EMIRATES NBD FY 2016 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD 2016 Full Year Results announcement analyst and investor call and webcast. We are all ready to begin. We will now pass the call over to our host, Mr Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Thank you, operator. I would like to welcome you all to the Emirates NBD results conference call and webcast for the full year of 2016. Supporting me today in today's call are Surya, our CFO, and Paddy, our Head of Investor Relations. Together we'll review the operational and financial highlights for the year of 2016. We refer you to the results presentation which was made available to you earlier today, after which you'll have the opportunity to ask questions.

If we go to slide 3, 2016 turned out to be a highly unpredictable year. Oil dipped below $30/barrel [and we're concerned about what will break] before rebounding in trading in the $45 to $50 range for much the second half of 2016. I expect the results reported in the UK with the Brexit vote and the US with the presidential election - expectations for US rate rises ebbed and flowed during 2016 but, with the rate hike in December, the market is now expecting a higher rate environment going forward.

With oil prices recovering, the business in Dubai and the UAE rebounded as reflected in a higher UAE PMI and Dubai, the economy tracker readings. Infrastructure spend for Expo2020 and beyond will underpin non-oil economic growth and diversification in the UAE. As a result, we expect GDP growth to recover to 3.4% in 2017, up from our 3% forecast for 2016.

Despite the headwinds of a lower oil price and a strong US dollar, the Dubai and UAE economies remain resilient, supported by diversification and large sovereign buffers. Key themes for regional banks continue to be liquidity and credit quality. Liquidity conditions tightened during 2016. The UAE system-wide AD ratio peaked at 104.7% in August, the highest level since July 2012, easing slightly to 103.6% in November.

As for credit quality, the micro SME sector witnessed increased delinquencies during 2016 whilst the cash flow position within the regional contract industry also came under pressure. Our exposure to these sectors are limited but we continued to monitor the situation closely.

Against this backdrop, we supported the solitary results for Emirates NBD in 2016. Net profit improved 2% YoY, underpinned by asset growth, good control on expenses and an improved cost of risk. These results have enabled the Board of Directors to recommend an unchanged 2016 dividend of 40 fils.

Credit quality improved during 2016 as the impaired line ratio strengthened to 6.4% while the coverage ratio advanced to 120.1%. We continue to actively manage our stock of legacy NPLs as we look forward to maximising the value from this portfolio with further write-backs and recoveries. Despite the tighter market liquidity condition, the bank's advance deposit ratio remained comfortably within our target range and finished the year at 93.4%.

The bank's liquidity position remains very strong, offset by a high, diversified and stable deposit base coupled with our ability to access wholesale funding at competitive rates. In 2016 we raised over $5.5 billion of term funding. This comfortably covers maturities in both 2016 and '17. Our strong retail franchise has enabled us to continue to grow our low cost current and savings account balances, which now makes up 54% of total deposits.

During 2016, the bank's improved asset and liquidity profile has recognised the upgrade of Emirates NBD long-term ratings by both Moody's and Capital Intelligence. We were also pleased to be named for the second year running Bank of the Year by the Banking Magazine. This recognises Emirates NBD's strong franchise and pioneering digital initiatives.

Digital has been a key focus for Emirates NBD in 2016 as we rolled out a number of initiatives to transform the banking experience for our wholesale and retail customers and this digital innovation has led to many firsts in the UAE banking sector, including a network for international remittances and trade finance, a futuristic banking space at Jumeirah Emirates Tower and a future lab to create pioneering concepts for our next generation of digital and mobile banking services. In 2017, we will continue to push ahead with that digital innovation agenda and to build out the platform for future growth.

Speaking of growth, we're making good progress in expanding our international presence. I am pleased to announce that we have been granted a licence to open an additional three branches in the Kingdom of Saudi Arabia and our first branch in India. These will be great additions to our international branch network.

Overall, I am satisfied with our performance despite a challenging and uncertain global background. We have responded swiftly to the lower rate environment with effective cost controls. With a sound balance sheet, a prudent business model and a focused strategy, we can take advantages of the opportunities in our markets and we are confident we can face these challenges.

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

Surya Subramanian

Thank you, Shayne. As usual, I will talk through the financial results on slides 4 and 5. Net profit for the group was AED 7.2 billion in 2016. That's 2% above the profit posted in the previous year. The increase in net profit was supported by a 23% reduction in impairment allowances, which helped offset the lower pre-provision in operating profit.

Revenues for the year at AED 14.7 billion declined 3% over 2015. Net interest income declined 1% as loan growth of 7% was more than offset by a contraction in margins. Revenue in Q1 was 4% lower compared to the previous quarter due to a 4% decline in net interest income and a 6% decline in non-interest income.

Core fee income declined in Q4 due to the one-off impact from the Egyptian pound devaluation. If we adjust for such one-off effect, then core gross fee income would have increased by approximately 6% q-o-q.

