# EMIRATES NBD H1 2020 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
## 20 July 2020

## CORPORATE PARTICIPANTS

**Shayne Nelson –** Emirates NBD – Group CEO

**Patrick Sullivan –** Emirates NBD – Group CFO

**Patrick Clerkin –** Emirates NBD – Head of Investor Relations

## PRESENTATION

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**Operator**

Ladies and gentlemen, welcome to the Emirates NBD H1 2020 Results Announcement, Analyst and Investor call and webcast. Please note this call is open to analysts and investors only. Any media personnel should disconnect immediately. 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.

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**Shayne Nelson**

Thank you operator and welcome everyone. Joining me as usual are Patrick, the Group CFO and Paddy, our Head of Investor Relations. Before we go through the results in detail, I will update you on operational developments within the Bank and the economic environment.

Much of the second quarter of the UAE and the other countries in which we operate were in strict lockdown. Despite this, Emirates NBD continued to provide a full, uninterrupted banking services to our customers and the wider community. Once again I want to express my gratitude to our staff who helped customers continue to bank safely and securely during these unprecedented times.

Over the last three years we invested to develop our digital banking offering and the real value of this has been apparent during the lockdown. We have seen an increase in the number of retail and corporate customers who regularly use our digital platform. Lockdown accelerated the adoption of digital banking for many customers as, in line with government directives, we temporarily closed the majority of our branch network.

Given the current challenging operating environment, we, like all companies, have reviewed our operating platform to meet the current and future anticipated behaviour of our customer base. One consequence of the increased adoption of digital banking is we expect to see lower footfall in our branch network.

In coordination with the Government of Dubai, in March we announced a series of relief measures to support our retail, corporate and Islamic customers. We proactively reached out to our customer base and support has now been provided to approximately one-tenth of our customers primarily through the deferral of interest and principal for periods of up to six months. We were one of the first banks in the UAE to fully draw-down our share of the zero cost funding provided by the Central Bank's TESS facility. As well as quickly utilising the AED 6.9 billion of zero cost funding.

For the benefit of our customers, we have provided an additional AED 1.4 billion of interest or principal deferrals to date, supporting over 90,000 customers. In addition, we have waived certain fees to help individuals and businesses cope with the disruption. We believe that by providing support now we will assist in stabilizing the economy and minimize the impact on our customers.

Turning to the economy, the UAE Government and the UAE Central Bank took decisive action to protect the health of UAE residents and to provide economic relief measures to support customers and UAE banks. This swift Government action has enabled the reopening of the UAE economy in a phased and controlled manner. We have seen many people returning to work. We ourselves have been gradually increasing the number of staff coming back to the office and currently about 30% of staff are back in the office or branch. We have introduced many procedures to ensure the safety of our staff and customers including regular disinfection of buildings, social distancing measures and providing protective equipment.

We have seen the phased opening of shops, restaurants and services in the UAE. Flights are now resuming and hotels are re-opening. The economic improvement is reflected in the UAE headline PMI which rose to 50.4 in June, the first reading in expansion territory this year. Companies are more optimistic about the economy continuing to recover over the next 12 months. We have seen business banking volumes improving through May and June although we do not expect volumes to return to pre Covid-19 levels this year.

Looking at performance, Emirates NBD delivered a net profit of AED 4.1 billion for the first half of 2020 and maintained a strong balance sheet despite the challenging operating environment. Total income of AED 12.6 billion improved 33% y-o-y on loan growth and higher fee income from the inclusion of DenizBank. Net profit declined 45% y-o-y due to higher impairment charges and the gain on disposal of the Network International stake not repeated this year. Profit was down 24% excluding the Network

International gain in 2019. Emirates NBD's strength is underlined by its ability to deliver a solid profit during these challenging times.

The Bank's balance sheet remains strong with stable capital and liquidity, and credit quality within management's expectations. The UAE Central Bank's introduction of TESS and reduced cash reserves requirements has been effective in ensuring healthy liquidity in the banking system, as evidenced by declining EIBOR rates during the second quarter and negligible seasonal volatility in the run up to the quarter end. Our capital ratios are over 7% above minimum requirements, and this along with an ability to generate a healthy operating profit, provides a strong loss absorption capacity.

We are delighted to be officially ranked as one of the top 100 banks in the world, with Emirates NBD ranked 87th in the Banker list of World's top 1000 Banks for 2020. During the second quarter, Emirates NBD was included in the MSCI Emerging Markets Standard Index and this has helped increase foreign ownership above 10%.

I will now hand over to Patrick to go through the results in more details. Patrick.

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**Patrick Sullivan**

Thank you Shayne. I will talk through the performance for the first half of 2020, which is set out on page 4 of the presentation, and the second quarter, which is detailed on page 5.

