quarter and this was partly due to slower deposit gathering during the summer months, combined with the IPO leverage effect at quarter end, excluding which we would have been better off by approximately 2% at 97.3%. Emirates NBD's liquid assets position is strong and at AED 45.4 billion, now, covers 14.7% of total liability. Debt shown maturing in 2014 and 2015 are short-term private placements and these are within our capacity to rollover or repay in the normal course. We continue to raise term funding opportunistically, and recently, Emirates NBD became the first Middle East based institution to issue a public note in the New Zealand Dollar market. This represents the cheapest five-year funding that the bank has raised in the last six years. As mentioned in the last call, the repayment of the outstanding AED 4.8 billion Ministry of Finance balances was made out of existing liquidity.

Slide 7 on loans and deposit trend show the details of the story. The story on retail and SME loan growth continues, while corporates stay deleveraged or have accessed alternate capital markets instead of banks. Islamic financing grew at a steady pace, while other consumer lending saw a quarter-end boost due to the recent IPO. We maintain our earlier revised expectation for loan growth in 2014 at the upper end of the range of the 4-5% in line with quarterly trends. Deposits fell marginally for the quarter due to the same IPO effect as collections are reported in the financial statements as 'Other liabilities.' Current and savings accounts as a percentage of total deposits continued to grow and now stands at 59% of total deposits.

With that, I will hand you over to Paddy.

Patrick Clerkin – Head of Investor Relations

Thank you, Surya. On slide 8 we see that total non-interest income improved by 39% year-on-year, core gross fee income improved by 30% year-on-year, and this rise is due to increased fee income from larger credit card volumes, coupled with higher income from trade finance, brokerage, and asset management fees and from the Forex and rates business. This is pleasing, as the Wholesale Bank and Global Markets and Treasury work more closely together to take advantage of increased cross-selling opportunity. The Investment Bank and associated fee income continues to perform well, with a healthy market share of Sukuk origination and loan syndication. As Shayne mentioned, we're very proud that Emirates NBD Asset Management reached a milestone in Q3 with assets under management surpassing AED 10 billion. Property income showed an 88% rise year-on-year, as we continue to see gains on the sale of property [audio] inventory, reflecting on-going demand for real estate in Dubai.

In Q3, we completed the sale of over AED 600 million of property to Emirates REIT. Our property inventory acquired as a debt swap has now reduced to below AED 2 billion. Income from investment securities was up 92% year-on-year thanks to [audio] trading securities and boosted by the sale of a further 4% of shares in Union Properties. As at the 30th September we held just over 10% of the total share capital of Union Properties.

Moving onto operating costs and efficiency on slide 9, costs increased 2% year-on-year and decreased by 1% in Q3. The year-to-date cost-to-income ratio improved by 4.6% to 29.5% in the first nine months of 2014. This impressive reduction in the cost-to-income ratio was mainly driven by the strong increase in income easily outpacing cost growth. During the year, income did benefit from a number of one-offs; however, even after adjusting for these one-offs, the year-to-date cost-to-income ratio would have been 31.6%, a like-for-like improvement of 2.5%. the longer term management target for cost-to-income ratio is 33%, and we do expect the cost-to-income to increase in the coming quarters, as we invest more in systems and people to help support business growth and customer satisfaction, and this process as already been set in motion at the end of last quarter.

Moving onto credit quality on slide 10, as Shayne mentioned, during Q3 the NPL ratio improved significantly to 12.6%, a drop of 0.9%. Impaired loans fell by AED 1.4 billion in Q3 from AED 35.8 to 34.4 billion. This demonstrates the success that the Financial Restructuring Remedial unit is having in proactively addressing the existing stock of non-performing loans. Repayments and recoveries jumped by AED 1.4 billion in Q3, helped by a AED 0.6 billion repayment on the Bank's Dubai World exposure. We expect the NPL ratio, excluding Dubai World to continue to improve towards 100%; I beg your pardon, the NPL ratio to continue to improve towards 8% from its current level of 9.5%.

Shayne Nelson - Group CEO

We wouldn't like 100%.

Patrick Clerkin – Head of Investor Relations

And the coverage ratio which is 70.3% or 92% if we exclude Dubai World exposure, we expect that to continue to improve as well.