Total costs for 2016 at AED 4.9 billion increased 4% over the previous year on the back of late 2015 growth in anticipation of increased business volume, which has since been contained in the light of the new economic reality. Costs improved by 2% over the previous quarter and by 12% YoY as the cost control measures implemented during the year continues to take effect. Absolute cost has now fallen for four consecutive quarters.

Provisions for the year amounted to AED 2.6 billion, which is 23% lower than in 2015. This represents an annualised cost of risk of 83 basis points. During the year, the bank's recovery unit was able to write back or recover over AED 3 billion of impaired loans. This helped to improve the non-performing loan ratio to 6.4% while the coverage remains very healthy at 120.1%.

Our headline advances to deposit ratio at 93.4 remains within our target range. After delivering 7% loan growth in 2016, we expect to see mid-single digit loan growth in 2017 spread across all our business lines. This growth trade is in line with market expectations for the UAE banking system.

You will note we are now a $120 billion bank and we do have to manage sustainable growth prudently. We expect deposit growth to be similar to loan growth as we continue to manage the AD ratio in the 90-100% range.

Moving on to slide 6 on net interest income, we see a decline in margins during 2016 as the cost of deposits rose faster than the repricing of the loan book. Loan spreads tightened by 4 basis points YoY and 8 basis points QoQ as the competitive environment and moderate loan growth made it difficult to pass on higher funding costs to the loan book.

Deposit costs contributed to a 31 bps tightening of margins in 2016 due to higher fixed deposit balances during the year. Faced with uncertain regional liquidity, we conservatively locked in 1-year fixed deposits in Q2 and Q3. These higher cost deposits did impact margins but this is a price that we and other regional banks faced last year in order to protect against uncertain future liquidity conditions. Deposit costs were stable in Q4 and we were able to let more expensive time deposits roll off. Healthy CASA balances and the bank’s strong liquidity means that we are not forced to replace maturing deposits with expensive funding.

Treasury spreads declined QoQ as excess liquidity was deployed at comparatively lower yields. This all supports the decline in spreads YoY but the effect was more than offset by cheaper term funding and a positive contribution from investments although in Q4 we have also seen a negative impact on investments due to a smaller investment portfolio.

We expect margins in 2017 to be in the range of 2.35% to 2.45%. While we see continued competition for regional liquidity maintaining pressure on the cost of fixed deposits, our ability to attract CASA balances with health mitigates this challenge. Expected rate hikes should also provide an opportunity to reset loan margins.

On slide 7 we show loan and deposit trends where we see a healthy deposit profile for the bank. Over the year, we have grown deposits by 8% despite increased competition from regional banks for deposits. CASA itself grew by 6% during the year and now represents 54% of total deposits.

To ensure the bank maintains a healthy liquidity position, we have proactively locked in longer-term fixed deposits. This exercise will help ensure that the bank is not exposed to any spike in funding costs for the coming quarters.

Gross loans grew by 7% in 2016. Retail lending grew by 14% during the year across the range of products, including mortgages and credit card. The Islamic book grew by 8% with growth in retail trade, construction and real estate sectors and the corporate book delivered 6% growth across real estate, financial institution and construction sectors. Our expectation for loan growth for 2017 is in the mid-single digit range.

Slide 8 shows our funding and liquidity position. Our advances to deposits ratio improved by 0.8% to 93.4% in 2016 despite a 3% deterioration in the system-wide AD ratio. This demonstrates the bank's strong liquidity profile and underlines the value of the bank's well-diversified stable funding base. Emirates NBD remains well-placed to meet relevant prudential liquidity requirements.

We took advantage of favourable market conditions during 2016 to enhance our structure liquidity. We have grown the bank's long-term funding ratio to 12% of total liabilities. This was achieved through issuing AED 10.4 billion of private placements, AED 3.7 billion Sukuk, and tap issued by Emirates Islamic and a AED 6.2 billion club deal. In total, we raised AED 20.3 billion of term debt in 2016, which covered maturities not only for 2016 but for most of 2017, which enables us to approach the capital market opportunistically for any further issuances and to do so both for ourselves and our investors. Our liquid asset position remains strong and at AED 57.2 billion covers 14.5% of total liabilities.

Slide 9 on capital adequacy shows that during 2016 Emirates NBD's Tier 1 ratio improved to 18.7% and the capital adequacy ratio improved to 21.2%. The increase is attributed to an increase in Tier 1 capital from retained earnings coupled with a decrease in risk-weighted assets. The reduction in risk-weighted assets in Q4 is primarily due to the devaluation effect of the Egyptian pound. We expect, as with previous years, for profit generation to grow the capital base. At this stage and given the bank's strong capital base, we have no further plans to raise any Tier 1 or Tier 2 capital.

With that, I hand you over to Paddy to take us through the next few slides.

