EMIRATES NBD FY 2014 RESULTS ANALYSTS & INVESTOR MEETING
19 JANUARY 2015

CORPORATE PARTICIPANTS

Shayne Nelson - Group CEO
Surya Subramanian - Group CFO
Patrick Clerkin – Head of Investor Relations

PRESENTATION

Patrick Clerkin - Emirates NBD - Head of IR
A very good afternoon to you all on this unusually wet day in Dubai, and thank you all very much for joining us and for Emirates NBD's full-year 2014 results meeting. I'd also like to extend a welcome to those of you joining on the webcast.

My name is Paddy Clerkin, and I'm head of Investor Relations for Emirates NBD. Also participating in today's meeting, on my immediate left, is Mr. Shayne Nelson, the group chief executive officer for Emirates NBD. And on Shayne's left is Mr. Surya Subramanian, the group's chief financial officer.

We'll follow the usual format for this meeting. We'll start by going through the presentation and copies have been made available to those here today and is also available on the website. Following the presentation. we'll then take questions both from the floor and via the webcast. And afterwards those here present today are very welcome to join us for refreshments where Shayne, Surya, and other members of Shayne's senior management team will be available to answer any further questions you have.

So with that, I'll pass you over to Shayne.

Shayne Nelson - Group CEO
Thank you, Paddy.

I would like to highlight the key messages of the 2014 results. Surya and Paddy will go through the detail of the results, and I will finish up by looking at divisional performance and outlook before outlining the Group's strategic priorities in 2015.

2014 has been a momentous year for Emirates NBD. We are the first bank in the UAE to report annual operating profit before impairment in excess of AED10 billion. We have delivered a net profit of an excess of AED5.1 billion. Our conservative approach to provisioning, combined with the reclassification of our Dubai World exposure and strong recoveries, have allowed us to reach our target coverage ratios and put legacy issues behind us. These impressive results have enabled the Board of Directors to recommend a 40% increase in 2014 dividends to AED0.35 from AED 0.25.

Total income for the year 2014 grew by 22% to AED14.4 billion. It is very pleasing to me that strong operating performance was helped by all parts of the business delivering strong year-on-year growth.
It is also satisfying to see strong contribution from both net interest income and non-interest income. Net interest income grew by 17% as asset growth was focused on high margin retail and Islamic products. It was also helped by a more efficient funding base thanks to current and savings accounts growth. Non-interest income grew 33% boosted by fee income from retail products as well as our trade finance, foreign exchange and brokerage & asset management business. We also saw gains from sell of property and investments.

The bank's balance sheet has strengthened further in 2014 thanks to an improvement in the capital, liquidity and credit quality ratios. The non-performing loan ratio improved by 6.1% in 2014, to 7.8%, due to the reclassification of the bank's Dubai World Exposure, the write-off of the fully provided retail loans, and strong recoveries on the back of a strong economy. The capital adequacy ratio is strengthened by 1.5% to 21.5% thanks to retained profit. The bank's ability to attract and retain stable deposits helps improve our vast deposit ratio by the 4% to 95.2%.

Finally, the bank made good progress on our strategic imperatives for 2014. We expanded our digital banking platform across all channels and launched innovative products. We were the first bank in the UAE to offer IPO subscription through online banking channels. We continue to focus on attracting and training top Emirati staff. We have made good progress in transforming our wholesale banking franchise. We are already seeing immediate benefits through the cross-sell between our wholesale bank and our treasury.

Overall, I'm extremely pleased and proud of the bank's performance in 2014 and the stronger balance sheet. I'll talk in more detail about the strategy later, but before this I'll hand over to Surya who will start going through the detail of the presentation. Surya?

Surya Subramanian - Group CFO
Thank you, Shayne. It's always a pleasure to talk through record results. I'll refer to slide 3, which is the full-year view, and slide 4, which is the quarterly view as I'll talk to.

Our full-year revenues for 2014 at AED14.4 billion cap a successful year, 22% over the last year, and the key drivers remain margin improvement due to active balance sheet management and increased fees on the back of volumes generated in an improved economy. In quarter 4, we maintained our conservative provisioning policy and delivered a full-year net profit of AED 5.1 billion, which is an improvement of 58% on the previous year.

