Company: **Emirates NBD**

Conference Title: **Q1 Results Analyst & Investor Call**

Presenters: **Rick Pudner, Sanjay Uppal**

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Operator: Ladies and gentlemen, welcome to the Emirates NBD First Quarter 2010 Results Announcement Analyst & Investors Call. If we are all ready to begin I will now pass the call over to your host today, Mr. Rick Pudner, CEO of Emirates NBD. Please go ahead sir.

Rick Pudner: Thank you very much operator. I'd like to welcome all of you to the Emirates NBD First Quarter 2010 Results Conference Call. I have with me today Sanjay Uppal, the bank's Chief Financial Officer and together we're going to go and review the operational and financial highlights from the past three months ended 31st March 2010. We will be taking you through a presentation which has been provided to you before the call and is available on the investor relations section of the Emirates NBD website. There will be as usual an opportunity to ask any questions at the end of the presentation.

Just taking you through the financial highlights summary of page 3 of the presentation, total income for the first quarter this year held steady at AED 2.6 billion compared to first quarter 2009 and the fourth quarter 2009. Q1 2010 operating costs were down 5% to AED 866 million from first quarter 2009. Our cost to income ratio reached 33.9% compared to 34.9% in the first quarter 2009 and 36.9% in the fourth quarter 2009. Impairment allowances of AED 555 million compared to AED 462 million in the first quarter 2009 and AED 945 million in the fourth quarter 2009. Our NPL ratio currently stands at 2.63% as at the first quarter 2010 versus 2.36% at fourth quarter last year. Operating profit before impairment allowances of AED 1.7 billion were down 1% from the first quarter 2009 and up 4% from the fourth quarter 2009. Net profit for Q1 2010 reached AED 1.1 billion compared to AED 1.3 billion for the first quarter 2009 and AED 178 million for the fourth quarter 2009. Our loan book declined by 1% and deposits grew 6% in the first quarter 2010. Our loan to deposit ratio is currently 111% as at the end of the first quarter compared to 118% at the end of 2009. On an adjusted loan to deposit ratio basis it is

98% as at the first quarter 2010. Total capital ratio is now 21.9% and Tier 1 ratio at 13.9% as at the end of March this year.

I will now pass over to Sanjay to take you through the details of the financials.

Sanjay Uppal: Thank you Rick. Good afternoon ladies and gentlemen. I'll start on slide 4 where it's got the first quarter 2010 results. The operating profit before impairment allowances stood at just under AED 1.7 billion, marginally below the level at first quarter 2009 and 4% above the level in the fourth quarter 2009. The operating profit reached AED 1.1 billion, 8% below first quarter 2009 and 68% higher than fourth quarter 2009. The improvement in equity and bond markets resulted in some positive impact coming through our mark to market on our investment book with AED 162 million gains being recorded in the first quarter compared to a AED 229 million negative impact in the first quarter of 2009. The capital ratios as Rick mentioned have further strengthened with the capital adequacy ratio just under 22% and Tier 1 ratio of 13.9%. Looking at the table on the right hand side one of the key aspects is the deposit number, Rick mentioned near 6% growth in the first quarter this year. In absolute numbers the deposits went up AED 10 billion during the first three months of this year, much in line with the focus that the management has had in improving the liquidity of the organisation space.

Looking at income on slide 5, on the net interest margin, the net interest margin has trended downwards from fourth quarter 2009 levels. We had guided earlier last year that the first quarter margins of 3% did reflect some one-off aspects of the divergence we had between Eibor and Libor and certain opportunities we were able to capture then, but we did expect that to trend down. With 2.58% at first quarter 2010 this remained within our expected range. Non-interest income again as we had indicated has stabilised with the core income at AED 630 million and overall monthly income at AED 8282 million for the first quarter of this year. The core non-interest income reflects an 18% decline from the same period last year and by 11% from the fourth quarter of 2009 primarily due to reduced new underwriting and a slight slowdown in trade finance actually coming through our trade finance desk. We continued to see the core non-funded income stabilise in the range of 25-30% below the peaks seen in 2008.

The operating costs and efficiency continued to remain an area of focus. The total costs in absolute terms reached AED 866 million for first quarter 2010 and was 5% below the same period last year and 9% below the fourth quarter of 2009. On a cost income ratio the headline number was from 33.3% in 2009 was slightly higher at 33.9% in the first quarter of 2010. On a core cost income ratio where we remove the impact of mark to market gains and losses from the income line, the ratio went up 1.6% from 35.1% for 2009 to 36.7% in the first quarter of 2010. The focus on staff costs and efficiencies is yielding positive results for us and we continue to see that cost base declining over the period. Given the area of increase in costs as occupancy equipment and operations costs which reflect our continued focus on investment in technology platforms and expansion of our distribution capability especially with branches in Abu Dhabi. We continue to target the mid 30s range for our cost income ratio.

