EMIRATES NBD FY 2017 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
16 January 2018

CORPORATE PARTICIPANTS

Shayne Nelson – Emirates NBD – Group CEO

Surya Subramanian – Emirates NBD – Group CFO

Patrick Clerkin – Emirates NBD – Head of Investor Relations

PRESENTATION

Operator

Good day and welcome to the Emirates NBD FY 2017 Results Announcement. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr Shayne Nelson. Please go ahead.

Shayne Nelson

Thank you, Operator. And I'd like to welcome you all to Emirates NBD Results conference call and webcast for the full year of 2017. Supporting me with today's call – as per usual, Surya, the groups CFO, and Paddy the Head of Investor Relations. Together, we will review the operational and financial highlights for 2017. We will refer to the results presentation, which was made available early today – after which, you'll have the opportunity to ask questions

If we go to slide 3, I'm very pleased to report a strong set of results for Emirates NBD, with a record net profit of 8.35 billion Dirham in 2017 – up 15%, year on year. The sole operating performance was underpinned by a higher interest income on the back on loan growth, higher non-interest income and an improved cost of risk. The bank's balance sheet continued to strengthen with further improvements in capital and equity and a stable credit quality profile. These results have enabled the board of directors to recommend a 2017 dividend of 40 fils.

Net interest margins showed an improving trend in 2017, as rate rises flowed through to the loan book and equity conditions improved. Non-interest income also improved, helped by a higher contribution from foreign exchange. Equity conditions in the UAE banking system improved throughout 2017. The UAE system-wide AD ratio at 97.7%, as at the end of November is back to the same levels, last seen in 2014 – before the decline in oil prices. As a result, we've seen an improvement in funding costs during the year, which has had a positive impact on our margins.

Emirates NBD saw further strengthening in credit quality during 2017. The cost of risk continued its year on year improvement, as early concerns about the estimate segment and the regional contract in industry abated. Despite some regional and global political developments, devised economy has remained resilient in 2017, as reflected by strong readings in both the PMI and the Dubai economy tracker. The expected continuing investment in infrastructure in the UAE to underpin non-oil GDP growth through to 2020. For the region, higher oil prices and physical restraint has helped reduce budget deficits. We also expect higher economic growth throughout the GCC economies in 2018. This is seen as an opportune time to introduce that, which took effect in the UAE at the start of January.

In terms of the regulatory environment, 2018 marks a transition to IFRS 9 and Basel III for UAE banks. We are well placed and embrace this new framework and we do not anticipate that these will materially affect the operations of Emirates NBD.

In 2017, we continued to put ahead with our digital agenda. We launched Liv. – the UAE's first digital bank, targeted at millennials, revamped our online banking platform – including the launch of FaceBanking and committed one-billion-dirham investment to accelerate our digital transformation. Our efforts in credentials in digital and innovation continue to be recognised by the industry and most recently, at the BAI Innovation Awards Forum, when we were named most innovative financial services organisation of the year.

At Emirates NBD, our goal is to keep innovating to stay ahead of the curve. I'm delighted to announce our partnership with Motive Partners, to launch Motive Labs – an innovation investment accelerator to pioneer digital transformation across the financial services industry. As a home grown bank, we have always championed a culture of giving back to the community. We are proud to have dedicated our 2017 CSR activities to the UAE as year of the giving, and successful exceeded our targets. We are also pleased to have contributed over 65 million to charities and social causes during the year. In 2018, we'll align our CSR activities and strategy, the year of Zayed initiative, to honour the legacy of our nation's founding father.

Outside of the UAE, we continue to expand our international presence and opened our first branch in India in August. The primary focus of this new branch in Mumbai is wholesale, although we will be able to offer a full sweep of banking services. In 2018, we expect to open a further three branches in the Kingdom of Saudi Arabia, bringing our total branch count in the KSA to four. We are also pleased to have received approval to open a rep office in Turkey – and we plan to open this in Istanbul in the first half of 2018. We will also look to open additional branches in Egypt in 2018. This international expansion reflects the important role that Dubai plays in facilitating trade and businesses within the region. Overall, I'm very happy with the bank's strong performance in 2017. We delivered an increase in profit and a stronger balance sheet. We continue to develop the bank's digital credentials and improve the banking experience for all our customers.

I'll now hand over to Surya, to start going through the details of the presentation. Surya.

Surya Subramanian

Thank you, Shayne. Our financial results for the year and quarter four are on slides 4 and 5. I'll talk through – as usual, on the annual and quarterly financial results.