Our net interest margin for the quarter at 2.91% was broadly stable compared to the third quarter, and the annual improvement of 22 basis points in margin reflects the success of our asset mix, capital optimization and funding strategies.

Non-interest income for our core business was stable in line with the previous quarter supported by transactional income linked of trade, banking services, treasury sales and not to mention a few IPOs that came to market. Quarter 4 of 2014, however, did not have any material sale of investments of property from our legacy book.

Headline advances to deposits ratio improved to 95.2% as we continue to boost our deposit-raising efforts.

Total costs for the quarter were AED1.2 billion ticked up a bit as we had indicated in our last quarterly call to reflect investments in staff and customer service development areas. Our adjusted cost-to-income ratio as we eliminate a property and legacy investment sale will be 31.3% for the full-year, which reflects both the impact of an income uplift and disciplined spent.

Provisions for the quarter are AED1.2 billion, and this remains in line with our guidance for 2014 as we achieved 100% coverage. It is pertinent at this moment to identify three major components of the NPL and coverage movement for the year. Recoveries on the back of an improved economy and our own collection effort; Dubai World reclassification; and the write-off of fully provided retail loans.

Later in the presentation, Paddy will speak more about these in terms of the exact numbers.

Moving on to slide 5 on net interest income, 2014 has been a year of rebalancing, be it the asset and liability mix or our capital and funding structures. Together these drove net interest margin higher by 22 basis points at 2.85% for the full-year. Quarterly net interest margin did drop a bit to 2.91% from the highs of Q3 2014, but this was expected.

Looking ahead, we are mindful of competition for loan growth and the spread compression it brings. Offsetting that will be a rate rise expectation, which appears more realistic now than it did in previous years, and our book is positioned to benefit from the same. As indicated in our last call, we do expect to reset higher the term profile of our funding base in 2015 and all these put together lead us to guidance for 2015 at 2.7% to 2.8% for the full-year.

Moving on to slide 6 on funding and liquidity. Our advances to deposits ratio improved significantly to 95.2% for the quarter, and this was due to a renewed push for deposit growth post the slow summer combined also with the reversal of the IPO leverage effect that we saw at the end of quarter 3.

Emirates NBD's liquid asset position is strong and at AED56.6 billion now covers 17.9% of total liabilities.

Our debts shown maturing in 2015 are mainly short-term private placements and these are within our capacity to roll-over or repay in the normal course. You will be aware that we are one of the most prolific issuers in the private debt market here in the UAE. We continue to raise term funding opportunistically and in quarter 4 we took advantage of a favorable window in the EMTN space to raise $1 billion of five-year money at LIBOR plus 150 basis points, which is one of the cheapest funding we have raised in many years.

Also earlier in the year, we repaid the outstanding balance of AED 4.8 billion to the Ministry of Finance that came in during the crisis era and that was repaid out of existing liquidity.

Slide 7 shows the loans and deposits strength, and this has been pretty even for the year. Retail and SME loan growth underpinned the moment for 2014 as corporates stay deleveraged or have accessed capital markets instead of approaching banks for their funding needs.

Islamic finance grew at a steady pace throughout the year to reflect an annual growth of 8%.
Loan growth for 2014 overall came at 5%. The math would show you 3%, but you would recall that the wrote-off retail loans of AED 4.4 billion that were fully provided, so once you adjust for that the loan growth is 5%. And in 2015 we expect similar trends overall the loan growth to be 5%. As the non-oil sector to which we are most exposed here in Dubai is still showing signs of resilience despite what is happening in global oil markets. Deposits grew substantially for the quarter as we renewed our efforts to bring in stable funding. Current and savings accounts as a percentage of total deposits were maintained at 58% of total deposits and will remain an area where we will continue to stay focused.

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

Patrick Clerkin – Head of Investor Relations
Thank you, Surya.

On slide 8, we see the total non-interest income improved by 33% in 2014. Core gross fee income improved by 10% year-on-year and by 3% quarter-on-quarter. It's pleasing to see that the general trend across all components of fee income is upwards.

