Emirates NBD

EMIRATES NBD Q1 2022 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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Operator

Ladies and Gentlemen, welcome to the Emirates NBD 2022 first quarter results call and webcast for Analysts and Investors. Today's call is being recorded. Please note that this call is open to analysts and investors only. Any media personnel should disconnect immediately. I will now pass the call over to our host Mr. Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Thank you, operator, and Ramadan Kareem to you all. Let me start with a quick economic update before looking at the group's performance. The global economic and political landscape has changed dramatically in the first 3 months of 2022. In January and February many countries started to fully open-up following COVID restrictions. This led to global inflation re-emerging as demand picked up with oil and food prices increasing. labour shortages emerged as companies scrambled to re-hire staff let go during the pandemic. Central Bank identified the need for interest rate rises to control inflation.

Then in late February, the conflict in Ukraine that led to a tragic loss of life and created additional uncertainty on hydrocarbon and wheat supplies, which further fuel energy and food costs. While higher oil and food prices pose upside risk to inflation globally, the increase oil price would generate budget services within the GCC economies. Our research team revised 2022 GDP forecast upwards for the GCC, factoring in increased hydrocarbon production. We expect real GDP to grow by 5.7% and 2022 for the UAE up from 3.8% last year.

The Kingdom of Saudi Arabia economy is expected to grow 7.7% in 2022 from 3.2% in 2021, also boosted by high oil production and prices. Egypt and Turkey are expected to face increased current account deficits in 2022 as food and energy imports, cost rise, inflationary pressures continue and earnings from tourism may be impacted by the conflict in Ukraine. Against this background, I'm very pleased that the group announced an 18% jump in profits to 2.7 billion Dirhams. Looking back in history, if we exclude exceptional items, this is a record quarterly profit for the group.\

Let me pinpoint some of the highlights for the quarter. We are proud to have played a leading role in the DEWA IPO, delivering customers a fully digital platform, enabling a seamless, paperless journey from on-boarding and subscription through to payment. This demonstrates the innovative agile and can-do attitude of the Group.

Lending grew by 1% during the quarter, with Emirates Islamic lending growing by 6% and retail registering another record quarter. This loan growth reflects the more optimistic economic outlook across our footprint. The deposit mix continued to improve with CASA growing by 18 billion Dirhams. This is a record for any quarter and CASA now represents 64% of total group deposits.

We have started to see the initial benefits of higher interest rates. Given the clearer picture on future interest rates we have increased our margin guidance by 15 basis points. This has enabled us to refine our cost to income ratio guidance. Non-funded income also grew, helped by an increase in transaction volumes and growth in customer foreign exchange and derivative business. In fact, three quarters of foreign exchange and derivative income came from Emirates NBD's underlying client business. International operations contributed 37% of total income in the first quarter. DenizBank added 629 million to Group profit and its profitability was stable year-on-year despite the currency depreciation.

We published our ESG Report in February and reaffirmed our commitment to adopting ESG best practises across the Group. This report details many positive achievements including reducing our environmental impact through a reduction in Greenhouse Gas emissions, and lower energy & water consumption. There were other notable social and governance milestones. In the first quarter we committed to increase the percentage of women in senior management to 25% over the next 5 years. Shareholders elected 3 new Directors including the Group's first female Board member. Our Advanced Analytics initiative is well under way, with four exciting 'Use Cases' scrutinising the 21 million daily customer data points to identify untapped customer service and revenue streams.

These strong results demonstrate the resilience of our diversified business model. The positive outlook enables us to invest for the future in our international network and digital capabilities, supporting our next stage of growth.

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

Patrick Sullivan

Thank you, Shayne, and a very good afternoon to all of you. I will start with the summary performance for first quarter of 2022 on page 4, before looking at each component in more detail. We'll

also be covering the revised guidance for margins and the cost of income ratio that Shayne mentioned. So just running down the results table, total Q1 income of 6.4 billion Dirhams was up 3% year on year within that both NII and NFI are up year on year. Net interest income was up 4% year-on-year on an improved loan and deposit mix as retail lending delivered another record quarter, and strong CASA growth further improved funding costs. Non-funded income was also up 2% year-on-year helped by an increase in local and international card transactions as travel resumed for many customers. We also saw an increase in foreign exchange & Derivative income, as customers took advantage of favourable rates to repatriate money and customers clients also hedged against rising interest rates.