Net profit for the group was record 8.35 billion dirhams in 2017 – 15% above the profit posted in the previous year. This increase in net profit was supported by a 7% growth in net interest income, 1% advance in non-interest income, a 1% reduction in costs and a 15% improvement in payment allowances. So, as you can see, all lines of the financial statement have improved year over year.

Net interest income improved 7% year over year due to 5% loan growth, and loans resetting at higher EIBOR rates. Non-interest income advanced 1% year over year, as higher foreign exchange and derivatives income offset lower gains from the legacy sale of properties. Quarter 4 revenue at dirham 4.037 billion is a record high, as this is the first-time quarterly revenues exceeded 4 billion dirhams. Quarterly revenues also improved 17% year on year, with net interest income up 14% due to loan growth and improved margins – as I mentioned, with loans reset at higher EIBOR rates. Non-interest income improved 24% year over year, due to higher income from bank assurance and the sale of investments. Costs have been well controlled over the year and improved 1% year over year, as lower stocks costs more than offsets and increase in costs, both on marketing and IT relating to our investments in digital and technology refresh. We are pleased to have kept the cost-income ratio below 33% in recent quarters, as this planned investment is now in even full-flow.

Provisions of dirham 2.2 billion improved 15% year over year, as the cost of risk continues to normalise on the back of stable asset quality metrics. The NPL ratio finished the year at 6.2%, an improvement of 0.2% of the NPL ratio at the start of the year. Also, during 2017, the coverage ratio grew to 124.5% from 120% at the start of the year. As demonstrated by the 15% in net profit, we are firing on multiple cylinders and there is no question about our growth trajectory. Liquidity coverage ratio is at a healthy 146%, while the headline advances to deposits ratio - at 93.1%, remains prudently within the 90 to 100% target range. Following the 5% loan growth delivered in 2017, we expect mid-single digit loan growth also in 2018, spread across all business lines. We expect similar deposit growth, as we continue to manage to AD ratio in the 90 to 100% range.

Slide 6 shows details of our net interest income. We see that margins show an improving trend in 2017, as rate rises flow through to the loan book and liquidity conditions improved. The improvement in NIMs took a breather in the final quarter, as deposits were sourced at relatively more expensive rates than in earlier quarters, reflecting a higher premium for liquidity over year end. We also experienced higher funding cost, as the banks successfully issued a $750 million-, five-year senior bond in November. We anticipate that margins will continue to improve in 2018, as some expensive deposits and term funding roll off and loans reset at higher rates due to the recent - as well as expected rise in interest rates. Given the anticipated improvement in funding cost, along with the rate hike scenario, we have set our margin guidance for 2018 higher, at 2.55 to 2.65%.

Slide 7 shows our loan and deposit trend. We see that gross loans grew 5% during 2017. The corporate loan book increased by 7% due to growth in the real estate services and trade sectors. Consumer lending advanced by 3% as growth in credit cards and mortgages were offset by lower micro-SME balances. The Islamic book contracted by 3% during the year, due to the slow-down in new business, as Emirates Islamic tightened under righting standards. Deposits grew 5% during the year, with CASA growing at a slightly higher rate than term deposits. In quarter 4, as expected, we did see increased demand for time deposits, reflecting competition for liquidity over the year end. These are typically three month term deposits and we expect some of these to roll off in the first quarter of 2018. CASA now stands at 55% of total deposits.

On slide 8, we see that the liquidity coverage ratio is at a healthy 146%, while the advances to deposits ratio at 93.1 remains comfortably within the 90 to 100% target range. Liquid assets are 71.9 billion dirhams, or 17.5% of total liabilities. These metrics demonstrate the bank's strong liquidity profile and underline the value of the bank's well diversified stable funding base. Emirates NBD, our goal weight remains well placed to meet relevant credential liquidity requirements. In 2017, we raised a total of 10.2 billion dirhams of term funding, 6.9 billion dirhams of this was through private placement in four currencies, with maturities out to 20 years. We also successfully tapped the public markets twice, with the ten-year Aussie dollar deal and a US$750 million, five-year benchmark deal. In 2018, we have 5.9 billion dirham of term debt maturing. This is comfortably within the bank's natural ability to raise term funding and afford Emirates NBD the ability to consider public and private debt issues on a selective basis – and as and when it makes sense, both for investors and ourselves.