So starting with page 4, total income improved 33% year on year, as DenizBank added AED 4 billion of income in the first half, with no pre-acquisition comparative in H1 2019. Net interest income improved 36% y-o-y on loan growth and higher NIMs from DenizBank, and overall remained flat to H2 2019. Non-funded income improved 24% y-o-y and declined 7% compared to H2 2019 as a consequence of the lower customer activity during the Q2 Covid-19 shutdown period.

Excluding DenizBank, net interest income declined 7% YoY due to falling margins and non-funded income declined 15% YOY, again, as a result of lower business volumes due to the Covid-19 disruption. Costs increased 42% year on year with the inclusion of DenizBank. Excluding DenizBank costs improved 1% as cost control measures started to take effect. We also see a 9% improvement in costs over the preceding half year on lower staff and marketing costs, as well as lower costs from DenizBank. So these combine to deliver an improvement in pre-provision Operating Profit of 29% year on year, and up 1% on the preceding half year.

We have significantly increased impairment allowances in 2020 in anticipation of a deterioration in credit quality in subsequent quarters. There was a modest increase of 0.2% in the NPL ratio to 5.8%.

The credit impairment charge of just over AED 4.2 billion represents a 243% year on year increase, and a 17% increase over the preceding half year. This has helped maintain a strong coverage ratio, and I will elaborate on that shortly.

The increase in provisions has resulted in a 19% fall in operating profit. Net profit fell by 45% as the gain on the disposal of the Network International shares in 2019 was not repeated this year. But excluding this, profit was down 24% year on year. Net loans grew by 1% during 2020 with lower business activity and deposit balances declined by 2% mainly due to Turkish lira depreciation.

Liquidity remains healthy as demonstrated by the Advances to Deposits ratio at 96.1% and a Liquidity Coverage Ratio of 152.5%. We have a strong diverse funding base which we have used to support clients through these challenging times. The profile of the quarterly results on page 5 is affected by the same drivers as I just outlined so I don't propose going through these numbers in detail, but in summary, income was down 17% in Q2 over Q1 following the Q1 interest rate cuts and lower client activity during the Covid-19 lock down period.

Costs were, however, down 5% Q2 over Q1 which we will see later, and impairment was lower in Q2 following our strong levels Covid-19 related overlays booked in Q1 and the benefit of a corporate restructuring in Q2. And therefore, net profit was down 3% over Q1.

On slide 6 we see that year on year, lower interest rates adversely impacted loan spreads by 96 basis points and this was partially offset by a 59 basis point improvement in deposit and funding costs. Excluding DenizBank, margins would have finished H1 at 240 basis points but the 44 basis point contribution from DenizBank lifted margins to 284 basis points for H1.

The chart on the bottom right hand side shows that margins in the Group contracted in Q2 as lower interest rates impacted loan spreads by 130 basis points reflecting the fall in one- and three-month EIBOR rates of over 140 basis points during 2020. This is partially offset by an 85 basis point improvement in funding costs and 11 basis points from DenizBank.

We have maintained the NIM guidance at 2.55 to 2.65% as we anticipate a smaller impact on loan yield in the second half of this year as earlier rate cuts has now largely flowed through to EIBOR rates. But the full year guidance of 2.55/2.65% means that the H2 NIM will be lower than the Q2 NIM.

As I mentioned last quarter, we have operated in low interest rate environments before. In 2016 and 2017, when interest rates were low, Emirates NBD was still able to deliver 250 basis point margins and there are various levers that management can pull to help mitigate against a low interest rate environment. In respect of the repayments relief of the customers and clients that were dealing with liquidity issues as a result of Covid-19, where payments were deferred without interest, the effective interest rate yield on those loans decreases, and this did not have a material impact on the reported income of the Group.

On slide 7, we see that the Bank continues to operate with strong liquidity. We have AED 102 billion of liquid assets which covers 17% of total liabilities and 22% of total deposits. The Liquidity Coverage Ratio remains healthy at above 152% while the Advances to Deposits ratio was just above 96% at 30 June.

EIBOR and LIBOR rates declined in the first half of 2020, reflecting the earlier cut in Fed and CBUAE interest rates. Towards the end of each quarter we typically see a rise in EIBOR rates as banks start to pay up for liquidity over quarter end. In June, however, there was only a modest rise in EIBOR rates reflecting healthy liquidity in the UAE banking system, and that's helped by the significant liquidity measures introduced by the UAE Central Bank.

In Q2, once capital market conditions improved, we issued a further $483m of private placements with a 12.1 year weighted average life. Total senior issuance year to date now stands at 10.9 billion dirhams which carries 93% of this year's maturities. The pie chart on the bottom left shows that customer deposits continue to make up three quarters of liabilities. And I think that leads nicely onto the profile of deposits on the next page.

So, on the bottom right of slide 8 we see Emirates NBD's deposit mix improved again in the second quarter, with CASA growing by 8 billion dirhams and fixed deposits reducing by 11 billion dirhams. I mentioned earlier that management have various levers to mitigate somewhat against a low interest rate environment and our ability to attract and retain CASA through successful campaigns is one such lever.