Quarter on quarter, total income was down 2% as the one-off gain from the Dubai Bank disposal last quarter was not repeated. Costs increased 5% year on year due to higher staff costs that are helping drive income growth, and our investment for the future, particularly in our international network and digital capabilities. Impairment allowances were down 20% year on year reflecting the improving operating environment, with cost of risk at 116 bps, nearing the middle of the guidance range. So overall net profit for the first quarter is 2.7 billion Dirhams, a strong increase of 18% year on year and 36% quarter on quarter.

Just touching on a few of the key balance sheet metrics. Loans increased by 1% with another strong quarter for Emirates Islamic and retail financing which grew by 6% and 4% respectively, while DenizBank's net loans were up 11% in Turkish Lire. Deposits grew by 3% with CASA growing by a record 18 billion in one quarter. Capital remains very strong with a CET1 ratio of 15% and the Bank maintained excellent Liquidity, as demonstrated by an LCR of 157.4% and an Advances to Deposit Ratio of 90.7%. During the first quarter, the NPL ratio increased by a couple of basis points, which when rounded, pushed the overall ratio up to 6.4%.

So, let's look at these components in a bit more detail. Turning to net interest income on slide 5. The bottom right chart shows that margins improved by 14bps year on year helped by retail loan growth and higher levels of CASA. NIMs were broadly stable over the previous quarter as the benefit from rising interest rates has yet to fully feed through.

I mentioned last quarter that once we had a clearer picture of the interest rate landscape, we would update our NIM guidance. We have revised full-year NIM guidance up by 15bps to 2.7-2.8%. This incorporates a further 150bp increase in interest rates which is assumed to be spread evenly through the remainder of the year, so a total of 175bps for the whole year. This guidance also factors in some offset for tighter loan pricing, reflecting the competitive market landscape. As I mentioned last quarter, we disclose our interest rate sensitivity in the full year accounts, so if you wish to take a different view on rising interest rates, you can factor that into your own analysis.

So, turning to slide 6 shows that the Group continues to operate with strong liquidity. We have 68 billion of liquid assets which covers 11% of liabilities and 14% of deposits. The AD Ratio improved this quarter from strong deposit growth. The drop in the LCR ratio is a function of a greater deployment of excess deposits in high quality liquid assets at the year-end and more deployment in higher yielding interbank this quarter, coupled with higher modelled outflows given the significant increase in CASA. As with the capital markets in general, we were relatively quiet in respect of term-funding issuances in the first quarter. We have just under 10 billion Dirhams maturing in the remainder of 2022 and on average we issued 22 billion Dirhams of term debt in each of the last 4 years. The excess issuance in recent years gives us the ability to choose when to come to the market.

On slide 7 we see that gross lending increased 1% during the quarter, with EI's lending growing by 3 billion Dirhams or 6%, and Retail registering another record quarter for lending, also growing by 3 billion Dirhams. This loan growth reflects the more optimistic economic outlook across our footprint, particularly in the GCC. DenizBank's loans and deposits both grew by 11% in Turkish Lire and were also up 1% in dirham terms despite the currency depreciation during the quarter.

Emirates NBD's deposit mix continued to improve with CASA growing by 18 billion Dirhams during the quarter, more than replacing 7 billion Dirhams of fixed deposits. This is a record quarter, with CASA now 64% of total Group deposits, so well-placed for rate rises. The bottom right charts show the progress we are making in improving the diversification of the loan book across product and geography.

On slide 8, as mentioned earlier, the NPL ratio increased by just a couple of basis points, which saw the ratio rounded up to 6.4% in the first quarter. The annualised cost of risk for Q1 of 116 basis points is nearing the mid-range of guidance and lower than the 124 bps for 2021, and the 163bps in 2020, and is now similar to the pre-pandemic 117bps we recorded in 2019. DenizBank's 294 bps cost of risk for the first quarter is lower than the 343 bps for 2021, and Emirates NBD's 87 bps cost of risk was stable compared to 83 bps for last year.

Coverage rose by 1% to 128.5%. And the chart on the bottom left shows that Stage 1 and 2 ECL allowances and coverage remain broadly stable. Stage 3 ECL allowances increased 700 million Dirhams in Q1, increasing the stage 3 coverage to a very strong 92.6%.

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

Patrick Clerkin

Thanks very much, Patrick. Slide 9 shows that fee and commission income was down 14% year on year in the first quarter mainly from Turkish Lira depreciation, and partially offset by higher income from increased retail debit and credit card business at Emirates NBD. Other operating income was up 30% year on year due to higher retail foreign exchange volumes and increased derivative business as clients hedged against rising interest rates. Three quarters of foreign exchange and derivative income was generated by ENBD.