Patrick Clerkin

Thank you, Surya. Slide 10 shows total non-interest income fell by 7% in 2016. Core gross fee income was flat despite a sharp fall in income from forex in Q4. This decline was primarily due to the one-off impact from the Egyptian pound devaluation. If we exclude the impact of such factors, then core gross fee income would have increased by approximately 6% in Q4.

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Property income declined 35% YoY on lower property disposals. There were some large disposals of investment properties in 2015 that were not repeated this year. Total inventory reduced from AED 1.7 billion at the beginning of the year to AED 1.6 billion at the end of December. Although property sales from inventory are lower, current sales continue to generate profit for the group.

Investment security income was 17% lower in 2016. Again, this is a function of a lower volume of investment disposals which are seen as a non-core part of the business going forward.

On slide 7 - sorry, moving on to slide 11, we see that, as a result of the cost reduction measures implemented earlier in 2016, costs have declined for four consecutive quarters. This reverses the trend we had seen up until the end of 2015 when costs continued to grow in anticipation of increased business volumes, which have since been contained in light of lower growth expectations.

Costs improved by 2% QoQ while the cost income ratio rose by 0.8% QoQ in Q4 to 34.5%. As with other years, we invested in marketing campaigns and other seasonal promotions in Q4 to hit the ground running in the new year. As a result and in line with previous guidance, the cost to income ratio was higher in Q4 compared to other quarters but, if you strip out the one-offs, the cost to income ratio in Q4 would have been 33.7%.

The cost to income ratio rose modestly to 33.1% in 2016, just above our desired target range of 33%, as cost improvements were offset by lower one-off income from the sale of property investments. We continue to maintain a strict discipline in spending and we will look to manage the cost income range - sorry, the cost to income ratio within the longer-term target range of 33%.

Moving on to credit quality on slide 12, as was mentioned earlier, the NPL ratio improved by 0.7% during 2016 to 6.4%. Impaired loans were AED 20.3 billion at the end of Q4. During 2016 we had over AED 3 billion of write-back from recoveries and this, along with routine provisioning, helped increase the coverage ratio to 120.1%. As with previous quarters, we do not give formal guidance on a hard target for NPLs. Our recovery unit continues to work on the existing stock of NPLs and are hopeful that they will be able to build upon the success they delivered in earlier quarters.

Provisions for 2016 were AED 2.6 billion, which is 23% lower than the previous year and this represented 83 bps cost to risk, which is lower than the 116 bps cost to risk observed in 2015.

Total portfolio impairment allowances now stand at AED 7 billion or 3.1% of credit risk-weighted assets and this comfortably exceeds the 1.5% Central Bank requirement.

On slide 13 we see that Retail Banking and Wealth Management revenues improved by 8% over the year. Net interest income grew by 7% while non-interest income grew by 11% and fee income now accounts for 39% of total RBWM revenue compared to 30% in 2013.

Loans grew by 14% led by credit cards and mortgages. Our innovative Flexi-Loan launched recently to offer customers variable rate and personal loans now contributes about one-third of new business. Deposits grew by 25% during the year, helping deliver further growth in the CASA deposit base. Retail CASA balances grew by AED 9.6 billion or 10%, led by salary transfer and balance enhancement campaigns.

The Retail Bank continues to lead the regional digital banking space, with the launch of a number of new products and services, such as Emirates NBD Pay and Flexi Loans. We opened a branch of the future, showcasing emerging breakthroughs in banking and payment technology. The Emirates NBD Future Lab was also established as part of the bank's digital strategy to foster innovation and accelerate development of next generation digital services.

Islamic banking revenues were steady during 2016, though net profit declined 76% YoY, on the back of higher provisions due to increased delinquencies in the micro SME segment. During the year financing receivables and customer accounts both grew by 5%. EI continued to improve its liability mix and grew CASA balances by 8% during the year.

At the end of 2016, CASA balances represented 67% of EI's total customer deposits. In Q3, EI was able to raise another 250 million of five-year Sukuk through a tap on their original $750 million Sukuk issued in Q2. On the back of strong demand, the cost of the tap was 50 basis points lower. In 2016, EI successfully completed a AED 1.5 billion rights issue, which further strengthened its capitals base.

Slide 14 shows that Wholesale banking revenue declined by 13% during 2016, mainly due to a realignment in internal transfer pricing, partially offset by higher income from growth in lending activity. Fee income was also lower than the previous year, due to lower one-off investment gains and a decline in lending-based fee income due to pricing pressures. Deposits declined 6% during the year, reflecting continued efforts to reduce the average cost of funding, while maintaining liquidity at optimum levels.

The focus in 2016 was enhancing the quality of customer service and share of wallet. This includes improved cross-sale of Treasury and Investment banking products and increased cash management and trade finance penetration. Global Markets and Treasury's income improved by 91% during 2016. Sales revenues showed strong growth, due to higher volumes in interest rate hedging products, foreign exchange and fixed income sales. The trading desk delivered a good performance on the back of strong results in both credit and foreign exchange trading. As Surya mentioned, the global funding units have raised over AED 20 million of term debt via private placements, a $1bn Sukuk and $1.7bn club deal.