Year-to-date, we have taken a net impairment charge of AED 3.8 billion, mainly for specific provisions in relation to the Group's Corporate and Islamic financing portfolios. Should we continue to provision at the existing rate, then we should reach our coverage targets of 80% or 100% excluding Dubai World sometime in early 2015.

Capital adequacy on slide 11 shows that during Q3, Emirates NBD's Tier 1 ratio improved by 1.6% to stand at 17.2%. Over a similar period, the capital adequacy ratio improved by 0.8% to 20.4%. the improvement in both the Tier 1 and the capital adequacy ratios was due to retain profit coupled with a $500 million Tier 1 issue in Q3, and this Tier 1 issue, combined with the entire repayment of [audio] Tier 2 support has allowed us to transform the capital base and be more capital efficient and cost effective.

At this stage, and given the Bank's strong profit generation, we have no further plans to raise any Tier 1 or Tier 2 capital. With that, I hand you over to Shayne to run through the remainder of the presentation.

Shayne Nelson - Group CEO
Thank you, Paddy. Slide 12 provides details on the Egyptian business. Cultural system and policy integration is on-going and proceeding as expected, against our integration plans and we are on target for full integration onto the Emirates NBD platform in the middle of 2015. Despite the challenging political and economic environment, the Egyptian business has continued to deliver impressive results. It contributed AED 506 million of revenue and AED 167 million of net profit to the Group's results in the first nine months of 2014. We continue to see good growth in the deposit base, which indicated the Emirates NBD brand recognition in Egypt, is becoming more and more established.

On slide 13, we see that the Retail Banking and Wealth Management business continue to grow year-on-year, both in terms of the balance sheet and revenue. Revenue increased by 5% year-on-year. We have seen loan growth of 19% in this part of the business in the first nine months of 2014, driven by growth in credit cards, overdrafts and a temporary financing effect for the Emaar Malls IPO. Over a similar period, deposits grew by 9%. Islamic Banking also showed impressive growth of 24% year-on-year, financing receivables grew 14% in the first nine months of the year. Emirates Islamic also contributed to an increase in fee income due to higher customer account volumes in the retail and SME markets. Both the Retail and Islamic Banking tends to be more profitable and growth in these parts of the business has helped widen our margins. We expect these business units to continue to perform well in the coming quarters, on both the assets and deposit side.

Moving to slide 14, Wholesale Banking revenues declined 8% quarter-on-quarter and grew 10% year-on-year. Loan balances dropped by 1% from the end of 2013, as normal loan repayments offset newly under-written loans. Deposits grew by 7% from the end of 2013. We are still not seeing increased demand for corporate loans and the market remains highly competitive. Some corporates are cash rich and have deleveraged, where other corporates are making use of capital markets to help fund themselves. The Wholesale Bank continues to focus on customer service quality and share of wallet. This includes improved cross-sell of Treasury and Investment Banking products and increased cash management and trade finance penetration. Treasuries income improved significantly year-on-year due to robust increase in sales revenue and a strong performance by the Credit and Trading desk. In 2014, we continued to see higher income generated by our investment portfolio.

Moving to slide 15, as I mentioned on the previous call, we have revised our GDP growth expectations to 5% for both the UAE and Dubai. Dubai continues to expand robustly in the manufacturing, hospitality, transport, and logistics sectors. House price growth has continued to slow and price of villas are now largely flat year-on-year. Annual price growth for apartments has also slowed significantly. The Dubai economy remains healthy and if this continues, we expect to see a further improvement in NPLs helped by healthy collateral valuations.

On the summary on slide 16, it has been another excellent quarter for the Group. Net profit is up 51% to AED 3.9 billion for the first nine months of 2014, and as Surya said, that is higher than the full year of 2013. NPLs showed a large improvement of 0.9% during the quarter to 12.6% on the back of very strong recoveries. We have continued to aggressively pursue recoveries on the stock of non-performing loans. Coverage ratios continue to improve significantly and if we continue provisioning at the existing rate, we should achieve our coverage target in the early part of 2015. We will review the classification of Dubai World exposure in due course based on further performance under the original restructuring plan and the on-going discussions. I am particularly pleased that our non-interest income has grown strongly with many parts of the Group contributing to this success. Margins continue to improved helped by more favourable asset liability and capital mix. Costs remain well below our target levels, thanks to a higher level of income. We will invest in systems and people to support future business growth and to prepare ourselves to hit the ground running in 2015. We have completed our capital management exercise and now have a very efficient and cost effective capital base. Emirates NBD will continue to implement its successful strategy and is well placed to take advantage of any growth opportunities both in Dubai, the UAE, and the region as a whole.