Capital adequacy on slide 9 shows during 2017, both Emirates NBD's tier one ratio and the overall capital adequacy ratio improved by 0.7% to 19.5% and 21.9% respectively, as calculated under the Basel II Framework. The increase in capital ratios is due to return profits more than offsetting a modest increase in risk weighted assets. Note 43 of the detailed financial statements also gives information on actual and minimum capital ratios calculated under Basel III capital regulations. We have reported a common equity tier one ratio of 16.4%, well above the 9% minimum requirement for 2017. The tier one ratio of 19.7% significantly exceeds the 10.5% minimum - and the total capital ratio of 20% comfortably meets the 12.5% requirement. We can also confirm that Emirates NBD has been designated a Domestically Systemically Important Bank and we are required to maintain an additional D-SIB buffer of 0.75% for 2017. And this buffer – as you know, will increase to 1.5% of the capital base by 2019. We will also record a one-off adjustment to our opening first January 2018 retail earnings, to reflect the transition impact of IFRS 9. This is estimated to reduce shareholder equity by approximately 3.7% – of which, 1.3% relates to expected credit losses on those financial assets, such as cash and bank balances with Central Bank, due from banks, customer acceptances, off balance sheet items. All of these which were not considered under the incurred loss model in IAS 39 until a loss actually happens. The quantum of this effect is in the order of one quarter of the group's annual profit.

I hand you over now to Paddy, to take you through the next few slides.

Patrick Clerkin

Thank you, Surya. On slide 10, we see the quarterly income improved 9% year on year, driven by growth in foreign exchange and derivative income, bank assurance, credit card and trade finance income. The growth in quarterly income helped offset a decline in the more volatile components of income from property and investment securities. Income from property declined 129% year on year, due to a downward re-evaluation of a liquid inventory and lower property sales. Total inventory now stands at 1.3 billion dirhams, down from 1.6 billion dirhams at the beginning of the year. Our low property sales from inventory has slowed, currency has continued to generate a profit for the group. And it's appease in that the mix of non-interest income has improved but less reliance on volatile sources such as property and investment sales, and more income derived from quarterly income.

On slide 11 we see that costs improved 1% year on year, as lower staff costs more than offset an increase in both marketing and IT costs, relating to our planned investment in digital and technology. Costs did increase in Q3 and Q4, but the full impact of the planned technology upgrade and the associated hiring of expert staff take effect. The cost-income ratio for each quarter of 2017 remains within management target and we expect costs for 2018 to be within this guidance range of 33%.

Moving onto credit quality on slide 12. As mentioned earlier, the NPL ratio finished the year at 6.2%, a 0.2% improvement of the ratio at the start of the year. Impaired loans were stable at 20.3 billion dirhams during 2017. During the year we had 1.8 billion dirhams of writebacks and recoveries and this alone, with routine provisioning, helped increase the coverage ratio to 124.5% from 120% at the start of the year. As with previous quarters, we do not give formal guidance on a target for NPL's. We do expect some modest improvement in credit quality during 2018. Our recovery unit continues to work on the existing stock NPL's and are hopeful that they'll be able to build upon the success they delivered in earlier years. Provisions for 2017 are 2.2 billion dirhams, which is 15% lower than the previous year. This represents a 68-basis point cost of risk, which is lower than the 83 basis points observed in 2016. Total portfolio impairment allowance as they stand, at 7.6 billion dirhams, or 3.2% of credit risk with assets. And this comfortably exceeds the 1.5% Central Bank requirement.

On slide 13, we see that retail banking and wealth management revenues improved 11% year on year. Net interest income grew 17% led by liabilities which income grew 1%, supported by wealth, foreign exchange and cards and now accounts for 35% of total RBWM revenue. Loan book was flat, as growth in credit cards and mortgages was offset by lower micro SME balances. CASA grew 6% during 2017, to 111 billion dirhams, supported by effective marketing campaigns. In 2017, the retail bank continued to lead the market in digital and innovation, with the launch of Liv., UAE's first digital bank targeted at millennials, which has been very well received amongst the youth segment, a revamp of its online banking platform, the launch of FaceBanking, video-banking facilities, and EVA, the nation's first voice-based virtual chat bot.

After a challenging 2016, Emirates Islamic received a record – achieved a record net profit of 702 million dirhams in 2017, a six-fold improvement from 2016 and is well positioned to benefit from current market opportunities. Finance and receivables to declined 7% from end 2016, due to a slowdown in new business, as Emirates Islamic tightened under underwriting standards. Customer accounts grew 1% during the year, as EA's focused approach to improve liabilities mix and cost of funding led to a shift from expensive wakala deposits to CASA balances. At the end of 2017, CASA represented 81% of EA's customer deposits.