With that, I'll hand you over to Shayne for the closing remarks.

Shayne Nelson

In summary, despite 2016 having its own challenges, we were able to deliver a 2% improvement in net profit, underpinned by asset growth, a control in expenses and improved cost of risk. We have strengthened the bank's balance sheet with improved credit quality, liquidity and capital ratios, as evidenced by our credit rating upgrade.

The bank continued to reinforce its digital leadership in the region, rolling out multiple initiatives to enhance the banking experience for our wholesale and retail customers, and to build up the platform for future growth. In terms of the macro outlook, we expect the UAE's growth to recover to 3.4% in 2017, with Dubai expected to enjoy stronger growth on the back of increased investment in infrastructure ahead of Expo 2020. We in the markets expect some further increase in rates in 2017 and our balance sheet is positioned accordingly.

We've touched on 2017 guidance earlier. As a quick recap, we expect loan growth of mid-single digits and margins in the 2.35-2.45% range. We aim to manage the cost to income ratio in the 33% range and the headline AD ratio in the 90-100% range. We'll continue to actively manage legacy and emerging credit risk. Overall, we feel the bank is well-placed to meet the opportunities and challenges that 2017 will present. We are determined to remain the regional leader in digital banking innovation, and we're excited to expand our international branch network in the KSA, and continue to look for opportunities in our preferred markets.

With that, I'd like to open the call to your questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

Our first question is from Hutam Yazari from BoA. Please begin.

Hutam Yazari - Bank of America Merryl Lynch

Good morning, gentlemen. It's Hutam Yazari from Bank of America Merryl Lynch. Just a quick question on the outlook for cost of risk in 2017; what levels should we be expecting – similar levels to Q4, given your high coverage ratio, or are you expecting that to tick back up again?

Then, secondly on cost of funding, you've indicated that you are comfortable the loan-to-deposit ratio remains pretty strong. Are there any expensive sources of funding that you can release to manage your cost of funding in 2017, or should we expect the pressures on cost of funding to continue in 2017? Thank you.

Shayne Nelson

We don't provide any clear guidance on our cost of risk but, if I look at the market where we're impacted on our growth levels, I'd say SME micro was certainly something that did impact us; not significantly but more so in the Islamic bank than in the conventional bank. We've worked through that portfolio pretty hard so I would anticipate some improvement in that section of the portfolio.

Having said that it is an uncertain market at the moment. We continue to work through our legacy portfolio and we do have, as you rightly pointed out, 120% coverage which does give us upside as we work through them, but all of these problem loans take quite a bit of time to sort out and we have been working through them. That's probably the best I can do there.

On NIMs I'd say we do have some – we locked in quite a few term deposits in the 2nd and 3rd quarters to try to not have to do huge competition in the last quarter for deposits, which generally happens in the market but, actually, the 4th quarter was pretty stable. So we will let those roll off as they mature in the 1st, 2nd and 3rd quarters, so that we don't have to renew at such a high cost. Our liquidity, as you rightly pointed out, is very strong so there is no real necessity for us to be chasing high-paying deposits.

On the corporate side, to try to get NIMs up is quite difficult because we have a situation where, whilst liquidity is tight in the UAE and the region, a lot of foreign banks sitting in the DRC are coming and lending to major corporates and their own markets (for example in Asia) have stacks of liquidity. So, even though the region is short liquidity, we're finding that a lot of the competition to get loans for the better corporates in the UAE and in the region is coming from off-shore and not on-shore, which makes repricing quite difficult.

Hutam Yazari - Bank of America Merryl Lynch

Understood. Thank you.

Operator

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

Shabbir Malik - EFG Hermes

Thank you very much for taking the question and thank you very much for the presentation. A couple of questions from me, number one on – you said loan growth you're targeting mid-single digit loan growth for 2017 – can you please elaborate a bit more and maybe talk about which sectors you're looking at in terms of supporting this mid-single digit growth rate for 2017?

Secondly, the NIM outlook that you've given for 2017 – you're expecting further contraction for 2017-v-2016 – the first part of the question is do you expect this to be a sector-wide trend? Secondly, with the kind of tailwinds that we are likely to see (higher US rates) and I think probably stronger growth in Dubai, do you expect the NIM to probably beat your guidance in 2017? That's it for me.

Shayne Nelson

I'll take the NIM first. Yes, we do expect some recovery from the contraction… if you look at our peers within the UAE, NIMs are contracting right across the industry; this is not an Emirates NBD story – this is an industry story. I do expect you'll see the same trend in the 4th quarter for all banks within the UAE. What I would say is the capacity to generate high NIMs, some of it comes from (yes) we are predicting some US$ rate increases from the Fed; that obviously given the peg flows into the local currency rates and, given our positioning of 54% of our book is CASA, we do get quite a significant uplift in there. And if I remember the numbers correctly it's about 250 million – it's disclosed in our results - 250 million per 25 bps, so that helps the NIM story and hence why we're comfortable with the guidance.