With that, I would like to open to questions. Operator, please go ahead.

Operator

Thank you, Mr Nelson. We will now begin the question and answer session, if you wish to ask a question, please press 01 your telephone and wait for your name to be announced. If you wish to cancel your request, please press 02.

Our first question comes from Deepti Harjani from EFG Asset Management. Please go ahead.

QUESTION AND ANSWER

Deepti Harjani– EFG Asset Management

Hi, thank you for the call. My first question is around fee income. We saw a slight decline this quarter of about 3% sequentially, any reason for this? My next question is, earlier this morning we saw on the news that Emirates NBD was going to discuss a potential sale of a new Islamic Bank by Dubai Group, so does that mean that Emirates NBD will be taking on a stake in the bank. Please clarify if you could, thank you.

Surya Subramanian – Group CFO

Thank you very much, this is Surya. I will take the first question on the non-funded income and this is really the combination of what we call the Ramadan and the summer effects in Q3. It has been cyclical for the past few years around this, and you would also notice in the slides we have shown Q3 2013 was also low and things picked up after that. In fact, if you do look at banking fee income, that has been quite robust, trade finance has been maintained but Forex rates came off a bit during the slow summer season, so we are not overly concerned about it and it is normal cycle playing out.

Shayne Nelson - Group CEO

On the other question, we don't comment on stories relating to ENBDs potential interest in stakes in other entities, and it wouldn't be appropriate for us to discuss in a public forum another entity.

Deepti Harjani– EFG Asset Management

Thank you

Operator

Our next question is from Naveed Ahmed from Global Investment House Kuwait. Please go ahead.

Naveed Ahmed – Global Investment House

Good afternoon gentlemen and thank you for the call. My question is regarding – there has been news recently about renegotiations on earlier restructurings, I believe the name of Limitless came up, so how does that impact Emirates NBD particularly.

Surya Subramanian - Group CFO

Naveed, we didn't hear the name.

Shayne Nelson - Group CEO

Limitless, wasn't it?

Naveed Ahmed – Global Investment House

Yes

Surya Subramanian - Group CFO

Naveed, you know we do not comment on specific names, customers, whether they are not. I think you need to draw greater comfort from where the overall trends are in NPLs and coverage, both are trending in the right direction, and we can speak around those if you have further questions.

Shayne Nelson - Group CEO

I think the comment to make is that with our aim to get to 100% coverage, any positive outcomes with a client should drive into the bottom line over time. Certainly, our view remains that we will get to 100% coverage with Dubai World excluded in that 100% by the first quarter of next year. That is certainly our aim.

Naveed Ahmed – Global Investment House

Perfect, thank you gentlemen.

Operator

Our next question is from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik – EFG Hermes

Thank you very much for the presentation. I have a couple of questions. My first question is, what would be a normalised level of provisioning for the Bank, or normalised cost of risk for the Bank, once you have achieved your NPL coverage targets. Secondly, you stated in the presentation that part of the reason for the strong growth in Retail loan growth in the third quarter was leveraged for Emaar Malls Group IPO. Can you tell us how much was leveraged in this quarter and obviously, it is not sustainable, so in order to get an idea of what could be a sustainable normalised growth rate for the Bank was a sustainable normalised growth rate for the Bank in the third quarter.

Surya Subramanian - Group CFO

Shabbir I will start with the second question, it is the easier one to answer, both in my commentary and in the slides. We have given you what the advanced deposit ratio would be if you adjusted that effect and that is 97.3 if I am not mistaken. That is temporary, because it washes off once the allocations were made, which flew off post the quarter end. If you eliminate…you have to work backwards, I am not going to do all your maths for you, it is not just Retail that leverages across Retail and Corporate and the Wealth Management space, and our Islamic Bank, but if you eliminate that, it is fair to say, the underlying retail and SME loan growth continues to remain and we are quite positive about that. The challenges we faced obviously are in the corporate deleveraging space.