Importantly, the investments that we've made in our business and the products that we have introduced such as eIPO and DirectRemit should be supportive of future fee income. We will look to grow our share of these popular remittance markets and expand our service into other favored remittance destinations.

Investment banking fee income continues to grow and we saw Emirates NBD capital, our investment bank, ranked number three globally for US dollars sukuk issuance in 2014, by number of issues. The investment bank also ranked number three book runner from MENA bonds.

Emirates NBD asset management is now recognized as a leading asset manager in the UAE with over AED10 billion in assets under management. Emirates NBD Securities, the brokerage arm of the group, improved its market position in 2014 as we saw our trading volumes grow by 14% during the year.

Property income grew 57% in 2014 as we saw nearly AED1.3 billion of inventory during the year. It's fair to say that we have seen property sales slow in Q4 reflecting a slowdown in the Dubai property market. We will continue to dispose of the remaining AED1.9 billion of inventory as and when we see the demand.

Moving on to operating cost and efficiency on slide 9. The cost-to-income ratio improved by 5% over the year from 35.4% to 30.4%. In the final quarter, the cost-to-income ratio increased 33.1%.

The improvement in the cost-to-income ratio is going to absolute costs only increasing by 5%, which is well below the increase in income.

The cost increased in Q4 relates mainly to an increase in marketing as we prepared to hit the ground running in 2015. The cost-to-income ratio will be managed within the longer-term target range of 33%, and the existing headroom in the cost-to-income ratio gives us the ability to continue to invest in people and systems in order to support future income growth.

Moving on to credit quality on slide 10. The NPL ratio closed the year at 7.8%, an improvement of 6.1% in 2014. The coverage ratio reached the bank's management target as it ended the year at 100.3%.

Impaired loans fell substantially due to a number of factors. As was mentioned earlier, we were able to reclassify Dubai World as performing. We also wrote-off AED 4.4 billion of retail loans that were fully provided for. The vast majority of these loans were dispersed over four years ago, and some of these were actually 10 to 20 years old. The write-off applies to both conventional and Islamic retail business and brings us in line with the policy of other banks.

The financial restructuring and remedial unit continues to be successful and proactively seeking resolution on the non-performing loan stock. During 2014, we oversaw a resolution of some AED 2.7 billion of non-performing loans.

We took a net impairment charge of AED 5 billion dirhams in 2014. Now that we have reached our target of 100% and bearing in mind that this does not allow for any collateral, we expect the provisioning will revert to more normal levels going forward.

We remain encouraged by the positive level of write-backs and loan resolution that we see on the impaired loan portfolio. We will provide revised guidance for NPLs and coverage in the near future. At this stage, it's sufficient to mention that we expect to see some further improvement in the impaired loan ratio in the medium-term. We also expect provisioning to be at more normal levels going forward.

Total portfolio impairment allowances now stand at AED 4.3 billion or 2.7% of credit risk with assets, and this comfortably exceeds the 1.5% central bank requirement.

Slide 11 on capital adequacy shows the Emirates NBD Tier 1 ratio improved by 2.7% during 2014 to 18%. Over a similar period, the capital adequacy ratio improved by 1.5% to 21.1%.

The improvement in Tier 1 was primarily due to retained profit as well as a $500 million Tier 1 issue.

The more modest improvement in capital adequacy was due to repayment of the final amount of Ministry of Finance Tier 2 deposit in the middle of the year, and with that we have repaid the entire amount of crisis era support.

We embarked on a capital management exercise at the beginning of the year and we've been successful in transforming the capital structure to be more capital efficient and cost effective.

And with that, I'll hand you over to Shayne to run through the remainder of the presentation.

Shayne Nelson - Group CEO
Thanks Paddy.

Slide 12 details of our Egyptian business. We expect to integrate this business into Emirates NBD platform in the middle of 2015. Despite a challenging political and economic environment, the Egyptian business has continued to perform well, contributing AED 706 million of revenue and AED 232 million of net profit that improved the results in 2014.

It's good to see deposit growth has continued in Egypt, a clear sign that retail and corporate customers are very comfortable with the quality of the Emirates NBD brand.

The cost-to-income ratio has improved during the year, and we expect this trend to continue and as we realize more synergies as Egyptian business transitions on to the Emirates NBD platform.