On slide 14, we see that wholesale banking revenues improved 16% year on year, with net income up 20% on the back of asset growth and improved margins. While fee income improved 6% due to growth in loans and trade finance. Loans grew 7% during the year, due to growth in real estate, services and trade sectors. The deposit grew 19% in 2017, with strong growth in CASA, reflecting efforts to optimise both the mix and cost of funding. The strong performance in 2017 reflects the ongoing progress that wholesale banking is making towards its goal of becoming the leading wholesale bank in the Middle East and North Africa. Global markets and treasury revenue increased 106% year on year. The ALM desk delivered excellent results as they positioned the balance sheet to take advantage of rate rises. Treasury sales grew 16% on the back of higher volumes and foreign exchange due to enhancement product capability and a closer working relationship with corporate and institutional clients. The trading desk delivered a strong performance despite low volatility, with principle investments delivering an increase in revenue on the disposal of some legacy investments. The global funding desk raised 10.2 billion dirhams of term fund into private placements with maturities out to 20 years, a ten-year Australian dollar deal and a $750 million five-year benchmark deal.

And with that, I'll hand you over to Shayne for his closing remarks.

Shayne Nelson

Thank you, Paddy. In summary, we delivered a strong set of results for 2017, with a record net profit of 8.35 billion dirhams. This 15% improvement in profit is underpinned by loan growth, higher non-interest income and a control on expenses and a moderating cost of risk. The improvement in margins is a function of rate rises, a lower funding cost and we expect this benefit to continue into 2018. We have strengthened the bank balance sheet with improved capital and equity ratios and stable credit quality. Emirates NBD continues to be recognised as a leader in digital and innovation. Our 1-billion-dirham investment to accelerate our digital transformation is well underway and this will help us further strengthen our digital capabilities. Dubai and the UAE's non-oil economy continues to perform well. Increased investment in the infrastructure expected to underpin non-oil GDP growth in the UAE through to 2020. We also expect a pickup in economic growth throughout the GCC in 2018.

With that, operator, could we have some questions, please.

QUESTIONS AND ANSWERS

Operator

We will now take our first question from Deniz Gasimli from Goldman Sachs. Please go ahead.

Deniz Gasimli - Goldman Sachs

Hi. Good afternoon and thank you for the presentation. I have two questions from my side. One is regarding IFRS 9, the finance statement are very helpful. Our guidance section regarding IPRS 9 – as you mentioned, your preliminary expectation is for equity to reduce by around 3.7% post the IFRS 9 transition. So, my – I just thought – I just wanted to ask you if you can give some more colour on what is driving this negative impact on equity so that – some portion with this force is for expected losses for some financial assets that weren't accounted before. So, I just want to get some clarity on provisioning for loans under IFRS 9. What is driving the increase in the stock of provisions – is it stage 1, stage 2 or stage 3 provisions – is this your detail or corporate portfolio? And any kind of colour which you can provide at this stage would be greatly appreciated. Also, is there going to be any kind of offer we can give on like, normalised ongoing cost of risk under IFRS 9, post the transition?

My second question is on capital. You disclosed your connectivity on ratio which is very strong, at 16.4% and also, given that the IFRS 9 impact – I calculated around 70 basis point impact from 3.7% bit on equity. So, that's definitely manageable – and you can still continue to maintain strong capital levels. So, despite this, the pay-out was – has reduced and your dividend was unchanged from last year. So, question being, what's driving this let's say, conservative pay-out policy given that – you know, some of your peers have a higher dividend pay-out. Is this just – is this maybe kind of proof to increase the capital ratio further? Is it because of the offer of some GRE exposure? So, any kind of colour on this would be much appreciated. Thank you.

Surya Subramanian

I'll take the IFRS 9 question first, in the order you asked. That is a fundamental methodology difference between IAS 39 and IFRS 9. IAS 39 is an incurred loss model. IFRS 9 is an expected loss model. However, in both these models, although there are some minor differences, what we call non-performing loans under IAS 39 - which you would call, say, stage 3 IFRS 9 – these are broadly identical. So, the delta doesn't really come from problem loans. The delta comes from the performing book in terms of how you calculated portfolio impairment provisions under IAS 39, compared with how you calculate portfolio impairment provisions – which is effectively, your stage 1, stage 2 expected credit losses under IFRS 9. Having said that, there are two or three components to this. One, is just a comparison across two models and the second is – and that's on the normal credit book. So, obviously

IFRS 9 front ends and front loads losses because it's an expected credit loss model, whereas IAS 39 would back end and yes, it's at the tail end.