On the loan growth it will be spread. Our consumer franchise continues to do very well in the UAE and we have been taking market share both on loans and deposits within the UAE, so we'll continue to push hard on the retail side and certainly from our perspective that's where the better margins are and that's where we'd like to press harder than the corporate side. Having said that, Corporate Banking actually is still growing and we'd expect that to continue. We also see growth coming from Saudi with our expanded franchise agent, or with our franchise there, but they're relatively small pieces of the puzzle at this stage. India – it will probably take us through this year to get it up and running with all the approvals that you'd need to get a bank open there.

Operator

Our next question is from Noel Khoury from ADS Securities Asset Management. Please go ahead.

Noel Khoury - ADS Securities AM

Hello everyone and thanks for the presentation. My question is on the NPLs. Can you please share more information on this and how do you see it for 2017?

Surya Subramanian

Hi. In terms of NPL, you'd have realised that some of the higher impairment charges we've had this year is in the Retail and SME space, and these typically do not add to the NPL ratio because they're fully provided after 180 days typically for unsecured debt in a flow-through mechanism. We continue to have recoveries on some of the corporate legacy debt, so we've held the stock of NPLs under pretty tight control, I would say, and we see that broadly continuing for the next year as well. We have taken, as Shayne mentioned, steps to correct the challenges we faced in the Retail and SME businesses, both in the conventional bank and the Islamic bank.

Shayne Nelson

Having said that, against some other banks that have had significant problems in SME, SMEs are a relatively small part of our total portfolio at Emirates NBD.

Noel Khoury - ADS Securities AM

Thank you. Can you share with us some guidance on this or you cannot?

Shayne Nelson

We don't provide guidance on NPLs.

Noel Khoury - ADS Securities AM

Okay, fair enough. Thank you so much.

Shayne Nelson

Thank you

Operator

Our next question is from Vikram Viswanathan from NBK Capital. Please go ahead.

Vikram Viswanathan - NBK Capital

Thank you, gentlemen, for the conference call. I have a question on your – could you throw some light on your asset quality in your international operations, especially your Saudi branch or your Saudi operations? Do you have any exposure to the contracting segment in Saudi and how do you see the exposure in 2017? Did you also take any provisions there? Any update on international asset quality would be useful for us.

Surya Subramanian

Hi Vikram. We obviously do not talk about NIM specific details on these calls and our regional exposure is primarily in Egypt to Saudi (where we have the larger presence) and a very small presence in London and Singapore. If you look at the financial statement disclosures on the distribution of assets, you'll see that we have less than 3% of our balance sheet in Saudi, for example, so yes while we have seen a deteriorating trend especially in the Saudi contracting industry, that's market knowledge. Those numbers are included within the financial statement results that you see in "impaired loan provisions" as well as the "impaired loan ratios".

We do not expect any (shall we say) major changes to the direction in which we are managing our NPL ratio and our expectation for impaired loan charges next year is still directionally for us on an uptrend because of the legacy recoveries we still hope to achieve.

Vikram Viswanathan - NBK Capital

Sure. Just a follow-up question on your NPLs and provisions: just to understand correctly, if we look at 2017-v-2016, should we expect a decline in provision charge which will also be offset by a decline in recoveries?

Surya Subramanian

It’s difficult to second-guess what the future is going to bring but clearly, as a bank management team, we are continually focused on improving profitability that includes managing the net impairment charge line.

Vikram Viswanathan - NBK Capital

Okay

Shayne Nelson

Look, I think the comment I’d make on that is when you have 120% growth in loan coverage and you have security under a lot of those lines, as we work them out they do drive improvement in our profitability, so there’s not that – having said that, you don’t have that position unless you’ve been conservative in the past about how you treat your problem loans. We have been conservative and we have been getting money back because of that conservatism that we had in past years.

Vikram Viswanathan - NBK Capital

Right. Just a question on your NPL coverage – when I look at your NPL coverage over the last 3-4 quarters it’s been very stable at about 120% - is this your target for NPL coverage going forward, something like a long-term target?

Surya Subramanian

We don’t have a target for NPL coverage anymore. We stopped doing that a few years back. What you see in the ratio now is really a function of any movement in the general provisions because we continue to need to provide as per the book and the reality is, if we were to clean up further recoveries of legacy loans, the ratio of general provision is then to increase to the specific – you might end up having a ratio that’s higher than 120, but we’re not actually managing that to a target. The general provisions as of now are under IS 39 and will continue to be under IS 39 for 2017. As most of you are aware, in 2018 we get into the IFRS 9 regime.