Moving on to divisional performance on slide 13. The retail banking and wealth management unit continue to grow its revenues by 8% during the year. We continue to see good loan growth in this part of the business with net loans up 11% since the beginning of 2014 and deposits up 12% over a similar period. Retail assets such as credit cards, auto loans and personal loans tend to be more profitable and growth in this part of the business helped to contribute to the 22 basis points improvement in net interest margin during the year.

Islamic Banking delivered a very impressive 34% revenue growth in 2014. Financing receivables increased 14%. As with the conventional bank, this growth has focused mainly on retail and SME. The 6% drop in the customer accounts is primarily due to the full repayment of the Ministry of Finance deposit as we said earlier. Islamic Bank has continued to develop and strengthen its franchise through expansion of retail, SME and its corporate banking business.

Divisional performance on slide 14 we see the wholesale bank delivered 8% revenue growth while successfully growing its CASA and cash management business by 11%. Loan growth was flat during 2014 as new underwriting offset loan repayments.

The wholesale bank continued to focus on enhancing customer service quality in core areas increasing the share of wallet, increased cross-sell of Treasury and Investment Banking products.

Treasury's income showed an excellent 83% improvement during 2014. Net interest income showed improved thanks to the successful balance sheet hedging income. Non-interest income also improved with solid increase in sales revenue and a strong performance by the Credit Trading desk, which has established itself as a leader in regional credit trading.

On outlook, slide 15, we have revised down our 2014 and 2015 GDP forecast for the UAE by 0.5% on the back of recent falls in oil price. Lower oil prices would have an impact on government budgets. If the authorities decide to cut budget, government spending in response to sustained oil prices, this could feed into slower non-oil sector growth.
The latest Dubai budget suggests that spending on infrastructure and other projects will continue in 2015. The UAE has built up a substantial fiscal savings over the last decade and these can be used to finance spending during periods of lower oil prices.

In summary, we do not expect an impact on government budgets in the short-term. But if oil prices persist then this might force government to revise their budgets.

For Dubai, we have slightly high-growth expectations as the Dubai economy is based on the non-oil sectors.

Dubai property prices have cooled off in 2014. The year through December, mid-range villa prices fell 6.7% and mid-range apartments grew by just 4.7%.

Inflation averaged 2.3% in 2014, and we expect to see inflation around 3% in 2015.

Emirates NBD improved its capital, funding and credit quality ratios during 2014 that is well-placed to take advantage of the expected opportunities of Dubai and the region as a whole.

In summary on page 16, it was a momentous year for Emirates NBD.

We're the first bank in the UAE to record an annual operating profit before Impairments in excess of AED10 billion. We delivered a net profit in excess of AED5.1 billion.

We have seen the NPL ratio improved below 8%, and we've grown our coverage ratio to over 100%, allowing us to put our legacy issues behind us.

Strong probability and balance sheet means the bank is well-positioned to take advantage of the future opportunities of Dubai and the region.

On slide 17, the core strategy and objectives of service growth in 2014, and we strive to build a high-performance organization. We will focus on our key strengths and core businesses, we will control costs and invest in people and systems where appropriate. We will look for growth opportunities in our home markets that make sense. These will provide a solid foundation to deliver a superior costumer experience which will allow is grow our profitability, employee satisfaction and shareholder value.

On slide 18, I will finish off by highlighting some of the strategic updates. Customer service is of key importance to Emirates NBD. We have instilled and embedded a culture of service in every one of our employees. We know customers have a choice of where to bank and we need to keep ensuring that they receive the best possible service and the best possible products. As a part of this drive we have heavily invested in developing our digital capabilities in the bank.

We set a standard in the UAE for mobile and online banking. We're the first bank in the UAE to accept IPO subscriptions through online electronic platforms. Other products introduced in 2014 such as DirectRemit should help us grow our non-interest income in the future.

We also continue to value and develop talented nationals and ensure that our staff are fully engaged and proud to work for Emirates NBD. I was delighted to announce in July that Emirates NBD would open a 100-seat, all-Emirati call centre in Ras Al Khaimah.