Looking at asset quality on slide 7, the loan portfolio reflected the retail portfolio correspondingly 11% of our total books. Islamic banking is just below that at about 9%. 23% of our loan portfolio is sovereign with the balance 57% being in the corporate business. The NPL ratios excluding impaired investment securities increased to 2.63% in the first quarter of 2010 from 2.36% reported at the end of last year. Further in line with our prudence on provisioning we have added AED 78 million to our portfolio impairment provisions during the quarter taking the total just above AED 1.9 billion. The coverage ratio continues to remain healthy at 102%.

Looking at capital adequacy as Rick has mentioned it's up to 1.9% with Tier 1 of 13.9%. The Tier 1 ratio essentially reflects the profit generation going into equity for the group in terms of retained earnings but at the same time a continued focus on risk weighted assets which have declined by 1% during the first quarter of this year. On a Basel II basis the same ratio constitutes a capital adequacy of 19.6% and a Tier 1 ratio of 12.4%.

Funding and liquidity has been an area of success for Emirates NBD in 2009 and continues to remain so in 2010. The first quarter as I mentioned earlier saw the deposit base go up by AED 10 billion. In our total liabilities customer deposits now account for 75% of the base. We continue to have access to a liquidity backstop facility which totals AED 20 billion. As we have communicated previously this facility remains unutilised and available for us. The access to wholesale funding market has remained challenging in the first quarter this year and our term maturity in the EMTN we repaid AED 3.1 billion as it matured in the first quarter of 2010. The balance of the year will see another AED 3.8 billion mature. The focus on deposits has seen our loan to deposit ratio come down to its lowest level since the fourth quarter 2007 to 111% and when adjusted for longer dated that has now declined below 100% to 98%.

A quick snapshot of our divisional performance, wholesale banking as Rick had indicated, we have seen some decline in our loan books and we saw the loans decrease marginally by 1% in the corporate area. The focus on deposits continued and saw a healthy 8% growth since the end of 2009. Revenues continued to post expected increases. In our consumer and wealth management business again we continued to experience the de-leveraging in the consumer market with the total outstandings declining from AED 22 billion to AED 21 billion. The focus on deposits again saw the AED 54.4 billion base grow to AED 56.1 billion. The private banking business has been further expanded and has now almost 60 RMs in the business. The business today boasts 103 branches with an ATM & SDM network of 510 and 129 respectively across the UAE.

The Global markets saw a decline in revenues from the first quarter last year largely on the back of changed dynamics. The first quarter last year saw us in a beneficial position and allowed us to capture market opportunities in our ALM businesses to maximise the return. Some of those opportunities do not exist and therefore as expected we have seen the decline in these income streams, however the trading business has had an excellent quarter and capitalised favourably on the market opportunities presented in the Middle East equity and credit markets. Network International, our card processing subsidiary saw a 7% increase in first quarter 2010 revenues compared to the same period last year. The acquiring revenues are up 14% and the processing income is up 9%. Network International serves over 10,000 merchants and 49 banks and financial institutions across the region. Emirates Islamic Bank saw a marginal decline also in their financing receivables while held on to almost flat deposit base. This saw some pressures on their income as expected but continued to perform robustly. The total number of Islamic bank branches across the UAE is now over 30 with an ATM and SDM network of 74 and 27 respectively.

With that I will hand you over to Rick for the rest of the presentation.

Rick Pudner: Thanks Sanjay. On page 12 we continue to focus on four key strategic imperatives for the remainder of this year, the first one in terms of optimising our balance sheet looking at funding capital allocation. I think the evidence of success in the first quarter as already mentioned in terms of strengthening capital to 21.9%, Tier 1 has increased to 13.9%, our risk weighted assets have declined and our deposits have grown by 6%, so there are some good examples of success there. Driving profitability, looking to maximise customer revenues and also optimise our cost position through further synergies in the merger. Q1 costs declined 5% and are down 9% from the fourth quarter 2009, so that's also very positive. Return on equity is still a very healthy 19.6% for the first quarter. From a risk management point of view we look to continue to strengthen the risk management and governance areas implementing internal rating scoring and risk models, strengthening our risk function overall. Our credit metrics remain robust and within our expectations. Our NPL ratio as Sanjay has mentioned is 2.63% which has increased slightly up from 2.36% at the end of the year. Also looking to selectively invest in platforms for growth we continued to expand our retail distribution in Abu Dhabi. We have introduced new private banking, priority banking in SME banking models and private banking is growing very successfully, we continue to focus on organic growth in the GCC particularly the Kingdom of Saudi Arabia and we continue to look at inorganic regional expansion opportunities as well.