At this point I’d say that there’s also a webcast question submitted online by Sandip Bhatt from Damac Investments, who wants to know what is the impact of IFRS 9 for us. We, along with other banks in the industry, had submitted a Quantitative Impact Study to the Central Bank towards the end of last year. The

Central Bank is reviewing it but, for us, given that we've cleaned up the bulk of our legacy problems in the Corporate Bank arising from the last global financial crisis and most of the recent challenges we see are in Retail and SME which (as I mentioned earlier) is on a 180d flow-through fully provisioned basis, we do not see a significant impact to transition from IS 39 to IFRS 9. You'd also note that currently portfolio provisions are higher than 3% of credit risk-weighted assets on the book.

Vikram Viswanathan - NBK Capital

I just have one more question on margins. When I look at the margin breakup, I see that part of the margin decline is because of lower loan yield; I think about 8 bps, right? This is despite increasing Interbank rates. Interbank rates in the UAE are up quite a bit year on year, right? There's probably more increase coming, following the potential increase in Fed rates during 2017. I know that you've not been able to reprice your loans so far but with Interbank rates continuing to increase, do you see the potential to reprice the Corporate loans at some point in time during the year?

Surya Subramanian

One, it's just a reset not a reprice - as IBOR goes up, loans that are based off IBOR plus margin will reset and as you know, with a 54% CASA book, we do not pay anything on that CASA so NIMs will open up and, as Shayne mentioned earlier, a 25 basis point rise in interest rates, other things remaining equal will lead to a rise in net interest income by a little over AED 250mn, so we do expect positivity there. However, repricing of loans is a different story altogether and depends on market conditions; the type of sector and the type of loans we market and get on the books.

Shayne Nelson

I think it's fair to say that across the industry, whilst I agree with you that IBOR has risen, it hasn't matched the increased cost of deposits and liquidity. So, from an industry-wide trend, one of the major reasons you're seeing profitability in NIMs affected by banks in the industry across the UAE is in fact that IBOR hasn't kept pace at increasing at the same price as the cost deposits have, and that to me has been an issue for the industry as a whole

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Vikram Viswanathan - NBK Capital

Thank you.

Operator

Our next question is from Ambreen Jiwani from Ghobash Trading & Co. Please go ahead.

Ambreen Jiwani - Ghobash Trading & Co

Thank you, gentlemen, for hosting the call. My question is related to the credit quality analysis which is presented on page 104 in the financial statement. I see that your past due but not impaired number has gone up significantly, especially in the 30-day basket and I'd really appreciate it if you could give us a bit more colour on this.

Surya Subramanian

You've obviously been spending a lot of time and thank you for that because we spend a lot of time and effort publishing that document. You're absolutely right, the past due but not impaired for under 30 days has gone up and this is more of a technical issue where there were some payments that were received after the year end, so when you see our results next year you will see that this corrects itself.

Ambreen Jiwani - Ghobash Trading & Co

Thank you.

Operator

Our next question is from Nikhil Poddar from ADCB Securities. Please go ahead

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Nikhil Poddar - ADCB Securities

Thank you for the presentation. My question is a follow-up to the earlier question. What percentage of total loans are repriced on a half-yearly basis, as I do understand that was going to be reflected in Q1 2017 financials?

Surya Subramanian

We do have the repricing analysis and the detailed financial statement, but it also depends when it starts and when it ends. We have loans that reprice on 3 months, 6 months and a 9-month basis. If you go to Note 49 page 122 of the financial statement, you will see the detailed answer to your question.

Nikhil Poddar - ADCB Securities

Sure

Patrick Clerkin

It's Paddy here – just for those people who submitted questions via the webcast, we are making a note of those and we will address those once all the questions have been asked over the call.

Operator

Our next question is from Aybek Islamov from HSBC. Please go ahead.

Aybek Islamov - HSBC

Good afternoon everyone. Thank you for the call. I think the first question for me is: how do you feel about the liability duration in 2017? Do you think you have to extend it further through maybe deposit base? That's number one and, secondly, how do you think about your asset duration given the potential rate hikes in the US this year? Do you think that you may have to cut your asset duration? If you could comment on this and, lastly, how do you think about the asset quality – how your NPLs – how your asset quality may respond to US rate hikes?

Surya Subramanian

Could you just repeat your first two questions please?

Aybek Islamov- HSBC

The first two questions are the duration of liabilities – do you think you need to extend the duration of liabilities further this year, just to get more longer-term funding to fund your assets? The second question was about the asset duration. Do you feel that you may need to cut your asset duration because of the potential rate hikes in the US?

Surya Subramanian

I'll answer the first two questions in terms of duration, of liabilities and duration of assets, and I'll pass over to Shayne to talk about any impact on asset quality due to rate hikes. In terms of the duration of liabilities, our customer liabilities tend to be short term not just for us but for the bulk of the industry. As far as our medium-term fundraising goes, we have raised money in 2-year, 3-year, 5-year and 10-year tranches so far. You will see the details of the maturity analysis again in Note 49 on pages 118 and 119 of the financial statement.