On the normalised cost of risk, we have been running, on average, closer to the 2% in recent quarters. Looking forward, I did see an analyst report today that seems to drop our normalised cost of risk from 70 basis points to 50 basis points. I would say both these are in, what I would call, expected ranges for a normal banking business like ours.

Shabbir Malik – EFG Hermes

Okay, also, can you give us an idea of how much one-off investment income was made on the sale of Union Properties' shares and the sale of real estate to Emirates REIT?

Surya Subramanian - Group CFO

I won't give you the specific breakdown, because that would be giving away specific transaction prices that are clearly private, but to help you in your analysis, we do give the normalised cost/income ratio which is 31.6% for year-to-date, we have given it last quarter as well, but to avoid doing a complex weighted average calculation, I would say that the normalised income for the quarter would be marginally higher than AED 3.4 billion, if you did all these adjustments, so that still shows underlying positive trend, because Q1, which had no one-offs was about 3.3 billion and Q2 was higher than that, we mentioned in our call and Q4 is higher than that.

Now, you could do some further analysis in page 22 of our detailed financial statements, note 16 to the financial statements, ‘Other operating income,’ you can probably get some more information there that will corroborate what I have said.

Shabbir Malik – EFG Hermes

Okay, thank you very much.

Operator

Our next question is from Vikram Vishwanathan from HSBC. Please go ahead.

Vikram Vishwanathan – HSBC

Hello gentlemen, thank you for the conference call, as always. I have three questions, my first question is, I was going through the detailed financials, I noticed that the other liabilities have increased quite a bit between December and now. In December it was AED 6.8 billion, now it is AED 14-point-something billion. Is that a simple readjustment from perhaps one of the other items in liabilities, maybe due to banks? That is my first question. Why is it increasing and is it a restatement?

Surya Subramanian - Group CFO

Sorry, just a quick one, I mentioned during my commentary that that is a classification of the collections on the IPO. These are not treated as customer deposits, these ae treated as other liabilities, and as soon as the allocations are made, it switches back to normal.

Vikram Vishwanathan – HSBC

Oh I see, perfect, okay, got it, so that explains this.

Surya Subramanian - Group CFO

It is also in line with the Central Bank guidelines on how we need to classify these. Sorry to have interrupted, but that was just a quick one.

Vikram Vishwanathan – HSBC

Sure, sure, no, now I understand, so it is not part of the deposits, it is part of the…okay, yes. Obviously, this is temporary in nature, it will go away, okay, I understand. The one question that I had was, I noticed in your presentation two items on the non-interest income side, one is that you sold some of the investment property to Emirates REIT, right, is this something which is on-going, would you look to keep divesting your property portfolio to Emirates REIT going forward. That is my first question. The second question is, you also recognised some gains on sale of investment in Union Properties, how much stake do you have in Union Properties now, after this sale in Q2, would you look to sell more of the stake going forward.

Shayne Nelson - Group CEO

I think on the property side, we have reduced the portfolio significantly to just around 2 billion; it has dropped down to about that. This has been an on-going exercise for a number of years, but it has sort of accelerated, I suppose as the market has recovered. That portfolio is for sale, certainly, from a strategic perspective, I don't see property as a core business of our bank. We took it as a part of a swap for a debt; it has paid off for us because the timing when we did the swap versus the recovery, the market has proved beneficial for us. We will continue to offload that portfolio as quickly as we can, providing we can get decent prices for it. I am not going to sacrifice it, but certainly that is our own.

Union Properties, we're just over 10% now. We certainly wouldn't discuss when and if we would sell any further shares down on that.

Patrick Clerkin – Head of Investor Relations

Just to give you one more piece of information, in terms of the rate that we have been selling the inventory, excluding the effect of Emirates REIT, the natural rate of sale per quarter has been between AED 200 and 300 million per quarter.

Shayne Nelson - Group CEO

We have no preference for Emirates REIT, it just so happens that they were [acquisitors]

Operator

Our next question is from Amresh Nath from Qatar Insurance Company. Please go ahead.

Amresh Nath - QIC

Hi, in your press release today you have mentioned that you have submitted a plan for your large exposure to the Central Bank. Can you give us more detailed about that plan or some guidance as to how it is going to affect loan growth or your margins going ahead?