DenizBank's deposit base in dirhams declined due to currency movements, and was flat in local currency. CASA across the entire Group represents 49% of total deposits and the domestic CASA engine for Emirates NBD remains strong and represents 57% of domestic deposits.

Gross lending increased by 2% in the first half. Within that, Retail gross lending declined 6% during 2020 due to lower credit card and personal loan balances, whilst Corporate lending grew by 3% and Islamic Financing grew by 4%.

Just turning to slide 9, now I include this slide as it shows the improvement the Bank has made in diversifying the loan book, particularly with the addition of DenizBank. A year ago the loan book was heavily concentrated with the UAE making up 93% of total loans. Currently the UAE comprises three-quarters of loans with International and GCC making up 25% of the loan book.

Now this improvement in diversification also extends the segment level where 34% of loans are sovereign, down from 43% a year ago. Retail lending has grown from 11% to 16%, while corporate has grown from 31% to 37%. The pie charts on the right hand side shows the diversity of the loan profile by sector.

On slide 10, as I mentioned earlier, the NPL ratio increased slightly by 0.2% to 5.8% during the first half. It is still too early to predict the level that NPLs will rise too, but in anticipation of the weakening in credit quality, we continue to maintain a strong coverage level. Coverage overall has risen by 4.6% to 116.9% in H1 as the Bank took over AED 4.2 billion in impairment allowances.

This equates to an annualised cost of risk of 172 basis points, with DenizBank continuing to boost coverage by having an annualised cost of risk of 374 bps in the first half of 2020, and Emirates NBD's comparable cost of risk is 126 basis points, up from 91 bps in 2019. Overall coverage dropped slightly in the second quarter as impaired loans increased by 1.5 billion dirhams compared to a 0.8 billion dirham increase in provisions. Around half of the net increase in impaired loans relates to one credit which we disclosed in April of this year.

Provisions continue to be reviewed as the impact of Covid-19 becomes more apparent in subsequent quarters. And the Stage 1 & 2 Expected Credit Loss (or ECL) allowances amounted to AED 10.1 billion or 2.6% of Credit RWA.

Slide 11 provides more detail on our strong levels of impairment coverage by ECL stage under IFRS 9, also to set out how the Bank has approached provisioning for Covid-19. In Q2 we were able to update the macro-economic variables forecast to reflect the impact of Covid-19, and our scenario weighting have been returned to using 40% baseline, 30% upside and 30% downside scenarios, compared to using 100% downside in Q1 when the MEVs had not been updated at that point in time for Covid-19.

The Group has also applied portfolio-level ECL adjustments to wholesale exposures based on effected sectors, as well as to retail customers taking up deferrals based upon employment status and levels of salary inflows. So The Group continues to assess individually significant exposures for any adverse effects of Covid-19.

The chart on the top right hand side shows that Stage 1, 2 and 3 impairment allowances have grown in total by a net AED 3.1 bn since the end of 2019 to 32.3bn, and that is further broken up into allowances by Stage. The chart also shows the respective Stage coverage ratios on the right side.

We have increased stage 3 ECL allowances by a net 1.3bn dirhams during the first half, giving 85.3% stage 3 coverage. And then Stage 1 ECL allowances increased by a net 0.4 billion dirhams to 5.1 billion dirhams and this increased stage 1 coverage to 1.2% on 89% of total gross loans outstanding. Stage 2 ECL allowances increased by 1.4 billion dirhams to 5 billion dirhams. And this increased stage 2 coverage to 18.9% on 5% of total gross outstanding loans.

Details of deferrals included in Note 25 of the half year financial statements, as required by the CBUAE but in summary as follows: We have provided AED8.2bn of deferred principal and interest repayment support to our customers and clients in the UAE. Retail customers support substantially through Q2 with most support maturing through Q3 while CIB client repayment support is typically for up to 6 months. Overall total principal related to clients we are supporting with deferrals is AED49bn, or 13% of total UAE lending.

We continue to be vigilant and take a cautious approach to our provisioning and we will keep you up to date as the rest of the year plays out.

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

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**Patrick Clerkin**

Thank you, Patrick. Slide 12 shows the core gross fee income improved 4% year on year due to the inclusion of DenizBank. Core gross fee income declined by 33% compared to the first quarter as all sources of fee income were adversely impacted by both the Covid-19 shutdown and the waiver of some fees as we provided support to affected customers.

In June, as businesses began reopening, we have started to see some recovery in the volume of fee income generating business. We expect business volumes that generate fee income will improve in the second half of the year from the low base of Q2, but this will be a function of economic activity. Income from Property and investment securities represents only 2% of total non-funded income.