Asset duration is more of a liquidity issue, less of a NIMs issue, because the repricing is on a more frequent basis and that's what affects the Net Interest Margin and the Net Interest Income. Clearly, as we get into Basel III IFRS 9, asset duration has an impact on expected losses but that's a separate conversation altogether. I'll hand over to Shayne now, to talk about his views on any asset quality deterioration impact as a result of US rate hikes.

Shayne Nelson

I don't think we'll see much deterioration in the portfolio because the market's suggesting 2 more. I don't think 50 bps is going to make a material difference to the credit quality within the UAE in particular. Even if you look on the yields on property portfolios for example, they're significantly above the cost of funding for the majority of borrowers, so I don't think it's going to have a major impact on this at all. I think, if anything, we look forward to it because of the yield pickup it gives us on our CASA portfolio.

Aybek Islamov - HSBC

Okay and may I ask just one follow-up question? Will you be adopting the internal rating-based approach (IRB approach) for risk-weighted asset calculation purchases, for example, at the same time as you adopt IFRS 9 in 2018, or are these two sort of separate events and you may switch to IFRS 9 without adopting IRB approach? I assume you are currently doing your risk weights based on the standardised approach?

Surya Subramanian

That's right. The current methodology approved by the UAE Central Bank is the standardised approach. There is no current plan with the UAE Central Bank to move to IRB. They are evaluating moving on to Basel III as a separate issue. We do have internal models. The IFRS 9 methodology is slightly different from the Basel IRB methodology. One is a point in time and the other is through the cycle. One is 12 months, the other is lifetime, so there are a number of differences although the underlying model structure could be the same. Internally we do look at these so that we have consistency across the models but there is no requirement to move to IRB at this stage.

Aybek Islamov - HSBC

Okay, thank you. That’s helpful, thank you.

Operator

We have no further audio questions. We can now move to the web questions.

Patrick Clerkin

Thank you very much. We’ve received a number of questions, so I’ll just list those and then between Shayne, Surya and myself, we’ll give you answers.

The questions received (in no particular order) are: do we see a threat from the Abu Dhabi merger in terms of the performance of Emirates Islamic and how do we see that going forward? We have already answered the question on rate rises and in terms of dividend payout which is currently about 31%, how do we view that? Have we given any thought to the refinancing of the Tier 1 instruments that we have outstanding? Can we give any further…

Shayne Nelson

Why don’t you go through them one by one rather than reading them all out because, by the time you get to the end of the list, I’ll have forgotten the first one you asked. Let’s start with the merger…

Patrick Clerkin

The merger question, yes?

Shayne Nelson

Our bank went through the merger of Emirates International and the National Bank of Dubai a few years ago and one thing we would say is that it’s far more difficult than people give credit for – it is quite disconcerting with any organisation when you are trying to pull two large organisations together – it really took us quite a few years to get our guns firing again and I suppose to focus more externally than internally, all the issues we had to fix internally, so we wish them well but from our perspective we went through 2016 and we took market share especially in the Retail Bank.

We continue to push on our Digital and we believe we're in a very strong position to compete against the merger. We also would be mindful that we think it will take a couple of years to really get that merger cemented because, actually, a merger is not really about technology (which helps obviously) but it's the cultural aspects and policies and procedures, and getting all that in place and aligned; driving that through is the most difficult part of any merger. It's not really the numbers or the technology; the culture is one of the main things that you need to actually get right.

Patrick Clerkin

The next question was on dividend payout which is at 31%; have we any view on that?

Surya Subramanian

Dividend is a shareholder call, Paddy; it gets addressed in the AGM and some of the investors on this call are also present at the AGM. We have maintained dividend at 40 fils per share for the last two years and the percentage has changed obviously as the result of the slight change in profits.

Patrick Clerkin

Given that 54% of our deposits is current and savings account, someone has asked: are we actually lowering our guidance for NIMs, given the potential for rate hikes?

Surya Subramanian

The question also talks about the Fed "dot plot" having 3 rate hikes. We've seen in the past the Fed "dot plot" has had many rate hikes and that didn't happen…

Shayne Nelson

…didn't they have four…

Surya Subramanian

Yes, they had four and that didn't happen, so we don't obviously read off the Fed "dot plot" and we also look at the dynamic positioning of the balance sheet. Clearly we'd hope for more rate hikes from our book's perspective but we're also factoring in the rise in cost of deposits that inevitably follow rate hikes as well. We have in 2016 I'd say marginally missed our forecast but we've been pretty true to our forecasts in recent quarters.

Patrick Clerkin

Thank you. In terms of asset yields, the decline that we've seen in Q4, can we give any further information?

Surya Subramanian

Asset yields are a mix of the difference in resets that we talked about earlier; our ability to reprice in a competitive environment and also the rate of change of growth of different classes of assets – clearly, if retail assets grow faster it opens up margins; if corporate assets grow faster it strains the margins because of the relative dis-proportionality of the margins between the two books.