The other portion – as I said, of the 3.7% impact on equity, about 1.3% relates to those balances that typically, we have very low loss experience under IAS 39. When you talk about balances with banks, when you talk about investment securities, when you talk about – even balances with central banks, bearing in mind that we have foreign operations, those would have been zero under IAS 39, until you actually make a loss. Whereas, under IFRS 9, we are expected to take a stage 1, stage 2 impact of expected credit loss on that. As you rightly pointed out, the impact is not material. We typically cover 3.7% of equity in – with one quarters retained profit generation that we have. The math roughly works out exactly there. The cost of risk itself, going forward, will be a function of normal NPL – which, as Paddy mentioned, we expect an improving trend, although the rate of improvement will slow down given that the bulk of the crisis era recoveries have been made and behind us. And to the extent there is a one-time adjustment to the opening equities on January 1. If the book itself, doesn't deteriorate or if the nature of the business we do doesn't change dramatically, then our cost of risk guidance remains because we always said we expect to be in the 75 to 80 basis points cost of risk on a long-term average. Although, this year, itself our cost of risk has been 68 basis points.

Taking the next question on dividend distribution. As you know, dividend is a shareholder call. We have reported a profitable dividend for the last two years. AGM will take the call on that. We, ourselves, are obviously, in a comfortable capital position. It's something that we will discuss with the shareholders going forward. But, at the moment, we prefer to remain conservative and maintain our balance sheets to try and – as we wait for IFRS 9, Basel III and other things to just become part of business as usual.

Shayne, would you like to add onto that?

Shayne Nelson

There's a question from Prem Gupta from Smart Cube. Why aren't NPL's doubling our peers? Since you're talking about NPL's, I thought you may as well take this, as well. Are you taking risk control measures and what is the NPL expectation for 2018?

We don't give NPL forecasts for a start, but I think Surya's talked about what our range is on our cost of risk. NPL is double our peers and my view on that is, our new problem loan formation has been very low over the last few years – this is our legacy book. I could just write them off if you wanted us to because if we've got over 125% coverage – gross loan coverage. So, in some regards the questions a mute question because we've got so much coverage that we could just write the whole thing off, anyway. And then we'd have zero. So, that would be my response on that one.

Operator

We will now take our next question from Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani - JP Morgan

So, first of all congrats on a very good set of results. Just three questions from my side, please. First, in line with the question of – continuing from the question on IFRS 9, could you please just clarify the regulatory stands on the general provisions now, under IFRS 9? Will the bank still be required to take the 1.5% general provision on credit RWA's because from what I understand, the IFRS 9 is already sort of an expected, built up on the expected loss model. So, is general provisioning still required and what is the status of the existing general provisions that you have on the books currently?

My second question is – relates to the conservatism that you budgeted around your cost-income ratio. Now, even if I continue to maintain 5% run rate of operating revenues in the model and still increase the costs by like, 6 to 8% annually for the next two years - which is what you had this year, like, flat, I still get to around 31% cost-income ratio over the next two years. So, I'm just trying to understand if I'm missing something in your guidance here. Is there anything on the revenue side that is one off in nature that you don't expect to be repeated? So, if you could just please clarify that, that would be helpful.

And my third and final question is, can you please share the outlook on your Egyptian business? And you mentioned that you will be adding to the network in the Egyptian business, so how many branches further do you expect to add in that geography? Thanks.

Surya Subramanian

As far as IFRS 9 adjustments are concerned, the Central Bank hasn't yet publicly come out with their position on how they will deal with it. However, if you look at all the guidance and the draft – discussions that are out there with the Basel Committee, it is expected that all national jurisdictions will set a certain level which we know, historically in the UAE happens to be 1.5%. And the Central Bank will then test whether a bank is below or above the 1.5% once the IFRS 9 provisions are made. And there will be some discussion around any capital relief for those banks that are dramatically short. The basal Committee has talked about a transition period, they haven't really said how many years. It is left to each national jurisdiction. You will note, in our case, that even the historic general provisions we had were quite high – well above the 1.5%, so it really doesn't affect us much. In terms of cost-income ratio, you can't just bury the top line without touching the cost. There is a cost of sales involved. We do have to give incentives, for examples, there sales incentives involved. If we want to grow our book, we may need more people. We obviously, are investing in the 1 billion technology refresh, that will initially be a CapEx, eventually flow through to OpEx. So, we make sure that we –

Shayne Nelson

But, there's quite a lot of OpEx in the –

Surya Subramanian

In the new branch build up, as well.

Shayne Nelson

No, but with the additional head count for IT, as well.