On slide 13 we see that, with the inclusion of DenizBank, costs in Q2 increased by 36%. Looking at Emirates NBD only, costs improved 3% year on year due to lower staff and marketing expenses. Following the cost rationalisation exercise last year, Costs improved by 5% over the previous quarter on lower staff and marketing expenses and lower costs from DenizBank.

The cost to income ratio rose to 34% in the second quarter, giving an average cost to income ratio of 31.7% for the first half. We expect the average cost to income ratio to continue increasing towards 33% due to lower income in the second half. We embarked on a further cost rationalisation exercise in the second quarter but there is a risk that the cost to income ratio for the full year exceeds the long-term management target of 33%. And this is not surprising given how rapidly global interest rates were cut earlier this year, and the immediate impact that such cuts have on income.

Slide 14 shows that the capital ratio strengthened between 0.5% and 0.6% in the second quarter. Common Equity Tier 1 ratio rose to 15.3% from 14.8%. The reported capital ratios as of 30th June now include an add-back for incremental Stage 1 and 2 ECL allowances as permitted by the UAE Central Bank. Excluding this add back, all capital ratios increased by 0.1% during the second quarter as retained earnings more than offset the 2% quarterly rise in risk weighted assets.

As with previous years, we anticipate that retained earnings in subsequent quarters will strengthen the capital base, particularly given the modest loan growth expectation for the remainder of 2020. TESS offers Banks relief on capital buffers until 31 December 2021 with board supervisory consequences. Hence until that date, minimum capital ratios for D-SIBs are 8% for Common Equity Tier 1 ratio, 9.5% for the Tier 1 ratio and 11.5% for the Capital Adequacy ratio. And as Shayne mentioned, Emirates NBD's actual capital ratios are over 7% higher than these new minima.

Earlier this month, we issued a $750m additional Teir 1 Basel-III complaint perpetual note. We also have Central Bank approval to call a $500m all style AT1 note in September. If this note is called, a notice will be published next month. And if called, the net effect of the new issue will be to improve both the Tier 1 and CAR ratios by approximately 0.3%.

In terms of divisional performance, Patrick has provided some extra information this quarter on ECL. So, in the interest of time, I won't spend too much time on divisional performance. On slide 15, we see that, RBWM year on year revenue fell by 9% due to lower fee income as volumes were impacted by the Covid-19 shutdown. Customer advances reduced by 7% and deposits grew by 4% supported by a successful marketing campaign. The first half cost to income ratio for RBWM improved to below 26%.

Emirates Islamic was able to grow Financing and invest in receivables by 8% in the first half. Customer deposits were broadly flat and the EI has a healthy 69% of deposits coming from CASA accounts. EI's total income was lower by 26% year on year, reflecting the challenging market conditions due to Covid-19.

On slide 16 we see that the Corporate and Institutional Banking income fell by 3% year on year mainly due to lower fee income. Fee income declined 19% year on year as lower lending fees and trade commission more than offset an increase in investment banking activity. Loans grew 3% and deposits increased by 7%.

Global Markets & Treasury revenue declined as Net Interest Income was adversely impacted by lower interest rates. Non-funded income improved 76% year on year thanks to a strong performance by the Trading and Sales desks. As Patrick already mentioned, the Global Funding Desk has covered 93% of term liabilities maturing this year.

We see that DenizBank had a good first half, delivering nearly AED 4 billion in revenue and a net profit of 929 million dirhams. DenizBank continues to take significant provisions to boost its coverage level. Margins contracted 52 basis points during the second quarter to 4.4%.with earlier guidance for margins contraction as asset pricing catches up with earlier rate cuts.

And with that, I will pass you to Shayne for his closing remarks.

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**Shayne Nelson**

Thank you Paddy. So to summarise: The positive income contribution from DenizBank has helped offset a decline in net interest income from lower rates and lower fee income due to the Covid-19 shutdown.

We have provided support to approximately one-tenth of our customers primarily through the deferral of both interest and principal for periods of up to six months. In addition, we have waived certain fees to help individuals and business cope with the disruption.

We have seen an increase in the number of retail and corporate customers who regularly use our digital platform. This earlier swift Government action has enabled a reopening shops, restaurants and services within the UAE economy in a phased and controlled manner. Flights are resuming and hotels are re-opening.

The economic improvement is reflected in the UAE headline PMI which rose to 50.4 in June, the first reading in expansion territory this year although we remain cautious given the continued economic uncertainty from coronavirus. Emirates NBD delivered a net profit of 4.1 billion dirhams for the first half of 2020 and maintained a strong balance sheet despite the challenging operating environment.

With that I would like to open the call to your questions. Operator please go ahead.

## QUESTIONS AND ANSWERS

**Operator**

Our first question from Naresh Bilandani from JP Morgan. Please go ahead.

**Naresh Bilandani - JP Morgan**

Thank you very much for the presentation, and appreciate the additional disclosure that you have in the financials. I do hope we get a similar clarity from other banks too, so really a great effort there.