Surya Subramanian - Group CFO

The details of the plan obviously get down to customer specific names and cannot be discussed out here. However, the general news in the market as people know, and based on our related party disclosures, we do have an exposure to the Dubai sovereign, but other than that, we do make disclosures on presentations what are the total deposits and total loans to GREs, these are all well within limits at the moment. Clearly, we cannot go beyond the Central Bank regulations, so opportunities that may have existed five/six years back in the growth days in Dubai would not exist now, given where the balance sheet is. Nonetheless, if you look at the shape of the business, that has also changed dramatically. Five/six years back, the balance sheet, growth and income growth was skewed heavily towards the corporate bank. Today, it is a lot more balanced with a lot of the growth coming from the retail and SME, both within the Islamic and Consumer franchises.

Amresh Nath - QIC

What I meant to ask is, are there going to be any big balance sheet changes all of a sudden, or it is going to be managed or eased over a period of time, the exposure to these GREs.

Surya Subramanian - Group CFO

Well, it really depends, because as I said, we are within the limits on those, and obviously, there will be movement as old ones repay new ones, come on-board and those will be, what I call, normal banking movements within limits. Let's face it, these are not the only prudential requirements we deal with, we have caps on lending to the real estate sector, we have caps on lending or investing in bonds of particular types and as we look at our balance sheet, both from a credit perspective and a liquidity perspective, we balance all these.

Shayne Nelson – Group CEO

In some regards, if the question is, is it hampering our capacity to do business with GREs, I think the answer is, we do business differently in some regards, and if you see how we have pushed very hard into the Sukuk market, for example, and we're leading that, I would say that that is a different way that clients are diversifying away from banks into the capital markets, and to be honest, it is a lot more effective from a return on risk capital to put them into the Sukuk rather than book them on balance sheets of banks. We are seeing a shift more to the capital markets. The other obvious way is lead underwrite GRE loan syndications and then sell-down, so there is more than one way to skin a cat.

Amresh Nath - QIC

Okay, thank you.

Operator

Our next question is from Rahul Shah from Deutsche Bank. Please go ahead.

Rahul Shah – Deutsche Bank

Thanks and good afternoon, three questions to touch on some of the things you talked about. Firstly on loan growth and the outlook, you flagged the strong GDP environment at the moment; you just talked about the large exposures. Putting those two things together and company specific plans that you have, could you give some guidance on what kind of loan growth we could expect on, let's say, a two/three year view from Emirates NBD. That is the first question.

The second is on margins, you have given some useful guidance on why Q3 was very strong. You have also said Q4 it might come back a bit, is that largely due to this IPO effect or it is something else that we should also think about.

The third question is on the cost of risk and the guidance in terms of coverage, you have said that you could hit that sometime in the first half of next year. What should we expect after that? Would you be looking to rethink the coverage ratio guidance or might cost of risk come down quite sharply. Thank you.

Surya Subramanian – Group CFO

Rahul, I will take the margin question first. It is easier to answer. I said it will come off a bit because although I didn't mention it in my earlier response, there has been a bit of an EIBOR softening, as you know, and that always tends to give us a bit of a boost in the quarter, because loans don't reset until later, so the fundamental shifts in asset mix, liability mix are here to stay, but shorter term movements in terms of resetting of EIBOR gives us a boost one quarter, it goes away in the next two quarters depending on three, six-month resets on corporate loans etc, and hence my comment on it will come off a bit.

In terms of the cost of risk and the related coverage, we did mention in the last call, we are not expecting to go beyond 100% coverage and Shayne you would want to comment further on that and the multiyear loan growth.

Shayne Nelson – Group CEO

Certainly, if you look at the amount of collateral we have within that 100%, I don't think there is any need to go above the 100%. Remember, we actually said our medium-term target was to get to 100% and we look like delivering that in a pretty short span of time. I think that is one of the positive things. I think loan growth for us is somewhat a bit more difficult to predict than others, because just having the quantum of problem loans we have on our balance sheet means actually, we get loan reduction because we work out our problem, and that is a good thing, but it doesn't help facilitate loan growth, but it does give you a better quality balance sheet, so I think there is a balance there.

Where would I see us growing in the future? My aim is always, as an organisation to at least achieve GDP growth plus inflation that is what I think is a reasonable number, less what we need to do when it comes to reduction of the problems that we have in the legacy book.