Looking at the outlook for the rest of the year forecasting UAE GDP, modest recovery to 2.5% in 2010 increasing to 4.5% next year. Lower inflation, stable US dollar and the property market declines have enhanced Dubai's cost competitiveness which is a very positive thing. The first quarter this year has witnessed early signs of stability, seen increasing economic activity and improved consumer sentiment and business confidence in the UAE resulting from improving economic fundamentals globally and progress made locally in resolving market uncertainties. We feel Dubai remains well positioned as an international trading hub and the underlying economic activity in traditional trade, manufacturing and tourism sectors are showing signs of recovery. Emirates NBD is optimistic about the expected economic recovery and are well placed to take advantage of these selective growth opportunities going forward.

In summary we feel we've given robust financial performance for the first quarter with steady income and strong operating profit generation. We have significantly improved liquidity metrics and strong capital ratios due to the success of the balance sheet optimisation initiatives and continued proactive support from the federal and local governments. Credit quality remains tightly managed and within our expectations, continued focus as I said in 2010 remains on balance sheet optimisation, profitability and risk management enhancement while selectively looking at areas that will be providing platforms. Recent months have witnessed early signs of stability, increased economic activity and business confidence in the UAE. Underlying economic activity in the trade, manufacturing and tourism sectors as I said are showing signs of recovery and Emirates NBD is optimistic about the expected economic recovery and as I said we feel well placed to take advantage of any opportunities for growth.

So with that comes the end of the presentation. I'd like to open up to questions. Operator, if you could go ahead and accept the questions, thank you.

Operator: Thank you Mr. Pudner. We'll now begin the question and answer session. If you'd like to ask a question please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press *2. Once again please press *1 to ask a question.

We will now take our first question from William Mejia from Goldman Sachs. Please go ahead.

William Mejia: Yes, good afternoon, thank you for your presentation. Just one question first on the deposit trends. Obviously if I strip out the money that came from the Ministry of Finance your deposit growth last year was around 4% for the full year. This quarter I get to around 600% increase only for the quarter, so is there a quite strong growth in deposits this quarter which I think is particularly interesting thinking that if you calculate the growth in the sector that you can basically take the information that this is driven for the central bank. It seems like for the first quarter deposits in the system declined by 1.6%, so are you increasing your market share aggressively and basically what is the strategy behind this? How are you able to keep these trends particularly when the margins it seems this quarter were mostly affected by the asset deals, not really the cost of funding. Could you please include some more colour behind those trends, I'd really appreciate it. Thank you.

Sanjay Uppal: Deposits as we had mentioned early last year when we were doing the 2008 results, we clearly recognised what was happening around the world and in our domestic environment and the challenges from liquidity, that was an area of focus for us. This pretty much lasted the last five quarters delivering pretty well on that. The approach towards deposits has been kind of multi-pronged. We're looking at the start of the wholesale banking side which is really leveraging the relationships we have with a lot of the top clients, a lot of large corporate sectors are also ones that are quite cash rich at this point in time, they have managed their businesses prudently and comprise of a significant chunk of deposits in the system, so we have obviously leveraged that which is why if you look at our quarterly balance sheet numbers, in the divisional performances you'll see wholesale bank coming through pretty well in their deposit growth. It's a mix of not just leveraging the relationship but also enhancing some of the offerings especially around our cash management activities. On the consumer and wealth management clearly private banking has yielded very positive results for us. We continue to grow that and we are communicating the number of items which previously were 50, now that number is up 60 and that has allowed us to penetrate a customer base that we were completely under-represented in and that has been an area of focus. The other has been our ability given our scale and presence, our ability to attract some of the regional deposits and our presence also in Saudi Arabia. So it has actually been quite a multi-pronged approach going off to some of the deposits. We have obviously also benefited lastly with our expansion into Abu Dhabi. As we have mentioned last year we continued to expand there especially with our branch presence which gives us access both into a high net worth customer base as well as in the private banking space. So we expect that that focus will continue. We were mindful that in a challenging environment we might not be able to access immediate term markets at attractive pricing so this was going to be a core area of focus. We have as we have reported to the quarter brought our access to the backstop facilities from Central Bank which has remained unutilised right through the crisis and that amount is another AED 20 billion, so quite comfortable with the liquidity management and the results we've seen.

William Mejia: If I may ask a follow-up question, obviously this initiative I guess has put in some pressure on your competitors on the funding side again since if I look at the aggregate figures for the system it looks as if deposits declined for the quarter, so do you expect your margins to come under pressure or what is basically the guidance that you can provide when it comes to margins for the year?