I have three questions please. So first of all in the note five of the financials, you mentioned that roughly about AED 82.6 billion or so of zero cost funding was received from the Central Bank, and is recorded in the interbank with repo of certain securities. Now is this funding a part of the overall AED 6.9 billion that you've secured under TESS? And can you please just throw some light on the repo collateral that was offered for this funding? That's the first question.

The second is in note 17 of your financials, you have mentioned the modification adjustment. Can you please explain that a bit? Now assuming some recoveries, I think that number could potentially be in the AED 100 million to AED 200 million range. My understanding of your modification recording is that you are using the effective interest rate method. So if you can please just explain this recording here?

And the third is now in context of the AED 8.3 billion deferred amount that you have currently disclosed, if I look at your overall market share of loans roughly about 22%, then is this a fair representation of the total amount of deferred loans inside the system? If you can just please throw some light on that. That would be super helpful. Thank you.

**Patrick Sullivan**

It's Patrick here. Maybe I can take those. Just your first one on the repoing that we disclosed. So yes, our share of the overall zero cost funding was the AED 6.9 billion. So that included repoing assets to secure that. So we disclosed in note three that AED 4.3 billion of Central Bank notes are being repoed. And then in the following note, note five we show the AED 2.6 billion are being repoed to support the AED 6.9 billion. And we have then provided additional customer support over and above the TESS amount. So that's the difference up to AED 8.3 billion of overall funding.

Your point on note 17 on the modification adjustment, yes, we have made a modification adjustment. So where you have given up interest, IFRS actually still requires you to record interest on a level yield basis. So it means you need to discount those future cash flows to determine what the modification loss is. So you book that to the impairment line, and then you get to unwind that through your interest income. Overall, that's not a material amount for us.

So that's that the first one. So net-net, there's no material impact on the P&L for 2020. And your third one about – you're trying to triangulate around the whole banking system. I don't think you can quite do that.

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**Shayne Nelson**

I don't think you can do that, Patrick, because remember that TESS – when you are actually client TESS, you're climbing on the deferment amount, right. So to use your allocation, you decided which loans went into that. Generally, the actual principal amount deferred in total for retail was I think for most banks far less than it would be for wholesale for obvious reasons. They're bigger loans. But it was up to the banks to allocate that money to their clients.

But remember that clients had to qualify for it and prove that it has been affected by retail. So I don't think you can do any just straight triangulation to say if we have got 22%, that means that like the whole system has got this. It depends on what loans that you picked and what clients requested. So I don't think there is just a general response to that I'm afraid, Naresh.

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**Operator**

Our next question is from Hootan Yazhari from Bank of America. Please go ahead

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**Hootan Yazhari - Bank of America Merrill Lynch**

Hi there, gentlemen. I just wanted to focus on some of the migration that we've seen in the different stages. We've seen a pretty static distribution of stage two and stage three as a proportion of gross loans, which is surprising given the environment that we're in. Are you comfortable with the level of stage two classification at the moment, or do you see a significant room for that to start moving upwards and a need for even further provisioning as we go into the second half of the year and into next year?

And then the second question I have is really on the foreign ownership limit. What we need see for that 40% foreign ownership limit to be implemented, and how far we are down the process?

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**Patrick Sullivan**

I'll take the first part of that. On stage migration, for the first half we have had about AED 2 billion of migration from stage or increase in the stage 2 amount, and about AED 1.5 billion of increase in the stage 3. So there are a couple of things going on with stage 1. We are applying the IFRS 9 staging criteria. It is just under 10% of our clients in retail have deferrals, so where there is a deferral. The main driver in retail for example is the 30 days past due where there's a deferral. Obviously, it means that that element won't be downgraded because it has been deferred. Having said that, we have then taken additional overlays within retail for particular sectors where there hasn't been a stage migration, but we do anticipate some of that risk.

Now with the deferrals happening principally through Q2, yes, you won't see the build-up going through to stage 2. And I think it will be more through Q3 on the retail side that we'll see the formation or the delinquency rates. And then on the CIB side, because some of those deferrals to the clients principally with liquidity because that's up to six months, that's more likely that we'll see the NPL build through Q4 and towards the year end and into next year.

So that's rarely the shape of that, but I would point also to the overall coverage levels that we have, 1.2% on stage 1, and over 18% on stage 2, and a very strong 85% on stage 3.

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**Shayne Nelson**

The FOL, as you know that the shareholders approved the general assembly in March, so that's done. But we also have to get regulatory approval from the SCA, from the Central Bank, the UAE Department of Economic Development, and the DFM. So there's a whole bunch of regulatory approvals required. This is obviously a price-sensitive question. And as soon as we have all our approvals lined up, we will announce to the market immediately.

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**Operator**

We can now take our next question from Shabbir Malik from EFG Hermes. Please go ahead.

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**Shabbir Malik - EFG Hermes**

My first question is on credit quality. I noticed there is some NPL formation sequentially. If you could please discuss what caused those increases in the first quarter? I noticed some increase in the corporate book, and the Islamic book in the first quarter?