We are very pleased for the growth of our retail and Islamic franchise, we have seen a transformation of their wholesale banking business given our cross selling opportunities.

Finally, we look to diversify our sources of income not just by geography, but also by growing and managing our different sources of interest and fee income.

Finally, we move on to the strategic priorities on slide 15 for 2015. We'll continue to focus on customer service and keep expanding this through social media and other platforms.

We will look to maintain a strong asset growth in the higher margin retail and Islamic franchises. We will look for diversification not just on the loan book, but also the sources of income. I want all investment, lending, and borrowing decisions to consider the economic and capital impact for the bank.

We will continue to streamline our processes and procedures because scale is important in keeping our cost-to-income ratio in our balance is absolutely critical.

We have some big work to do with integrating our Egyptian business from a technology perspective in 2015, and that will be a major milestone for us. We will selectively pursue organic growth in the current international markets, and we'll evaluate inorganic opportunities in markets that we understand and that makes sense.

And with that, I'd like to open the floor for any questions.

Patrick Clerkin – Head of Investor Relations

And if I could add, if you do have any questions please raise your hand and wait for the microphone to be passed to you. And for those of you on the webcast, you can submit your questions, and we will read them out for you.

QUESTION AND ANSWER

Shabbir Malik – EFG Hermes

Just a couple of questions from me. With the changing macro back drop -- what kind of -- what are your expectations in terms of -- what's the liquidity situation of UAE credit quality – will it be stressing current credit quality building up given what (inaudible - microphone inaccessible)? Could you expect some kind of a knock on effect in the short-term or it's more likely to be more than 12-month impact?

Shayne Nelson - Group CEO

Whether you will see a significant impact in the next 12 months? I think the concern for the region is going to be more. If low oil prices at this level stay where they are for long time medium-term, I think that's when you start to see impact. For economies like Saudi and the UAE who had built up massive reserves, I don't think the short-term is an issue. It's more the medium to long-term.

I think for the region it's a bit of a mixed basket. I think economies like Bahrain haven't built up massive reserves like the Saudi or UAE has. Some non-oil producing countries like Egypt, from the face of it, it looks like they should benefit from lower oil prices. But on the same token they were also a significant recipient of aid and capital investment from the region. So it's a two-edged sword that, yes, their budget will benefit on that. But if oil prices are low, then the parties are supporting some countries with aid and for an investment continue to invest in those countries.

So I think it's a bit of a mixed bag. If it continues in the medium-term at these prices there will be more view on that one. Do I see a tiny liquidity? I think, at the moment, liquidity is fine. I think the advance-to-deposit ratio we got 98% as of the end of November if I remember correctly.

So it's far better than it previously was in the pre-crisis, so structurally liquidity is in a far better position than we were historically. Also I think that if we look at the capitalization on the banks now, far more capital. I'm sure you're doing your analysis how much capital we've got and look at our capital ratio of 20%.

So I think from a capital perspective, from a liquidity perspective, we're in a far better position than we were historically. I think thirdly we're in a position where the banks have improved their credit underwriting skills over the time. So I think again most of the problems are behind us over the issues, and then going forward we're in a reasonable position. I am confident for 2015, and I think for the medium term I'm confident. If oil prices keep staying where they are, I think then there will be an issue around our government budgets. However, Dubai doesn't rely on oil, I mean, non-oil is a significant part of it.

Shabbir Malik – EFG Hermes

Given that you have already reached your NPL coverage target and NPL formation seems to be quite low at the moment. What are your expectations for provisioning for the next year, given that you're not expecting stress in the short term?

Shayne Nelson - Group CEO

Well, we don't give guidance on what we think we're going to charge off. We don't do that, but I think it's fair to say that we expect our provisioning levels to come too far more normalized levels. We have still got quite a stock of problem loans, albeit that they are fully covered and a lot of them are collateralized.

How quickly we can work for that stock, to make big material impacts on what we charge them off because there will be write backs because we're 100% covered. So I think that's one issue.I think the other issue as we go forward is on the new accounting standards. We're going to have to start working to expected loss scenario, so it's also about how much we build up to convert it, so your portfolio impairment provision building that up to an expected loss provision.