Rahul Shah – Deutsche Bank

Okay, thanks gentlemen, that is very helpful.

Operator

Our next question is from Naresh Bildani from J.P. Morgan. Please go ahead.

Naresh Bilandani – J P Morgan

Thank you very much, good afternoon and thank you for the presentation. It is Naresh from J.P. Morgan. Just two questions please. The first one more directed to Surya and Paddy please, can you explain the movement in risk-weighted assets. Year-to-date, you have added about 6 billion in conventionals and about AED 2 billion in Islamic products, but your RWAs actually declined in the nine months period, and there has been a consistent decline also in the risk-weighted assets. Can you please provide some clarification here? I know you talked about a capital optimisation exercise that you have done. Can you just tell us how the risk-weights in the asset mix are shifting to provide you this benefit on the overall level of risk-weighted assets?

My second question is more directed to Shayne and we have seen a significant improvement in value delivery from the franchise over the past 12-18 months and better strength in the robustness of the franchise. Can you please give some thoughts around what key challenges do you see the Emirates NBD franchise facing in its current growth delivery going into what would likely be a more volatile 2015, with regards to hydrocarbon prices or higher geopolitical risk or a changing US rate environment. Some thoughts from you with regards to a general outlook for the next year or two in this regard would be really helpful, thanks a lot.

Surya Subramanian – Group CFO

Naresh, I will take the first question on RWA. You do ask difficult questions. It is a function of the fact, as we said; there is corporate deleveraging while the retail and Islamic assets are growing. Clearly, wherever we have cash collateral, in the case of SMEs, you wouldn't have an RWA increase even though the loans increased, and on the corporates, as we continue to provide additional amounts, that comes straight off the RWA as well, so it is a function of that and as liquidity also improves, we end up putting surplus with banks that are lower RWA than with corporates, so it is really that mix. However, as we move to, what I call, higher value-added relationships with our corporates, you also have the situation where our market risk capital has gone up. If you notice, it has been in the tight range of 2.5 billion for the last couple of quarters, has actually doubled, which shows that we are doing greater ancillary business with our quarters, which you will get to see the effect of that later, and you will see the breakdown of derivatives in the financial statements notes, page 25 note 22, which will also give you a sense of how derivatives are moving and hence, the link to the RWA on those.

We have also had, as both Shayne and Paddy mentioned, increased recoveries, the fact that we have recovered 2.8 billion of problem debt during the course of the year and problem debt, as you know, has a higher RWA assigned to it than normal debt, so the combined effect of all these shows an earlier RWA for loans, for credit, and our derivatives RWA obviously, is trending up.

Naresh Bilandani – J P Morgan

Surya, thank you. Can I just have one follow-up question on that stance? Well, that sounds clear and I will probably do some more work on that. Can you please also tell me how will the levels of RWA change under – once we move to the Basel III regime, considering that the UAE's requirements under Basel III are not materially different from where BCBS currently stands. Can you share even a preliminary sensitivity on how this might change? I know, Basel III is more about being more onerous on liquidity rather than being too onerous on capital, but can you please share some more thoughts on that stance.

Surya Subramanian – Group CFO

Sure, Naresh, the quick answer is that it would be quite sensitive to that, I would say, because as you rightly point out, the bulk of our demand is credit related and given the nature of the unrated corporates here between the type of business we do, how it is treated in Basel II versus Basel III, there is not much change. There will be an impact on the market risk capital, but our total demand for market risk is just about 2% of the total capital demand, so that wouldn't affect the weighted average for the whole.

On the supply side, we do not have too many complex instruments that are unlikely to qualify under Basel III, although there is always the question mark around the additional Tier 1s that we issue, but we do have regulatory calls on those and as and when Basel III evolves, both globally and locally, we would react to that.

Currently, the view is that most of these instruments would get grandfathered, so there is minimal risk on that.

I will hand over to Shayne for the improvement comment and the key challenges ahead.

Shayne Nelson – Group CEO

I think if I go onto challenges, I suppose the concern that I do have in the market at the moment is, the intense competition we're seeing for corporate loans is now not just flying away from price, but also to structure, and as an old Chief Risk Officer of a bank, I am not very big on competing on structure, which means that the market might be more aggressive than my risk appetite. That does worry me that we will lose transactions to competition, because we're not willing to bend to covenant-lite and bullet repayment structures etc, so I don't want to compromise on that, because I don't think that is the right to do. We have taken a long time to clean up our legacy portfolio and the last thing I want to do is rebuild another one, so that does worry me.