And related to that, your NPL coverage kind of slipped from the first quarter levels. So are you satisfied with the current coverage levels? It went up to I think around 120%, and now it's I think come down to about 110-115%. So maybe if you can share your thoughts on your coverage levels?

And just I guess some clarification on the TESS deferrals. You said that for retail, the deferrals are for up to 3 months, and on the corporate the deferrals are for up to 6 months. I just want to double check those facts. Thanks.

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**Shayne Nelson**

On the first quarter's numbers, you remember that we disclosed the market, a particular name of sales disclosed, right, NMC. That was disclosed to the market. So that was the major one that you saw on the first quarter.

On the coverage ratios, that's a dynamic ratio for us that we're always managing. And then it's just about ranning what the slip is from our perspective. And I think please have a look at our coverage ratios compared to not just the UAE, but the whole region. I mean we're like massively above anyone else. So maybe you need to address that question and a few of the others, but I think for us our coverage ratios are very, very healthy where they are. And we've been super conservative in building them up in the first quarter, and additionally on the second.

So I think we're doing as much as we can. Do we think there's going to be more coming at us? Absolutely, there's no doubt about that, and that's why we've been building those ratios up. So I think we're in a very strong position as we go into the second half to cover the problems that come at us. And we're being very conservative about how we've been building our buffers for that wave that we do expect to come at us in the second half. And so that I think we are better prepared than I can see of anyone across the region for that.

On the TESS deferrals, on the retail side, if clients come back to us with proposals to defer out further that allows restructuring, we will certainly see to that because for us yes – I mean let's think about retail. Some people have had their salaries cut by 50%. Well the easiest way is just to keep deferring it, but that's certainly not our plan. Our plan is we need to rebuild those repayment schedules for customers with a new reality as we move forward. So we're already looking at – people have had salary cuts to actually restructure their loans over a longer period so they can afford the loans that they now have. So I think on retail, we all see quite a lot of restructuring as we go forward.

But let's be honest, we're also going to see that on corporate as well. If you had a property portfolio that was yielding X and it's now yielding less therefore we may have to kick out the tenure a bit to actually match the new cash flow profile of the company. I think you will see banks doing a lot of re-profiling of their customers over the next 12 months as the reality of lower cash flows reflects in their repayment capacity.

**Patrick Clerkin**

Okay. If we can just pause there with the calls, we've had a few questions coming in over the internet, over the web. So I'll just pose those to Patrick and Shayne and then we can carry on with any further audio calls. The first question is from Chiro at SICO. What percentage of loans have been deferred, and does the zero-cost funding offset this? Patrick?

**Patrick Sullivan**

Well, I guess I noted in the presentation that it was 15% in the UAE balances have been deferred or related customers' balances deferred. Remember, it's less than 10% of our total customers. And sorry – the second part of that? Yeah, so the zero-cost funding by its very name means that there has been a benefit to the bank which helps to fund the interest relief that we have provided to our customers.

**Shayne Nelson**

But actually I'll explain on that. No, it doesn't is the answer. The TESS allocation of AED 6.9 billion, if you work out what we allocated as interest free for our – for three months for our retail clients and our micro SMEs, that has largely now expired. If you look at what that was worth in funding costs versus the offset in interest, it's actually a slight loss on that. So and we wiped these as well, etc.

So the – don't get me wrong. TESS was extremely helpful from a liquidity position. But as importantly one of the things that Central Bank does is the reduction in the cash reserve ratio also gave us a lot of our own liquidity back which was – it was frankly extremely helpful for the whole industry. It really did boost a lot of the liquidity there.

And so the combination of the TESS and the CR was very positive for the liquidity. But if you're asking just particularly on TESS, I'd say no. It didn't offset a loss of the 3 months interest waiver, and fee waiver that we did in that first period.

Now we are not now for loans that were interest-free. We are no longer giving interest-free, right. So now as we move into the second part of the cycle as the economy opens, we are charging – just on the same token, we are offering to restructure clients to meet their new cash flow realities.

**Patrick Clerkin**

Thanks, Shayne. There was another question on FOL. Shayne has answered. We don't have any further information to add to that. Waleed from Goldman Sachs asks that for the cost of risk has dropped in Q2. How should we read into this trend? Patrick?

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**Patrick Sullivan**

Well, first of all, we did make very strong levels of COVID-19 related overlays in the impairment charge in Q1. So that set us up nicely. We have updated all the MEVs. So there were additional ECL charges in Q2, but which was offset by recovery. So it's not one quarter makes a trend for the rest of the year. So it is going to be more into Q3 when we see the retail delinquency rates. And then, as I said before, the NPLs formation is more likely to be evident in the latter part of the year.

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**Patrick Clerkin**

Okay. And what cost savings do we expect from the cost rationalisation exercise?