Also, there's always a cost of risk of doing retail banking. So there'll certainly be an ongoing charge which we don't really expect and we'd expect that to grow but to be stable on credit cards, personal loans, etcetera. There's always ongoing cost for that.

So I'm sorry, I can't answer your question on that specifically but hopefully, I gave you enough guidance that, you know, we are confident that we'll become more normalized but we're not sure because it really depends what the charge-off is going to depend on, also what is the recovery because that's an important element of it.

Shabbir Malik – EFG Hermes

If I may, if I look at your exposure to related party, what I've noticed that over the past four, five quarters, there has been a continuous growth of $1 billion increased exposure to that party. Although I don't feel that it's something to worry about now but given the large exposure rules, do you think that complying with large exposure rules and given your increased exposure to related party, there wouldn't be any disruption in terms of profitability, let's say, not now, in three to five years?

Shayne Nelson - Group CEO

We have put a five-year plan to the Central Bank. So our intention is to adhere to that five-year plan. If we have to amend it, we'll go back to the central bank but we haven't. That's really what I can say about that one. It's, we're aware of it, we're certainly monitoring it and certainly we're working with clients now.

Shabbir Malik – EFG Hermes

Just one, This is a suggestion.

Surya Subramanian - Group CFO

Adding to that point, we've always had this debate around whether it's loan growth that drives profitability or not and you've also seen we have successfully managed the other side of the balance sheet. So it's never a static analysis. If a certain component moves faster or slower then we can take action as management and another component to balance the net interest margin and you've seen that we've actually delivered on that promise on recent years.

Shabbir Malik – EFG Hermes

And finally, just a suggestion, we have a lot of clients who we're interested in getting into Emirates NBD and getting exposure into Emirates NBD, but the problem they are facing is the foreign ownership limit, which is at 5%. Now, what we think is, if Emirates NBD is able to increase its foreign ownership limit, it increases the bank's chances of making it to the MSCI and also, you know, removes the gap, and the valuation gap between Emirates NBD and other banks. So it's I think very positive for the major shareholders and you don't have to go in a big way. You can -- even if you raise foreign ownership limit to 10%, I think it's still going to create a lot of liquidity and also help a lot of investors who want to buy into the story.

Shayne Nelson - Group CEO

Point taken. Certainly it’s something that we’ve looked that and we know it and we constantly talked to the board about foreign ownership limits and I hear you.

Shabbir Malik – EFG Hermes

Okay, thank you.

Sanyalak Manibhandu – National Bank of Abu Dhabi

Can I take from you on your dividend policy? You very nicely hiked your dividend for 2014. But what was the thinking behind that? You know, could you relate it to, let's say, something that's basic, that has a payout ratio or can you relate it to your capital levels?

Surya Subramanian - Group CFO

I'll respond to the math first, Sanyalak, and we also need to remember that dividend policy is a shareholder call at the AGM and not a management call. But if you look at our history, we paid approximately 44% last year when the dividend was 25 fils. The year before, it was slightly above 50%, 54% if I'm not mistaken. And this year, if you work out the math, it will come out to 38%, but obviously, the absolute profits are going up as well, so what was a 20-fil dividend became a 25-fil dividend and now, its 35-fil dividend. If you look at the history of this organization both Emirates Bank International and National Bank of Dubai, they have always been in the high 40s I'd say, 40, 45 bonus issues periodically. That would be the legacy of this organization. Clearly, we have the capacity to do that. But these last few years, I've also been getting the credit quality sorted out, getting the coverage sorted out, we are now at the end of that journey.

Sanyalak Manibhandu – National Bank of Abu Dhabi

Just one more question on your inventory of property assets. I think Paddy mentioned AED 1.9 billion in inventory. Obviously, prices have slowed. But I mean do you need to dispose or can you wait for better prices or do you see shedding some stock over -- from your inventory as a way to enhance your quarterly performance and the bottom-line?

Shayne Nelson - Group CEO

I mean, when you are looking for property sales to reach down profitability, that's on a –that's certainly not our core aim. I mean, we thought the property prices would slow and that's why we are aggressively pushing in the first half to get rid of some of the stocks we had and we thought demand might slow a bit as well, which it has. So I think from that perspective, our timing was very good.