On the oil question, you said about the more difficult conditions. I suppose we often get questions directed about our risk concentrations and obviously highly Dubai-centric and why don't you diversify, but I suppose when you're having oil price declines, being a city state that very much focuses on logistics, tourism, manufacturing etc, it is a pretty good thing, because the oil price is not going to affect Dubai significantly. In fact, if you look at the Dubai economy itself, because it subsidises fuel here, it actually benefits from lower fuel prices as an economy. I think there are some positivities for Dubai and the risk concentrations there from lower oil prices.

Concentrations in other geographies, our Saudi exposures are quite small, so we don't have a huge concentration there. [Audio] obviously will benefit from both lower oil prices and as fuel subsidies wind down as an economy, so I think, to me, I am not so concerned about oil at this stage as a key risk.

I met the Chairman of Goldman Sachs a few weeks at the [audio] IMF and one of the comments he said to us was, despite all these things that are happening in the world, the ISIS, there is the Ukraine/Russian, there are sort of doubts around the European growth story and the world continues to grow. Individually it all matters, but to the total growth of the world it doesn't matter that much, because the world economy continues to grow, albeit at a slower rate than the IMF was previously projecting.

My view is that we will continue to be in a good position being based in Dubai, we continue to see the increase in tourism, we have some exciting stuff with Expo 2020 that we continue to give confidence for further investment, and we remain in a confident position.

What it does provide us as we go into 2015 and get less cost of risk; it does provide us with both the capital to 1) give a greater return to our shareholders 2) to invest, but also 3) to look at additional offshore acquisitions if they come along, if that makes sense.

Naresh Bilandani – J P Morgan

Thank you so much, Shayne that was very helpful. Thanks a lot.

Operator

Our next question comes from Jagadishwar Pasunoori from Franklin Templeton. Please go ahead.

Jagadishwar Pasunoori – Franklin Templeton

Hello, this is Jagadishwar from Franklin Templeton. I have a couple of questions. First of all, thanks for taking my call. You were talking about targeting of loan growth, which is around like GDP growth rate plus inflation, but can you talk about loan growth targets in non-GRE segments. That is one question.

Shayne Nelson – Group CEO

Sorry, non-GRE?

Jagadishwar Pasunoori – Franklin Templeton

Non-sovereign segments

Shayne Nelson – Group CEO

Sorry, so when I was talking about that loan growth, I wasn't talking particularly about GRE, I was talking about across the board.

Jagadishwar Pasunoori – Franklin Templeton

Yes, so is it non-GRE segments will be different or is it the same. That is one question I have.

Shayne Nelson – Group CEO

Total loan growth, includes a bit of everything, credit cards, GREs, car loans, housing loans, corporate loans.

Jagadishwar Pasunoori – Franklin Templeton

Okay, so non-GRE, will it be different?

Surya Subramanian – Group CFO

No, we do not give guidance on that typically.

Shayne Nelson – Group CEO

GRE exposure, as you know, is confined by your capital base, so it is a percentage of your capital base that you're allowed to lend, so at the end of the day, if we continue to generate the profitability that we are, and as the cost of risk comes down, obviously, then the capital will go up and our capacity to lend further to GREs, if we so desire, would be there.

Jagadishwar Pasunoori – Franklin Templeton

Okay, a couple of other questions and then a maximum exposure regulation, and what is the possibility of changing maximum exposure regulation. That is one question and the second one is like, if you were able to – I don't know if this is possible or not – if you are able to raise capital and can this rule be mitigated.

Surya Subramanian – Group CFO

Jagadishwar, in terms of regulation, it is probably a question that is better directed at the regulators, but it is fair to say that we have seen increased regulations in the industry globally, and we have seen increased regulations in the UAE, locally, over the last few years and all of these are trending in the right direction, some of them offer consumer protection, some of them offer prudence and solvency within the industry and all banks adjust to these regulations, in the spirit they are intended and there would be a small time period then we adjust. Clearly, having increased capital helps the absolute amount you can lend to some of these [creditors] that are affected by the maximum exposure regulations, but when and how we raise capital is a different story altogether and these are done for different purposes.