Surya Subramanian

Yes. And plus, as we grow the Indian franchise, which will now be a full year cost as opposed to the half year cost for the new branch last year – three new branch licenses that we've got in Saudi – all these add up. We, however, take care as management to distinguish between where we spend on fixed costs and where we spend on variable costs, where we are spending against recurring income and where we are spending against one off income. So, that is closely monitored - and we always take steps. In good years, we will invest. In bad years – you've seen in 2011 and also in 2016, we pulled back on costs when we had to. On Egypt, we do not publicly disclose the numbers but, Shayne will share some thoughts with you on that market.

Shayne Nelson

I think Egypt for us had a surprisingly good year. Despite inflation being in the 30%, despite interest rates being where they were, despite the currency basically halving in value, the bad debt formation was very low. We budgeted, obviously, a big increase for bad debts for 2017 for Egypt, given that scenario that I just talked about. It didn't occur – not just for us, to be fair, for the whole industry. The black economy in Egypt is much deeper than people give it credit for and yes, the book has performed very well. So, yes, we don't disclose the number but it's not back to where it was pre-devaluation but, it's not that far away. So, yes, that means that we, as a business have performed very well. And yes, we're very happy with the Egyptian investment. Despite what's been happening to the economy, the franchise continues to perform well. Our branch growth will be gradual. We're not talking about growing another 50 branches. Our big push in Egypt is not just on the branch side, but also on the digital side. We're trying to transfer as much technology as we can to Egypt, as the Central Bank will allow us to. And yes, we – the mix between bricks and mortar and digital, for us, is important. The type of branches that we build are important. And the – largely when we build in Egypt, largely, digital branches leave people happy, rather than the traditional bricks and mortar branch.

Surya Subramanian

We have some questions coming in from the web. Ahmad Hassan from CI Capital mentions that loans grew only 0.1% in quarter 4. Do you see the strength continuing as loan growth for quarter 1 of 2018? I think, Ahmad, you're right to say that loan growth – on a headline basis, was slow in quarter 4. However, if you look at some of the segmental assets and movements – which is not always evident, some parts of the book continue to grow. Our Islamic assets did shrink a little bit and that was keeping in line with some of the underwriting decisions we have taken towards the latter part of 2016 and early part of 2017. If you – just for these, the so-called types of businesses that we want to grow, grew close to 1% in the quarter. Which, when you annualise, gives you a number close to 4% – our guidance is mid-single digits for the year.

There's another question coming from the web, in terms of, can you share the latest status on the Al Gosaibi debt restructuring and are you looking to monitor any of the legacy assets? That's from Maria from Al Ramz. Maria, I'm sorry we do not discuss specific customer details – not in this call, not anywhere. In terms of monetising legacy assets, we have been off loading non-core assets. A couple of years back, we sold our shares in Union Properties. The physical property inventories we have, we have been always selling that as and when we can, as Paddy also mentioned. There's not too much more left, that's likely under 1.5-billion-dirham worth of property inventory that we still have to work our way through. Some of it we would eventually retain. Most of it we would sell off, but – well, Paddy mentioned, we continue to make money on the sales. The pace of sales itself is slow. So, I wouldn't factor that in to make any dramatic difference to the performance of the organisation.

Shayne Nelson

And just to add, it was mentioned in the press in Q4 that we had disposed of a partial stake in Bank of Beirut. This was actually a buy back Bank of Beirut and it was a partial disposal of that. Again, just reflecting, you know, the focus on legacy investments are low, as we look to sort of dispose of those over the long term.

Operator

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

Shabbir Malik – EFG Hermes

Hi, everyone. Thank you very much for your presentation, congratulations on a good set of results. I have a couple of questions. I'll start with your CASA deposits. In the fourth quarter I noticed some shrink in the CASA deposits and growth and term deposits. Maybe if you can discuss, you know, what went down this quarter in terms of your deposit mix. That would be very useful.

My second question is on your expenses. So, it seems to me, you are building on a new channel which is – a new distribution channel which is Liv., the online banking platform. So, I think a lot of your digital spend in is probably focused in this new channel. But, you know, as a bank focuses on digitalization, could we see more automation which would probably reduce costs on your traditionally or channels, such as your branch network – and when can we see those benefits coming through?

And finally, a question on your NIMs, I think you've given a guidance of NIMs for 2018 – I think about 10 to 15 basis points higher in 2017. What will be the key driver of this NIM improvement, will it be change in balance sheet mix, or it's primarily coming through because of high interest rates? Thanks.