We may see some moderation in the strong FX and derivative contribution from ENBD in subsequent quarters given the very strong flow in Q1 from customers taking advantage of weak currencies and rapidly changing interest rates. Other operating income was lower quarter on quarter as earlier quarter included a 0.3 billion dirham gain from Dubai Bank.

Moving to slide 10 Operating Costs and Efficiency. On slide 10, we see that costs increased 5% year on year in Q1 driven by higher commission incentives which helped drive underlying earnings. Staff costs were also up as we hired for future growth particularly in international network and digital capabilities.

Other costs were lower quarter on quarter, reflecting the typical seasonal cycle with higher campaign spend in Q4-21 coupled with lower legal and service fees this quarter. Stronger income gives us more capacity to invest in international expansion and analytics. In view of the anticipated rate rises, and even factoring in further investment, we can refine our cost to income ratio guidance back to our longer-term target of being 'within 33%'.

Capital on slide 11. Slide 11 shows that the common equity tier-1 ratio was down by 0.1% to 15% in the first quarter, as 2.7 billion Dirhams of retained earnings largely offset the impact from currency translation, the reduction in ECL addback as it is phased out by 25%, and the 3% increase in RWAs as excess liquidity was deployed in higher yielding assets that attract a higher risk weight. The common equity tier 1 ratio was 14.6% excluding the ECL regulatory add-back.

Turn into divisional performance on slide 12. On slide 12, we see that RBWM income improved 16% year on year helped by 2.4 billion growth in lending and 9.3 billion growth in CASA. Retail have approximately a 25% market share of debit and credit card spends within the UAE. RBWM introduced a number of successful products and services, helping them maintain their position as the leading retail bank in the UAE. CIB income declined 9% year on year on lower lending balances. Profitability was boosted by higher fee income and lower provisions. EmCap remains very prominent in the capital markets and helped ENBD play a lead role in the DEWA IPO.

EI income grew by 14% year on year with strong growth in both financing income and non-funded income. Financing & investing receivables and deposits grew by 6% and 9% respectively during the quarter, with strong CASA growth pushing EI's CASA to 80% of total deposits. Global Markets & Treasury net interest income jumped year on year on higher income from balance sheet hedges and an increase in banking book investment income. Non-funded income grew 31% year-on-year. The trading desk had a strong quarter with notable success from the rates, credit, and foreign exchange trading desks. The sales and structuring desk enabled clients to lock in favourable borrowing costs and exchange rates across a range of currencies.

DenizBank is covered on slide 12 and with further detail on slide 13. The 11% year-on-year drop in income in dirham terms is a result of currency depreciation. Loans and deposits both grew by 11% in local currency, and 1% in dirham terms, during the quarter. Slide 13 shows that DenizBank's added 629 million to Group profit and its profitability was stable year on year despite the currency depreciation. DenizBank's cost of risk improved to 294 bps in Q1-22 from 343 bps last year.

With that I will pass you to Shayne for his closing remarks.

Shayne Nelson

Thanks Paddy and to summarise. Excluding exceptional items, this is a record quarterly profit for the Group. The 18% jump in profits to AED 2.7 billion Dirhams is driven by higher net interest and non-funded income and lower provisions. Lending grew by 1% during the quarter reflecting the more optimistic outlook across our footprint. The deposit mix improved further with CASA growing by a record 18 billion Dirhams. We have started to see the initial benefits of higher interest rates and raised our margin guidance by 15 basis points. International operations contributed 37% of total income in the first quarter with DenizBank's profits stable despite the currency depreciation. We introduced many product upgrades, including a state-of-the-art, fully digital IPO platform.

With that I would like to open the call for questions. Alex, go ahead please.

Emirates NBD

QUESTIONS AND ANSWERS

Operator

Our question comes from Waleed Mohsin from Goldman Sachs.

Waleed Mohsin - Goldman Sachs

Good afternoon. 3 questions from my side, first on loan growth, so obviously very pleasing to see the momentum on the retail business. I want to talk a little bit about the corporate lending outlook. When we see a disclosure, there is obviously a repayment from the government, and I just wanted to kind of get your outlook on how do you see the corporate book shaping up? Which sectors are you seeing demand? Is there any demand and how do you see the corporate low origination phasing out during the year, especially in the domestic business? So that's the first question.