Shayne Nelson – Group CEO

The other comment I would make is, if you look at our Tier 1 and our total CAR, they are very, very healthy, and frankly, raising more capital would damage our return on equity, which frankly, I don't see any reason why we would do it. One comment to make, we have never been to the shareholders in 50 years to raise capital.

Jagadishwar Pasunoori – Franklin Templeton

Okay, I have two more questions, but if anyone else is on the queue, then I will come back. Operator

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Shayne Nelson – Group CEO

Go for it, you're on.

Jagadishwar Pasunoori – Franklin Templeton

Okay, sure, that is great.

Jagadishwar Pasunoori – Franklin Templeton

I think you talked about loan coverage, NPL coverage, which you are targeting like 100% and 80% with and without the Dubai World and Dubai Holding exposure.

Shayne Nelson – Group CEO

No, hang on, forget Dubai Holding, it is only Dubai World.

Jagadishwar Pasunoori – Franklin Templeton

Dubai World, okay, so what are the target NPLs that you have in your mind for the next couple of years?

Shayne Nelson – Group CEO

It is 8% excluding Dubai World.

Jagadishwar Pasunoori – Franklin Templeton

8% by?

Shayne Nelson – Group CEO

The medium-term target.

Surya Subramanian – Group CFO

Currently, we are at 9.5% excluding Dubai World.

Jagadishwar Pasunoori – Franklin Templeton

Okay, so this is like in two years, I would say, or one year?

Shayne Nelson – Group CEO

Look, it is very difficult for us to try and read that crystal ball, because it is like, how quickly…it is an element of two things, 1) is how quickly you grow your balance sheet, I suppose and the other one is how quickly do you recover. I think the growth ones is probably easy to predict, the recoveries is much more difficult.

Jagadishwar Pasunoori – Franklin Templeton

Sure, and one last question I have, any policy of write-backs in case of there is any resolution on Dubai World.

Surya Subramanian – Group CFO

You would notice that we do disclose the level of provisioning on Dubai World and it is a very small amount, because it was treated an interest-only impaired loan and we followed IAS 39 convention and the amount was quite small and we have a current provision outstanding of only AED 390 million on that particular name. That is the only name we disclosed publicly at the moment, but it is a very tiny amount.

Jagadishwar Pasunoori – Franklin Templeton

Okay, so it can be returned back, if I may ask you.

Shayne Nelson – Group CEO

If they repaid it and we restructured and reclassified it, yes. That loan is about 25% of our NPLs, so it is a very material event for us.

Jagadishwar Pasunoori – Franklin Templeton

Great, yes, that is it from my side, thanks for taking the calls.

Shayne Nelson – Group CEO

Thank you. We have got time for one more question.

Operator

Our final question is from Ksenia Mishankina from UBS. Please go ahead.

Ksenia Mishankina - UBS

Congratulations on strong results. Most of my questions have…

Shayne Nelson – Group CEO

Thank you

Ksenia Mishankina - UBS

Most of my questions have been answered, but perhaps the last one. When do you plan to review your reclassification of Dubai World NPL?

Shayne Nelson – Group CEO

I think you would have read the press releases of late and the discussion, we can't obviously go into any more than that, but so far it is looking favourable, and that is basically all I can really say on the matter, we could only really discuss what is actually being discussed in public. We reviewed the account classification when we see a change to that structure that has been announced in the press.

Ksenia Mishankina - UBS

Okay, thank you.

Shayne Nelson – Group CEO

For us, the sooner the better, there is no doubt about that.

Ksenia Mishankina - UBS

Okay, thanks.

Operator

This concludes today's Q&A session. For any further questions, please contact our Investor Relation Department whose contact details can be found on the Emirates NBD website and on the results press release. A replay of this call will also be available on the Emirates NBD website next week.

Ladies and gentlemen, at this point, we will be handing the call back to Mr Shayne Nelson for his closing remarks.

Shayne Nelson – Group CEO

I would like to thank you all for joining us here on the call. I hope you all like our results, we're very proud of them, we think we have actually delivered a very strong set of numbers, not only just on the profitability, top line growth, operating and structural…I suppose, as importantly, the growth in our franchise and thank you very much for joining the call. Cheers.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation today.