Shayne Nelson

I think, on deposits, some of it is seasonal. We get closed in and out customers' term deposits. We have got a 55% CASA balance for deposits. I think, you - as much – we can credit we lost a bit, I don't think there's too many other banks in the market that have that percentage. On Liv., no, it's not – you're saying it's a big focus for us – it's one of our many focuses, actually. The cost to build Liv. has actually, not been very high. It is acquiring customers in our right target market at a very quick pace. We're very happy with Liv.'s acquisition model. But, no it's not taking the majority of our investment, by no means. The majority of the investment is going into the traditional bank and in particular, rebuilding the architecture and in particular, hiring new people to rebuild that architecture and actually, take us forward on our way to working into a more agile model build, rather than the traditional build. So, it's more than just Liv. Liv. is just one of the many things we've done, like Sky Shopper. We try new stuff all the time. We have the flexibility to do that now. We'll be more flexible once we've finished our legacy infrastructure rebuild. And come into more agile basis.

Surya Subramanian

Yes. On NIMs, Shabbir, obviously, it will be a function of rate rises when that happens. It's also just managing the asset and liability mix, which is something we've been doing for many years. So, if I start decomposing it, then we don't give guidance at the level of how fast corporate book is going to grow or, how fast the retail book is going to grow. But, these are drivers that underpin. From time to time we do expect periodic tightening of liquidity, in which case we have to pay up for it – as we did in quarter 4.

And just going back to your comment on CASA, if you look at year end points - in 2015, we had 160 billion of CASA, 2016 end we had 169, and 2017 at year end we end at 178. These are impressive gains year over year. Obviously, when you look at it on a one quarter and one quarter basis – especially coming off after the summer season, people do tend to draw out money – sometimes the businesses will take it from their CASA accounts for working capital purposes and so on. Our guidance, as we said earlier, will continue to grow at 5% on the total deposit book and obviously, the more successful we are in managing CASA, the better the NIMs.

Surya Subramanian

There's a question that just came in from the web, from Maria from Al Ramz. Can we look forward to the bank opening up more foreign ownership from it's current allowance of 5%? Maria, I was waiting for this question – somebody always asks this question. It's more a question for the AGM, it is a shareholder call. We do convey your messages back to the shareholders every year and every year existing shareholders seem to be delighted to continue holding onto our shares. Sorry about that.

Operator

Okay. We will now take our next question from Chiro Ghofh from Sico. Please go ahead.

Chiro Ghofh - SICO

Good afternoon and thanks for hosting the call. My two questions are, first one is, I see that the corporate past due loans have come down significantly in an environment where reports are showing that real estate prices are little lull in the UAE. If you can throw some colour, how the pass loan come down so much in the corporate side?

Second one is in continuation of the question by Shabbir, the CASA loan book has come down while I see on slide 8, I think, that the deposit costs have not gone up. Just to get more clarity on this that going forward, do you expect to see CASA deposit not going at the peak at the current pace considering the interest rate might actually go up – and what do you think would be the impact on the deposit cost?

Surya Subramanian

Thank you for that question, Chiro. On the corporate past view - in fact, last year this question had come up and we had explained that it was a technical past view because there were loans due just at the cost of the year end. And depending on how the weekend falls, sometimes there are short-term delays on settlements. So, that had got resolved last year. So, a lot of what is – the problem was not so much that the year is so much better, it's just that last year was not the real number because of those technical difficulties. We obviously, work with an early alert system to minimise any past dues at all times. So, it was more a question of timing of collection, when the weekend fell over the New Year and so on.

In terms of CASA not effecting – the drop in CASA not affecting the cost, yes, we manage our NIMs through other means, as well. It's not just CASA. So, when we know in quarter 4, we are going to pay up for the 750 million issues when we know we have to pay up to manage liquidity over the year end, we also try and tighten something else in the book. On slide 6, you will note, as we show the net interest margin drivers, the treasury cost did take a bit of a hit because sometimes we go into the inter-bank market, also to balance the cost of funding and the overall position of the bank. However, going forward, because of our product capability, because of our branch network, because of the superior offering we have in mobile digital, we do continue to have customer acquisition, and our strategy has always been new customers with new money, rather than try and get existing customers with more money. So, as rate rises happen, there's greater inertia of new customers with new money, that existing customers who just brought in excess money who might tend to move from a savings current account portfolio to fixed deposit or other investment portfolio. This is something we live every day.

Chiro Ghofh - SICO

Thanks, that's clear. Just a continuation of the previous question, are you actually seeing pressure on the real estate sector on UAE.