Secondly, on Turkey number of changes in the last quarter, it seems the ethics guaranteed scheme is working in Turkey, or at least until now with a strong level of deterioration during the quarter. If you could just talk about some of the trends that you're seeing in terms of asset quality for the business, as well as your expectations around any rate hikes in Turkey, given that inflation is running north of 60%. And my last question is on your provisioning charge, so pleasing to see a strong recovery right back in your ECL, which is expected in such a strong environment. Just want to get your thoughts on which sectors are these coming from? Thank you much.

Patrick Sullivan

Maybe I'll just start with that first question on loan growth. You're right, 1% is broadly within our guidance of low single digit, and it's good to see that growth within retail and EI as well. More specifically, to your point around the CIB outlook, you'll also see our disclosures that we have got some good traction in the GRE space. So we were able to increase our lending there, so that was a particular success in the quarter. And I think just in the wider markets, we have seen some progress in the manufacturing sector, trade finance, particularly on balance sheet and in transport and communication. So we have some progress in those spaces. I think there's still an element of the message we had for last year in the corporate space that in the private sector, it is going to take more time for reactivation of large-scale projects beyond working capital, etc, before we see stronger growth in that sector.

Shayne Nelson

On asset quality for Turkey, I've said it before, this deal was a long time in the making. We managed to look through the books more than twice through the cycle before we closed the transaction, so we knew the book pretty well. I think it's fair to say that we have seen very little new problem loan

formation coming out of Turkey. We've increased our buffers there. Again, in the first quarter you noticed in Turkey, we increased our stage 3 provisioning level to, I think 74?

Patrick Clerkin

Yes.

Shayne Nelson

We've been very prudent on Turkey on that side of things. And remember, when we took over Deniz, stage 3 coverage was in the low 50s. So we've bolstered the coverage ratios up substantially since we've had the bank, including stage 2. From an asset quality perspective, even though we did bolster in the first quarter, we're still have an improved cost of risk. On expectation of rates hikes, there is a difference between the official rate and what's being charged by banks in Turkey. I don't expect an official rate hike to come soon from what we're hearing on the ground. I don't see a decrease soon, but certainly don't think at this stage they'll increase it.

Patrick Sullivan

And Waleed, just on the third point you had around impairment, just to give a little bit more colour, obviously we've made clear that this level has come back to that middle of guidance. There are no individually significant items within this, but you always get a flow rate coming through from retail, ENBD, Emirates Islamic, etc. And then on the CIB side, overall, we've only seen a very small net inflow to the non performing loans of just 300 million or so.

So the charge for the year is really an element of the inflow building up the buffers as we do for the existing in stock. And also, as Shayne mentioned, within Turkey we maintain a cautionary stance and we have been building up the buffers there as well. That's another factor, Shayne mentioned we're up to 74% coverage on stage 3. Otherwise, within models, etc, the macroeconomic variables been relatively stable for the last 2 quarters. They were stable through the back end of last year.

Operator

Our next question comes from Nida Iqbal from Morgan Stanley.

Nida Iqbal - Morgan Stanley

My first question is on the NIMs sensitivity. If you can remind us of your NIMs sensitivity for every 25 bits increase in rates and in particular how that changes with each incremental rate hike. So for example, the first 100 bits versus the next 100 bits. The second question is on loan dues and if you can

Emirates NBD

just give some colour on what competition is like, and just trying to get a better understanding of, to what extent the higher rates will be passed onto loan dues. And then my third question is on the non-funded income. FX and derivative income has increased quite significantly in the last 2 quarters, how sustainable is this and how should we think about it going forward? Thank you.

Patrick Sullivan

Just on the NIMs, to keep it super simple, we disclose sensitivity in our full year accounts, Note 46R or thereabouts, shows that for 200 basis points, it would be an uplift of about 3 billion Dirhams. So breaking that down, expect between 30 to 33 million Dirhams per 25 basis points uplift. So you're able to model it depending upon your view of rate rises But however, the phasing pans out, that's a pretty good rule of thumb for you to use.

On the second one on yield competition, retail has had good momentum without necessarily having to give up significant yield. On the CIB side, yes, it has been more competitive on the credit spreads than the overall yield from that perspective. But with rising interest rates, it is more effective to give up some of that spread so that you build the assets. And when the base rate part of the interest rate calculation comes through, you do get that overall lift in the gross interest yield. Non-funded income, sorry, which part did you saying was specifically elevated?