If we can't get the price then, we weren't -- our capital is strong enough that we don't need dispose of the remaining price to drive additional capital. So I think, you know, when we see a decent deal on a decent property, we will take that opportunity. For us, property is not a core asset that we want to earn other than strategic ones that we use ourselves. The risk to me is legacy that we want to dispose of when the timing is right.

Sanyalak Manibhandu – National Bank of Abu Dhabi

Thank you

Surya Subramanian - Group CFO

Okay. In terms of the accounting impact and the relevance in 2014, the amount we realized through property sales as gains was only about 300 million. And even through sale of Union Properties, we made another 300 million. So in total, you are looking at 600 million out of a 14.4 billion total income. As far as the 1.9 billion inventory is concerned, in the financial statements, because it is treated as inventory, we hold it at cost or lower of cost, we don't fair value it. You'd recall that these were swaps with Union Properties done at the depths of the crisis in 2010, 2011 and so on. So the market would have to drop significantly for us to have to test that cost line.

Patrick Clerkin – Head of Investor Relations

We have a few questions coming in from the webcast, and the first couple are from Chiradeep at Sico. And is your retail write-off policy going to change in the future? And secondly, how is your credit risk coming down while your NIMS are improving? And a few more questions coming in from Sandip at Damac. And the first one is on the large exposure which I think Shayne has addressed already. The next one is on the M&A strategy regarding geography and business area of focus. The third question is views on the intense competitive market scenario especially on the retail segment. And the fourth question which I will certainly answer is the -- its about capital and where we continue to raise capital and then our view on the existent structure of our capital and on potential Basel III compliance in the future. Okay.

So first of all, retail write-offs, is the policy going to change in the future?

Surya Subramanian - Group CFO

Okay. Our policy has not changed. The policy for write-offs has always been when we have exhausted all possibility of recovery. It is just that the legacy retail loans people kept hoping that there would be a hope of recovery. And we just brought ourselves in line with the market.

And going forward, this would not be an issue for the retail because after 180 days past due when they are fully provided these are retail unsecured loans. We would write it off in line with what other banks do in the market. To the second part of the question about how do we maintain our NIMS as credit risk-weighted assets come down, it's worth mentioning that with improved capital efficiency, we have managed to better credit risk-weighted assets profile of the book.

There's also one other major movement in that Dubai world when it was treated as non-performing attracts 150% RWA than it was treated as performing attracts certainly 100% RWA. So that one reclassification alone will give rise to AED 4.3 billion of risk-weighted assets benefit. If you adjust for that, the rest of the book is pretty Okay.

We did go a bit slow on credit but we made it up with the new products. If you look at the market risk component has gone up because we are doing more of derivative sales which gives us the income with our customers. I'll hand over to Shayne for the M&A strategy and the question on retail competitive market.

Shayne Nelson - Group CEO

I think on the M&A strategy, I think it took us five years to find Egypt, and that's proved to be a very good acquisition for us. I mean one of the things I'd say a few banking acquisitions where actually we've beaten the forecast that we -- that we committed to the model for the acquisition itself. So it's been a very, very good performance from our Egypt business. Where would we look? In the Middle East and North Africa, East Africa is really where we focused on for acquisitions. We will have obviously more capacity now with that capital position and have profit generation. But from my perspective, I'm not prepared and neither is the board for an acquisition. We saw Egypt as a very good priced and it's turned out to be a good proposition for us. But other bank just for the sake of diversification of income is not what we will do.

And just adding to that, if I can, I would say, we think, for example, the Egyptian market from organic growth will be something that we could push a lot harder as we go forward. If we look at the sophistication of the banking system, what we can deliver in products, where we stand in market share there which is pretty low, it's about 1.5%, we can certainly grow our market share there quite rapidly, given the population in each point of market share with a quite a lot of business. So for us, we think we can do a much bigger operation in Egypt and push a lot of investment into that as we go forward.

What’s the next one?

Patrick Clerkin – Head of Investor Relations

Retail competition.