Surya Subramanian

I think, 2010 and 11 when I joined the bank was pressure. This is business as usual, we obviously have to manage normal credit risks. I think we all know, especially as most of us rent apartments, I think we know that deals are coming down or we can get some better deals. But, there is no squeeze – as such, in the market where people are saying that the sector is in stress. It's just that the profitability dynamics of the sector changes a little bit.

Operator

We will now take our next question from Divye Arora from Daman Investments. Please go ahead.

Divye Arora - Daman Investments.

Hi. Thank you for the call. One of my questions regarding the foreign ownership has already been answered. The other one was linked to – I'm not very sure whether the question has been asked, but, in terms of write back and recoveries, you had around 1.8 billion in 2017. So, what could be the trend going forward in 2018? And as you said, as for IFRS 9, the provisions are normally front loaded. So, can we expect some relief as we move forward in the year? Thank you.

Surya Subramanian

On IFRS 9, it really depends how the book shapes up, because in theory if you book a longer-term asset in certain sectors like real estate, that have traditionally been stressed, your stage 1 and stage 2 provisions will be higher than if you book a shorter term revolving financing loan for a sector that wasn't stressed. So, it really depends on which sector grows. And we don't give guidance at that level of detail. Clearly, as I said, we as a bank try to manage our overall cost of risk to the 70 to 80 basis points cost of risk, which cuts across retail, corporate, Islamic, SME and so on. In terms of the write backs, yes, it changes year over year. We had larger write back in 2016, compared to 2017. We are now – almost 7 or 8 years after the crisis, the so called continuous flow of either new problem debt or write back arising out of that vintage no longer exists. So, there's business as usual book, which we are managing to a certain cost of risk. There may be some lumps around it, some volatility around it. As I mentioned earlier during my presentation, we pretty much exhausted most of the significant recoveries – we still continue to tackle some of the sticky ones. We have close to a – over 20 billion problem debt portfolio which is fully covered. As you know we continue to mine that as and when we can.

Operator

We will now take our next question from Janany Vamadeva from Arqaam Capital. Please go ahead.

Janany Vamadeva - Arqaam Capital

Thank you. Congratulations on the numbers, Surya. I just have a couple of questions loan growth. You've given a better picture in terms of economic growth for 2018, and also the infrastructure spend from EXPO 2020. But, longer guidance remains the same, like, mid-single digit. So, I'm just trying to understand how the growth trend is different in 2018, from 2017 and can we expect any upside risk to your growth guidance for this year? This is in effective in general and of course for ENBD.

And my second question is regarding the sector disclosure you've given in your financial statements. I think that some reclassification in the sector breakdown. Just wondering whether it's driven by IFRS 9 or there's a new segment, hotels and restaurants from which was moved from real estate – and also new sector management of companies and enterprises are coming close to 5% of your total loan portfolio. Just trying to understand what that refers to?

Shayne Nelson

Again, on the first one, our forecast for 2017 was 2% GDP growth increasing to 2.4% in 2018. A lot of that is driven by two factors. One, oil being on an average at a much higher price in 18 than in 17. So, at the moment, we're seeing $70 on the barrel. And that will mean that the fiscal deficit for the UAE will probably be about 1, 1.4%, somewhere around there, I think – on a fiscal deficit. So, I think the finances of the country are in much better shape. We are also seeing some increase in impetus around expo 2020. I think if you go up and see the site, it's a massive concrete pour and hole in the ground at the moment. So, we're seeing a lot more push on that. And I think, you know, some sectors of the economy are still doing pretty well. There's still a lot of hotels being built and finalized. And you know, we expect the economy to do reasonably well in 2018.

Surya Subramanian

On the second question on sector, sub sector classification, we always review this as definitions become clearer. The Central Bank issued some new guidelines in 2017, with new sub sectors so we had to look at the definition of the new sub sectors. And in some instances, as a result of that we had to then clean up the sector sitting above the sub sector and then move these along. So, that was really the reason. It wasn't IFRS 9 driven at all. For IFRS 9, the sector classifications are at a more granular level then what you see within the financial statements because we need to create economic indices or drivers for each pool at a much more detailed level.

Operator:

There are no further questions on the telephone nor on the web

---

Shayne Nelson

Well, thank you very much for joining us on this call. As I said, I'm very pleased with the results. I think what really pleases me about this set of financials is they're not coming from one-offs, they're coming from underlying strength of our businesses. And I think it's the first time I can say as the CEO of this bank, that we're fired on all cylinders. Every business that we've got has performed very strongly in 2017 and management did a great job, I think, of delivering a very strong set of results. And I hope you like them too. Thanks very much for joining us.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

END