Nida Iqbal - Morgan Stanley

At the FX and derivative income?

Patrick Sullivan

On FX and derivative through the quarters, I remember we were sitting here this time last year, where a significant part of that, on page 9 of the deck, for example the 585, a fairly big part of that was related to DenizBank and the events after their interest rates had gone up and the governor was dismissed and what happened to the curves and etc. And some of that, then unwound through Q2 and Q3. We saw a bit more volatility in Q4 in DenizBank, but the notable change in Q1 this year is that we have quite strong underlying customer flow within that. So that includes the retail forex for the interchange fees on foreign cards and remittances and payments, etc. And our Group Treasury & Global Markets business was also very positive there, with clients hedging interest rate risk, it was really strong. And I think Shayne mentioned earlier, that something like 75% of that is underlying ENBD client flow business. So that's generally the sort of potted history by quarter over the last year.

Emirates NBD

Nida Iqbal - Morgan Stanley

Thank you very much. Just to follow up on the non-funded income and the fee and commission income this quarter, which is affected by the Turkish Lira depreciation, but it would be helpful to get a sense of what the underlying fee and commission income was for ENBD if possible, the growth?

Patrick Sullivan

Yes, for total non-funded income, you can take the total and take off the Deniz numbers. So it was positive, it is up year on year, but that's sort of the detail that we would have to take offline.

Operator

Our next question comes from Aybek Islamov of from HSBC.

Aybek Islamov - HSBC

So I have a couple questions. The first one is, I noticed in the financials that you restated your sovereign loans in the fourth quarter of last year, so that you restated them down. So why is this restatement and does it also impact your regulatory reporting to the Central Bank in terms of your sovereign exposure relative to your regulatory capital? And what could be the implications of that restatement to your longer going forward? That's my first question.

Secondly, on the provision coverage, you already elaborated on that quite a bit, but on stage 3 coverage, I noticed that you increased already to 93%. Can it go above 100% stage 3 loan coverage? And how comfortable are you now with the coverage of stage 3 loans, generally?.

Shayne Nelson

I certainly hope the coverage ratio doesn't go by 100%. If you look at it, Aybek, with our security, we'd be pretty close to 200%. We're in a very strong position in our stage 3 and we make no apologies for that, we run a conservative organisation. If you look at it across stage 1, 2, 3, even across the whole region, I dare say with the most conservative bank, when it comes to that. And for us, we like to build these things up not only in the bad times, but the good times so that it gives us the fire power, if anything happens, to can still continue to grow in new markets. So I think we're in a very strong position, but I certainly, would hope we don't go over 100% because I wouldn't see any rationale for that.

Emirates NBD

Patrick Sullivan

And just one further point to that, Aybek, is given the guidance as the cost of risk we've given you, it will take quite some time to get to 100%. And so that's not really the intention, there's no target to get to 100%. Just on your first point about restatements there, there hasn't been a restatement. I'm not quite sure which line you're looking at specifically, is it sovereigns in note 6?

Aybek Islamov - HSBC

Yeah. I mean, where you show the breakdown of your loan portfolio by segments or by sectors.

Patrick Sullivan

Okay. So that includes the government whose finances are in good shape. We have seen some repayments in the quarter. The change in the numbers is from repayments, not from any sort of restatement.

Aybek Islamov - HSBC

Okay. And just one more follow-on question, if I may. In your net asset charges, so I think in this quarter, you're net asset charges there about 1.4 billion Dirhams. And there is a 400 million or 411 million of other provisions. Can you give some colour, what these other provisions relate to?

Patrick Sullivan

Sure. Thanks. It is a quarter end, Aybek, we do have some assets that are held in the centre partly, certain legacy assets that are not held in the business segment. And so there are some provisions against that, and there is an element of credit risk identified during the period end close that hasn't yet been allocated to the segment.

Operator

Our next question comes from Chander Kumar from Alramz Capital.

Chander Kumar - Al Ramz Capital

Thank you. My first question is regarding DEWA IPO, since ENBD played a leading role in DEWA IPO. So one, should we expect fee income to be recorded, I mean in which quarter. And secondly, how this evolving situation of the capital markets in Dubai impact your fee income going forward?

Emirates NBD

Patrick Sullivan

We don't give specifics on individual transactions, the IPO itself closed in what is now Q2. You don't have to believe everything you read in the media of how much these amounts might be, and it takes time after an IPO to close out what the actual amounts are.