Sanjay Uppal: In terms of margins, before going there one of the things that you'll see in our financials is that we have continued to assess these deposits and help improve our liquidity but at the same time the loan growth hasn't yet come through as we had expected, our placements out in the inter-bank market have gone up significantly, they've increased by almost AED 8 billion during the quarter. So in a way the money that we have brought in and are sitting with us has gone back into the domestic market and are benefiting some of the other players who perhaps are looking to match some of their funding requirements. In terms of margin I think we have consistently last year guided that we expect the margins will come down to the low 2s and somehow that has not happened. I think some of the credit risk pricing has stayed in there, some of the liquidity pricing benefit has stayed in the bank including ourselves, so we have seen the margins holding up. They did come down a bit in the fourth quarter but we expect that these margins will drop below 2.5 as we go through this year and probably settle somewhere in the 2.20, 2.30 kind of range.

William Mejia: Second question if I may, you are still reflecting on your financials the funding from the Ministry of Finance customer deposits after you converted the business. Are you going to reclassify this in the future into sub-debt?

Sanjay Uppal: No, this will still be recognised as customer deposits.

Rick Pudner: But it's also recognised as Tier 2 funding William. It will remain as customer deposits.

William Mejia: Ok. Then just finally given that we are basically approaching quite fast the month of May which is when the standstill announced from Dubai World basically ends, have you recognised any provisions for that exposure or do you feel like you need to provide for that in the near term future?

Rick Pudner: The Central Bank issued a circular last week William saying no provisions are required for the first quarter on Dubai World as discussions are still underway to get to a satisfactory resolution for all parties, so that's where we are. We can't say at this stage exactly what the impact will or will not be in the second quarter. We're still talking and still moving towards a solution.

William Mejia: Any outlook that you can give on the process because obviously we have had many updates in the newswires, unconfirmed I guess news that the terms and the conditions that were announced in March are slightly different than what we initially thought and that perhaps interest payment that has been yesterday as low as 1%. Any outlook on that front?

Rick Pudner: I'm afraid I can't comment on that obviously given that we're still negotiating and still discussing the outcome with the company, so I'm afraid I can't say anything further.

William Mejia: Thank you very much.

Rick Pudner: Thanks William.

Operator: As a reminder to ask a question today please press *1. We'll now take the next question from Tatiana Borovitskaya from UBS. Please go ahead.

Tatiana Borovitskaya: Good afternoon. Thank you very much your presentation, Tatiana Borovitskaya from UBS. Several questions if I may. Can you please provide some guidance on where you see NPLs by the end of the year? Just related to the previous participant's question, can you please comment on the amount of exposure to Dubai World? Finally can you please provide us with some guidance on asset growth in 2010? Thank you.

Rick Pudner: Tatiana, hi. The NPL we expect by the year end is going to be in the region of about 3%, that's our forecast. In terms of our exposure to Dubai World I'm afraid I can't comment on that on a client confidentiality basis so that's not possible. The third one, what was the third one?

Tatiana Borovitskaya: The third question was about asset growth.

Rick Pudner: Asset growth, we're expecting to be in the sort of mid single digit figure, so 5-7%, something like that.

Tatiana Borovitskaya: Alright, and if I may one follow-up question. What are your views on raising funds in debt markets?

Rick Pudner: We continually look at the debt markets. Obviously I think we were the first bank here to go into the debt market a few years ago so historically we're very active. Obviously the Dewa transaction has set a current benchmark which we feel is not really efficient from our point of view, so we continue to watch and see where the pricing will go over the next few weeks. Our cash flows are manageable, as Sanjay said our liquidity is very good and we can absorb any repayments this year of EMTN's quite comfortably, so we're in no hurry to come back to the capital markets if the pricing is not what we would expect to get. We continue to look at the situation.

Tatiana Borovitskaya: Thank you.

Rick Pudner: Thanks.

Operator: Again as a reminder to ask a question today please press *1 on your telephone keypad. Ladies and gentlemen, at this point we will be handing the call back to Mr. Pudner for his closing remarks. For any further questions please contact our investor relations department whose contact details can be found on the Emirates NBD website and on the results press release. A webcast of this call will also be available on the Emirates NBD website tomorrow. Mr. Pudner.

Rick Pudner: Thank you, thank you very much operator. Thank you very much ladies and gentlemen for participating in today's presentation. Just as a summary we feel that the financial performance of the first quarter has been robust with steady income and strong operating profit. We've significantly improved liquidity and capital metrics. Our credit quality remains very well managed and within our expectations of the current cycle. Looking for the rest of the year we continue to focus as I said on the balance sheet, profitability and risk management and looking at areas of growth such as Abu Dhabi and we've seen signs of stability in certain parts of the economy in the UAE and we are very optimistic that the rest of this year will show further improvement. We're optimistic about the recovery and we are well placed to take advantage of selected growth opportunities, so thank you very much for your participation and on behalf of Sanjay and myself, thank you very much.

Sanjay Uppal: Thank you.