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**Patrick Sullivan**

So in the first half, the cost base there includes the costs to achieve those saves. So the costs were even so slightly down Q2 over Q1. So the benefits from that will come through in the second half. That won't quantify that explicitly for you in the second half, but it will improve the cost base relative to the first half. Obviously, it won't offset entirely the reduction in the income that would be relative in the second half to the first half.

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**Patrick Clerkin**

Okay. Thank you. And a couple of questions from Elena. How many staff have been affected by the job cuts recently, and there is an AED 605 million net fair value gain in OCI. Can you just elaborate on that?

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**Patrick Sullivan**

Maybe it's on that second point. So through OCI or Other Comprehensive income, where there is certain debt instruments that are being fair value through OCI. So while there's dislocation in March and April, there was a recovery in prices particularly in Turkey. So that's merely that revaluation gain that comes through reserves rather than the P&Ls.

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**Shayne Nelson**

On the staff, you would have read the media reports where they have said just over 800 staff. Obviously we must be leaking because they were correct. So it's about that amount. And please remember this is on top of about 500 we took out in the last quarter of 2019.

You remember when we discussed this before again, we were unsure about what the economic activity would be looking like in 2020 and we wanted to rebalance our headcount at that time. Of course, we didn't know that COVID was coming when we did that. So we took that 500 out in the last quarter of 2019, and another 800 we took out in the second quarter. And as Patrick said, all those costs were redundancies were in those second quarter cost numbers.

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**Patrick Clerkin**

Okay. Just another question from Elena. Do we have minimum stage 1, 2, and 3 ECL coverage requirements?

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**Shayne Nelson**

No. There's no regulatory.

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**Patrick Clerkin**

Okay. A couple of more questions. Do loans continue to move through stages if they are receiving forbearance?

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**Patrick Sullivan**

So if there has been a credit event, so in the CIB side, if there's a downgrade in their credit quality, yes, they will go down through the stages even if there has been deferrals on that.

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**Patrick Clerkin**

And DenizBank revenues declined, what's the driver for this there?

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**Patrick Sullivan**

Well, I think that's very similar to the rest of the group, and probably the rest of the world. There were significant dislocations and disruptions in lockdowns from COVID-19. So inevitability, there's a lot lower client volume and activity. Turkey has also been cutting rates rapidly in the short term. That actually helps their margins. And over time, the asset repricing catches up. So it's really no different from the rest of the group in that respect.

**Operator**

We have one more question from here from Jag Pasunoori from Franklin Templeton.

**Jag Pasunoori - Franklin Templeton**

Thanks a lot for taking my call. I see your CASA deposits have gone up, and time deposits have gone down quarter over quarter. It seems you are confident about your liquidity situation. Can you please comment over that?

And on the retail side, your assets went down like 13% quarter over quarter. And apart from lower quadrant private banking, is there any other reason behind these lower assets? And can you please provide some key metrics on your digital banking product?

**Patrick Sullivan**

Just on your first question on the deposit mix. So as the interest rates come down on term deposits, as those come up for renewal, people have a decision to make as to whether they retain that in a new lower interest rate fixed deposit for some time or it stays in CASA. So we're also able to retain CASA balances as well. So as we move – approve that mix, inevitably that also helps overall cost of funding as well. So that's a real strength for the group being able to retain that CASA and not have to pay up for more expensive term deposits.

In competition what would be that the ample liquidity in the market means there is lower pressure in that respect. I didn't quite get the second question there though. Which product specifically was that?

**Jag Pasunoori - Franklin Templeton**

I was saying I saw that your consumer segment going – I am looking at your operational segment details – assets were down 13% quarter over quarter. I was wondering why they were lower significantly.

**Patrick Sullivan**

So for retail, the actual loans themselves were down 7%. And we present that on page 15 of the deck. And that's principally credit cards and personal loans, so just lower balances. There's been a lot less spend in activity on those. And then that comes up to the monthly repayments. So you get a lowering of the balance with the lower activity. We don't get to really renew that. So that has been shrinking in the short term. CIB has been growing as has the Islamic Banking sector as well.

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**Shayne Nelson**

But the reality of retail banking when you are our size is you need to run fast just to stand still because the amortisation within the portfolio means that if you are not booking loans every month, which we've slowed down to a trickle during the lockdown period, it means that you do need that volume to keep the balances up. So we did have a couple of months where our volumes were quite low.

Just to give you some views of where are we on loan volumes at the moment, because I think that's pretty important that you as analysts and investors kind of know where we are, we're probably back at the moment to – depending on the product, but average between the Islamic and the main bank – up to around 75% of first quarter's volumes. So it's been quite a reasonable recovery, where it's actually come back faster than we would have thought. So the volumes are at the moment quite okay.

And July is looking decent as well. So I think we're seeing some better economic activity and loan demand in the retail space versus there was – it's hard to go and sell a credit card if – when you are in a lockdown. So we did get a big drop in volumes obviously when the whole country was in lockdown. You have one more question on Liv, yeah?