Shayne Nelson

But certainly, I think just for the analysts, historically there's no correlation between what you, as investment bank for an IPO get, and what GCC Banks get for an IPO, the fees aren't even comparable. So I don't want to cut the comment on specifics, but don't get carried away with some of the headlines that you've read, because companies in this region do not pay anywhere near what an investment bank, for example, in the US would expect from an IPO in percentage terms. On capital markets, certainly we are obviously aggressively trying to get into every potential IPO, not only in Dubai, but right across the region.

Now it's a very, very busy area for the team. They're working hard, but once it's publicly announced which deals we're in, we can go public with it, but obviously we can't do that before we're allowed to say which ones they are. But would I be confident we'll get more IPO activity in 2022? Absolutely. But remember the even the IPOs have been reading about in the press that may or may not come, they're nowhere near as big DEWA. I mean, DEWA is huge, and it was one of Dubai's crown jewels. So I don't expect we'll get something like that in this year. It was a great deal, but we wish there was more of them, but I don't think there's going to be anything as nearly as big as DEWA.

Chander Kumar - Al Ramz Capital

Okay. So my second question is regarding this NIM guidance. As you said that the NIMs guidance has been revised by 15 basis point, and now you are expecting 150 basis point interested rate hike in 2022. So, I just wanted to confirm whether this 150 basis point is the total, your expectation for the full year, or is this incremental on top of 25 basis point already increased in first Q?

Patrick Sullivan

Just to clarify that for you, it's a total of 175 basis points for this year, so 25 basis points we saw in March. And so another 150 expected, that's our base assumption. I know others will have different views and that view can change from week to week and day to day.

Shayne Nelson

I remember when we were drafting our budget for this year and we built in a 25 basis point hike and people were calling us aggressive for 25 basis points. And now it certainly looks like that was a pretty conservative estimate. So, times changed rapidly, obviously bring forward 50 basis points up front, that's hugely beneficial for us if they do that in May review. So I mean, anything that upfronts the rate increases is hugely beneficial for us and then fully flows on annualize basis in 2023.

Chander Kumar - Al Ramz Capital

Okay, fine. And my last question is regarding DenizBank. DenizBank, core income actually has decreased both sequentially and as well as annually. And it also impacted a lot on equity book value share, because book value is consistently declining from few quarters due to devaluation impact of DenizBank. So, I just wanted to know your future strategy and outlook for DenizBank going forward.

Patrick Sullivan

Sorry, could I just clarify the first part of your question? Did you say ‘had decreased sequentially’?

Chander Kumar - Al Ramz Capital

Total, because this currency impact is impacting on your overall book equity. So as a result, book value per share is also declining and due to this devaluation impact. So, it's impacting both now because the core income is also down and it's also impacting on balance sheet. So any guidance going forward for the DenizBank?

Patrick Sullivan

Look, you can see the earnings in Q1 at 629 million is slightly less than this time last year, and multiples of almost about 4 from Q4. But the underlying earnings in Lira, and even after the translation at a weaker exchange rate is still strong, so the underlying P&L performance is strong. Yes, there is the FX impact on a structural investment position that goes through the OCI account. So that's the original investment and that's fairly formulaic, so if the currency depreciated by 10% this quarter, it's simple arithmetic of how much that is. The more the currency stabilises, then earnings can catch up and recover that from a total net equity point of view. Outlook, Shayne, any thoughts? I don't think we have any specific guidance that we would give.

Shayne Nelson

We can't, but the currency's been fairly stable now for a while. And as an investor, we like that stability obviously, but you're right, any depreciation impact on our Group Common Equity Tier 1 ratio, when its consolidated into group, it's immaterial, it's a rounding error.

Operator

Our next question comes from Shabbir Malik from EFG Hermes.

Shabbir Malik - EFG Hermes

I think you've partially answered this question, but I just wanted to kind of hear it again. Maybe what are the drivers of the negative movement of the 1.4 billion in other comprehensive income? I think one is obviously the Turkey valuation, I'm guessing. What were the other bits? My second question we've heard a lot about inflationary pressures coming through. Is that something that you're seeing in your cost lines and maybe rentals, stock costs, etc, and could it pose a risk to your 33% cost to income guidance?

My third question, again, this is related to lending. Do you see any repayment risk from public sector and entities? Because the cash position is improved, either because the economy is recovered or because oil prices are high. And some of the public sector entities maybe in Abu Dhabi are more cash rich, etc. So is that something that you see as a risk to your mid-single digit asset growth guidance for 2022? Thank you.