Patrick Clerkin

I'll take the next question which is on refinancing of our existing Tier 1 securities. The situation is we're still waiting on further guidance from the Central Bank in terms of the Basel III environment and, as and when information becomes available on that, we will know what the position is with those existing instruments and how they will be treated moving forward, and we'll make a decision at that time when we have that further information.

One more question on collateral – I'll pass that on to Surya.

Surya Subramanian

The question was: Could we have some details on the collateral? We do disclose collaterals in our Pillar III Disclosures, so do wait for it and you will see it surely with the Annual General Meeting which is currently slated for 12 February.

Patrick Clerkin

There is one more question which was about – we mentioned earlier the realignment and particularly for the Wholesale Bank – realignment of internal pricing.

Surya Subramanian

This is something, Paddy, that's affected internal comparisons for the last two years. We have been working within the bank to align our internal funds transfer pricing mechanism with the Basel regulations that are out there, primarily the interest rate risk on the banking book. We are now pretty much aligned with those regulations and, going forward, we do not expect this to be an issue. Nonetheless, these adjustments are within the book; they do not go outside the book, so when you compare at total bank level it doesn't affect the NIMs.

Patrick Clerkin

The final question we have concerns Emirates Islamic. Provisions remain at elevated levels, so what is our remedial strategy for dealing with the performance of Emirates Islamic?

Shayne Nelson

I think that's a reasonable question - Emirates Islamic did not have a strong year in 2016. It did have some very good pockets. It had revenue growth. It had asset growth but certainly from the bad debt side that was very significantly affected mainly by micro SME financing and by fleet. I can assure you that we have aligned all policies and procedures now to the main bank when it comes to SMEs and to fleet financing, so they're aligned to the portfolio under the running standards that we have here, which has experienced a far better loss rate than Emirates Islamic. We have changed quite a bit of the management there in the last 12 months and we believe that with the remedial action we've taken in place they will perform a lot better in 2017 than they have in 2016.

Patrick Clerkin

We have just one further question. Will the new branches in the Kingdom of Saudi Arabia and India cater for the retail market or will it be wholesale as well?

Shayne Nelson

From the perspective of Saudi (let's do that one first), we're already doing retail banking in Saudi and we will expand that into our new branch network as it goes on but what it does is, for example, it enables the expansion of doing a lot more corporate trade in Jeddah and Dammam in particular. Jeddah's an important trade, as most people would know, and only being in Riyadh had limited that capability, so we're quite fired from the corporate side in those markets. To me again, as much as we continue to launch and will launch more digital capabilities in Saudi, you still need some bricks and mortar. Four branches is still suboptimal for a network in Saudi. We'll continue to work to get more branches. We've worked 10 years to get an additional 3 and we'll work to get more, but I think the corporate side is quite solid now that we're in the major centres and we'll be able to pick up business there.

India will be largely a wholesale bank business. There's a lot of trade and capital flows between India and the UAE. It's a big trading partner both ways and certainly we will continue to work hard to build that business. We have a lot of Indian clients already in the UAE, obviously. A lot of them are subsidiaries of Indian corporates as it is, so we think we can build that business quite strongly. We have already got things like direct remittances for our Indian Consumer clients that works effectively – unbelievably well – particularly sending remittances to their bank accounts at home and I honestly don't see a retail play in India being an effective use of our capital. The competition is very tough there and I don't think one international bank has made a decent play of retail banking on a return on risk capital in India. The local banks are too strong and they're too big.

Patrick Clerkin

There was a question come in, in terms of our Investment Bank, what does the pipeline look like? I don't think any Investment Bank would disclose what their pipeline looks like, so we cannot comment on that.

Surya Subramanian

But it's fair to say it is a national successful business with a lot of credit towards Sukuk issuances (Technical Difficulty)

Shayne Nelson

Sorry, we -- apologies. We just had a technical issue. The last question was could we see some more restructuring in the bank or its subsidiaries. We did a lot of repositioning around our cost base with staff costs in 2016 which positioned us well for 2017. If you look at the staff costs, you will see them dropping, so from my perspective I'd say that if the revenue grows at the pace we want, we'd be quite comfortable with our current staffing costs and, if not, we will attack our staff costs as well because to me the staff costs need to be in proportion to the revenue contribution that we're getting from the division. If it goes to plan I'd say we'd leave it pretty much alone; we'll be comfortable where it is and, if it doesn't go to plan, certainly that's something we'll attack quite aggressively.

With no further questions, I'd like to thank you all for joining us for today's call and I'll hand back to the operator. Thank you very much and talk to you soon in the first quarter. Cheers.

Operator

For any further questions, please contact our Investor Relations Department, whose contact details can be found on the Emirates NBD website and on the Results press release. A replay of this call and webcast will also be available on the Emirates NBD website next week.

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

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