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**Jag Pasunoori - Franklin Templeton**

If you can provide some key metrics, how the Liv has kind of performed in the second quarter?

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**Patrick Clerkin**

Yeah, Liv continues to perform very well. As you know, it's the number – our customer acquisition has been growing month on month really. And even in Q1 as we mentioned, it continued to add about 10 to 11 thousand new customers.

Now if you are in Q2 and the strength of Liv as indeed the strength of our digital bank really came through in terms of the customer's ability to open accounts, etc. What we've seen with Liv is it gradually expanded their offering in terms of credit cards now being available, and some other loan type products.

So Liv continues to grow. The discipline we have there, everything has to be a straight through processing. There can be no paper trail involved with that. So it has to be a complete straight through process. And so that discipline has to be there before we can open a product with Liv.

**Shayne Nelson**

I think of the top of my head is 380,000 clients now I think?

**Patrick Clerkin**

Yes. A couple of questions here. Patrick, in note 25, we talk about the 49 billion versus the 53 billion. Can you just elaborate on that? And also possibly another question for Shayne. Do you see any opportunities for public funding given the Dubai World repayment?

And Patrick a question on MEV models. Do you anticipate more specific provisions in the future as we continue to update our assumptions, the MEV assumptions?

**Patrick Sullivan**

Maybe I'll just cover the MEV question first. Look, each quarter, we update the MEVs. If the economy and the forecasts deteriorate or improve, that changes the effective provisioning that you make. There's a baseline and upside and a downside. So it is quite dynamic. So it will change, whether it's better or worse, you have to see quarter to quarter.

And on the very first question, just the difference between the AED 49 billion and the AED 52 billion. The AED 49 billion are the actual loan balances, and the AED 52 billion are the loan balances and credit conversion factors because that the exposure at default is not just the loan balances….

**Shayne Nelson**

I didn't quite understand what the question is on the public funding Dubai World, what does that mean?

**Patrick Clerkin**

I think they were elaborating that given Dubai World has really paid, do you anticipate that there will be public funding opportunities?

**Shayne Nelson**

As in government?

**Patrick Clerkin**

It's – the question purely says public funding, yeah.

**Shayne Nelson**

We haven't seen a lot of demand from GREs at the moment for funding. So at this stage, I mean we have been involved in funding things like some of the privatisations of pipelines, etc. We haven't seen much else….

**Patrick Clerkin**

Yeah. And if you look at the financial statements, you'll see that the actual government lending has declined by about half percent since the beginning of the year. And as Shayne quite rightly pointed out, GRE lending is about 6%. And actually we have about 6% of deposits coming from GREs as well. And that's been pretty stable over the last year.

And a couple of questions here. Shayne, would you consider a share buyback given your excess capital? And Patrick, one question, the driver for hospitality lending declining by AED 5 billion over the first half. I'll just look into that because I'm not aware of that number, so Shayne.

**Shayne Nelson**

I think on buybacks, given where we are in the economic cycle, and obviously buyback is going to be a board decision and not mine for a start, but, so there might be one. But at the moment is, I'd rather have the capital cautions given where we're in the cycle and the uncertainty as we look forward. So I think at this stage, we're comfortable with our capital where it is. We continue to be conservative on how we build our provisions, and I think I don't see in the short term that that would happen.

**Patrick Sullivan**

Paddy, just on that first question on the sectors, I mean we do set out – I mean not only do we have it in five percentage in our pie chart. But in the presentation that on page 13, note 6 we set out the key sectors. In that hospitality sector is flat since the year end. So, it's definitely not AED 5 billion.

**Patrick Clerkin**

Yeah, okay. If you have – if you want to follow up on that point, do please come through to me, but yeah we don't see any drop. I think we've answered all the questions on the web. And again, if you feel we haven't answered those, please feel free to contact me. Margarita, are there any more questions on the lines?

**Operator**

Yes, sir. We have a final question from Junaid Farooq from FIM Partners. Please go ahead.

**Junaid Farooq - FIM Partners**

Hi guys. Thank you for the presentation. I have a question on the provisioning in the second quarter. So I'm just looking at the segmental breakdown. And I see that in the CIBG, the corporate investment banking group, the provisioning number for the second half – for first half is lower than what it was reported in the first quarter. It seems there is a reversal because of potentially related to Dubai World. So I just wanted to understand on the corporate side excluding that one-off reversal, can you give some colour on what kind of provisioning did you take in the second quarter?

And if this provisioning in the second quarter is a function of – how do you see the portfolio health or it's just too early, and hence you are comfortable with the provisions you booked in the previous quarter, and don't want to add to it? Thank you.

**Operator**

Okay. So they don't have time for any more questions. I would now like to end the call. Thank you for joining today's conference. You may now disconnect.

**END**