Patrick Sullivan

On the 1.4 billion in OCI, there is about 300 million from revaluation of Treasury's liquidity book. So that's a function of what happened to valuations in the market. We hold these for liquidity, so it's not really a realised loss, relatively small overall and about 1.1 billion relates to the translation loss of the structural investment position on Turkey, as we were talking about in the previous question.

Just on inflation and on the cost income ratio, with the upside on the interest rates alone that gave us the comfort to revert to our typical long-term guidance is 33%. And even at that level, there's some additional room for further investment, and if there is any inflation to come through. Obviously there is inflation in Turkey. Much of that gets then offset from an FX point of view when you think about it in Dirhams. And perhaps we haven't seen so much inflation directly in this quarter, but we are investing in our head count in the international footprint, digital, etc. So that's probably where more of our cost delta is going to. And within the guidance of within 33%, we have plenty of capacity.

Shayne Nelson

The other thing I'd say to that is if you look at the cost, a lot of the cost growth in the quarter in the staff cost line, we wrote record credit cards, record housing lines, record personal lines. So, the cost to that, most of our sales staff are heavily incentivized versus base salary. So sometimes success breeds increased costs in the retail bank. We had a cracking first quarter in retail, the best we've ever had in volumes. And on top of that substantial CASA growth. So I wouldn't want to pull the cost lever on that, given how successful it's been in the last 6 months, it's been outstanding. And that's not just in Emirates NBD, it's also Emirates Islamic, same thing, records across the board.

I'd say there's a couple of areas that we are seeing some cost pressure. Certainly, things like software engineers, a lot of people in the IT cybersecurity world, they are getting bid-up quite a lot across the field. And it's not just banks, it's lots of FinTechs, it's government, that's an area under pressure. And surprisingly, well, maybe not surprisingly, things like priority banking relationship managers. Banks are rebuilding their sales force in those places. So, so we are seeing some pressure on staff costs from competition for our people, we're handling it fine, but I'd say that there is a ramp up of employment as other banks and institutions rebuild after letting a lot of people go in Covid.

Patrick Sullivan

And Shabbir, just your third question, are we seeing repayments in the public sector at this point? No, we've been expanding that and you can see that we've grown our GRE percent from 5-6% last year to about 9%. So, we are seeing growth there rather than repayment from funds being strong, whether it's in the oil sector or other.

Operator

Our next question comes from Naresh Bilandani from J.P. Morgan.

Naresh Bilandani - J.P. Morgan

Couple of questions please. One, it would be very helpful if you could please comment on the sustainability of the strong CASA growth that you enjoyed in the first quarter. I'm assuming these would have some impact from the funds coming in from the DEWA IPO. If you could please comment on the underlying sustainability and how would we expect the behaviour in a rising rate environment, that would be extremely helpful. That's the first one. Second is, could you please share some more thoughts on the loan growth trend, the repayment as assume that we have seen within the sovereign sub segment. Was that expected and constant within your annual guidance? I'm just trying to get a sense of if there's any underlying drivers that you're seeing that could support the growth in your guidance as we

move forward into the second quarter. It will also be very helpful if you could please throw some light on the trends that you've seen in the mortgage book specifically, that would be great.

Third is, Shayne, if like each time, if you could please provide some updates on liv,. what progress have we seen on the platform, any further progress on the product offering from the platform. That's the third question, and I'm sorry for a bunch of these, but one last one would be, on the general impact from the Russia Ukraine situation we've seen, we've definitely heard in the news lines of the influx of expats. I'm just trying to understand how, if any, should this reflect into the domestic economic trends and specifically on ENBD's franchise into the longer term. That would be very helpful, if you can throw some light there.

Patrick Sullivan

Actually, just on the CASA side of things, Naresh, it has been very strong, but also looking back over the last two years, we've had record levels of CASA growth and the evolution of the total CASA to total deposits. As interest rates go up, you might reasonably expect the fixed deposit rates to go up and some elements of CASA to migrate. It was particularly strong in this quarter, a combination of factors, with the campaigns that we've been running, there may have been an element of deposits being made prior to the IPO, but not specifically because of that. Also, and on the corporate cycle where corporates built up cash reserves before they pay their annual dividends, for example. So just a range of factors, nothing really specific, but we are very pleased that we are seeing as the go-to place for deposits. Now, there probably is a lot more liquidity in the market. So we don't know what the overall market going to look like until everyone else releases their results.

Shayne Nelson

The other thing Naresh, on that is that we do model CASA behavioural. We run sensitivities on historical trends when rates have come back and what sort of shift we expect from CASA that turned to fixed deposits, etc. So, would I expect this as rates rise? Do we get a shift from CASA to other investments? Absolutely. Because there will be a propensity to get a better yield versus a smaller yield since Covid. So I do expect we'll lose some, but with the modelling we've done, it's not massive.

Patrick Sullivan

And just on your second question, just on government borrowing, I touched on this in an earlier question that the government's finances are in good shape and the repayments are viewed positively. The government has been reducing its balance every quarter for the last two years since Q1 2020. So their finances, are in good shape. I can't really give you any sort of projection on what that might look like, that's really up to them.

Naresh Bilandani - J.P. Morgan

This was factored into your guidance, when you said the annual guidance, so was this an additional development after you set your annual guidance?

Patrick Sullivan

Yeah. So even with the reduction in the balance in Q1, you can see our overall lending is up 1%. There may be ups and downs through the rest of the year, but we've kept our low single digit guidance in place for now.

Shayne Nelson

On Liv, we're up to 550,000 in the UAE and about 90,000 in KSA. I've asked for a strategic review of Liv and I'll give you some of the reasons, some is exactly what you're asking about what product should we be launching, but even the target market, which was largely built for millennials, some of whom at the top endo that range, are over 40, so just looking at the whole target market. And one of the big things will be doing this year is not only revisiting the strategy around it and products, but also the build, Liv was built on our old architecture.

So we're doing a full, complete rebuild of Liv onto our new cloud base architecture. We are looking to really ramp that up and improve the product offering, but also, the usability of the whole project. So given where we are now, we're 95% cloud native now. That won't take us long to rebuild it onto the new platform.

On Russia and Ukraine, there always seems to be a lot of great stories in the press around this, but we have not seen a massive increase of either Russian accounts being opened nor balances flowing into our bank.

Are we seeing uptick? Yes. Is it substantial? No. Russians have always been big property investors in the UAE, and I've certainly seen some numbers in the press where they've gone, moved from the number 7 buyers to the number 5. We would treat those people as normal customers, if they're investors or if they've got permanent residency here, providing they are not sanctioned. We adopt all US, UK, European, UN and obviously UAE sanctions screening lists, and we would not bank anyone sanctioned. The sanction screening is partly driven by our need to clear Dollars, we have to clear Euros, we have to clear Pounds and we do follow the rules and regulations of all those clearing countries that we do business with. So if its on a sanction list we would not open a sanctioned Russian account, period.

Patrick Clerkin

There's been a few questions come in on the web. Let me quickly run through those. Shayne and Patrick have answered most of them. Patrick addressed the question about sovereign lending. VJ, you asked if there is any financial impact transitioning from LIBOR to SOFR? No material impact has been experienced or is anticipated. That project is well underway. In fact, when we issue now, in terms of capital markets, it's SOFR that we quote rather than LIBOR. You also asked about the impact of higher interest rates on the bond portfolio, Patrick mentioned about the 300 million impact. Emirates NBD compared to some of our peers, doesn't tend to have as big a bond portfolio. So, rising interest rates should have a relatively smaller impact on ourselves.

We talked about the drivers for CASA and, Sandip, you asked about the OCI, again, that's been addressed. The final question from Sandip, do higher interest rates pose a risk in terms of servicing ability on mortgages? Certainly, that's something that we monitor very closely. All the early alerts metrics that we monitor show there's been no substantial deterioration from what we would normally expect.

Shayne Nelson

The only thing I would add to that is a caution, I don't think it is going to affect villas or apartments, but some of the commercial property where you are see yields of 6 or 7%. Once you start seeing rates rise substantially, and the margin on top of those rates, I think banks are going to need to look at their of customers very quickly to make sure that the repayments structure they've put in place for the clients in the better times when rates were really low, are still applicable now, when rates rises significantly and the yield will only just cover interest, or maybe a piece of principle, rather than more aggressive amortisation of the loans. But if we look at our book on our average loan of value ratio in the corporate space, it's quite conservative as it is in the home mortgage market.

So if there's no further questions, I'd like to thank you all very much for being on the call. I hope you enjoyed it, we always enjoy interacting with you all. And Thank you for some very good quality questions that you asked today, hopefully we answer them well for you. And if not, there's always Paddy, you can reach out to get further information. So thank you very much you all, and we'll speak to you next quarter.

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