Shayne Nelson - Group CEO

Retail competition, we have market share probably between 15% and 22% depending on the retail banking product, so one of the things that we do have as an advantage is a network which is the largest ATM network, the largest branch network. So our capacity to attract clients with our brands and our proposition I think is very strong.

So yes, I expect increased competition from the market, but actually replicating what we built throughout many years is difficult. If you look at the profit contribution from our consumer bank, it's very solid. The diversification of how we have built the business, this is not just a credit card and housing loan and personal loan business, this is a wealth management business, this is an asset management business, this is a brokerage business. These are stuff that you can't build overnight.

I think one of the biggest advantages that we had is our digital capabilities that we've been able to deliver. Together with the way we've been able to improve and instill our customer service culture. Price is easy to match and sometimes product is easy to match. But actually, instilling the right channels and service culture and delivery to clients is not easy to match. That takes a long time to replicate. So we'll continue to innovate when it comes to digital. We are very focused on it, one of the catch phrases we use is digitize or die because at the end of the day, it's better for the clients, we can deliver more sophisticated products, quicker, and at a more cost effective basis for the clients. So for us, it's -- we need to keep spending money and push on our digital strategy.

Next?

Patrick Clerkin – Head of Investor Relations

The next question was on capital, will we be able to continue to raise expensive tier 1 perpetuals and what's your view regarding the loss absorption feature on our existing tier 1?

JSC Earnings Call

I think if you look at our tier 1 ratio, it's at 20 -- capital adequacy ratio of 21.1% and tier 1 ratio of 18%. It demonstrates that we are very, very well-capitalized. And regarding the structure and again, we still await central bank guidance regarding Basel III and there's been nothing published yet. And as and when those guidelines are published by the central bank, we will -- we will certainly take stock of those but our capital remains Basel II compliant which is the capital system that we currently and UAE banks currently operate within the UAE.

Nisreen from Arqaam has asked, what's Emirates NBD's lending outlook for 2015 and which sectors would be the drivers?

Shayne Nelson - Group CEO

We see loan growth at about 5% and probably similar in our deposit growth, so that advanced deposit ratio about 95% is probably where we'd like to be. Our guidance is 90% to 100%, so we're sort of bang in the middle. I still see that our drivers of growth are really going to be around our retail franchises in both Islamic and conventional.

So it's the credit cards, it's the personal loans, the housing loans in both conventional and Islamic. I think we will also see higher leverage as we go forward and businesses like Private banking unit is doing a great job as they get more and more sophisticated Clients and products within that unit, so I think that will be from a loan I think and deposit growth.

Corporate banking, I think you're seeing an increasing number of our clients go to the Sukuk market. There's a lot of liquidity there, a lot of demand. And frankly from a risk capital perspective, it's better for clients to be -- with long-term issues to be on a Sukuk than it is on a bank balance sheet. Very rarely, we get the right return on risk capital on a long-term loan versus the cost on our Sukuk.

So I think more and more of our clients are going there and that also benefits us in as much as our returns but also we're good at Sukuks. So we're one of the leading houses in the world, the U.S. dollar Sukuks and I think there is a benefit for us there and fee income as well, so converting I think NIM to NFI.

Patrick Clerkin – Head of Investor Relations

Okay. A number of questions have come in from Rahul Shah at Deutsche Bank. And the first --

The first one is outlook, what's the base case for the business and how is the management positioned in the business to be resilient to these challenges?

Shayne Nelson - Group CEO

Well, we go into 2015 confident. We're forecasting Dubai's GDP growth at 4.7%. So -- and that's where most of our exposure is. So we remained confident. I've given the guidance on where we see loan growth and deposit growth. What else would you be looking for?

Patrick Clerkin – Head of Investor Relations

Has there been any impact on our business from the decline in oil prices?

Shayne Nelson - Group CEO

So far, I -- we haven't seen anything. I'm looking at -- Jonathan over there, anything on even on the trade side? It's going to hold out right. So I think the answer at this stage is not. We've seen -- we're seeing no effect.

Patrick Clerkin – Head of Investor Relations

Okay. And how much of a drag in the loan growth will arise from the need to meet the UAE central bank large exposure circle?

Shayne Nelson - Group CEO

I think that's a good question. I think one of the things that we're doing a lot better job of is actually selling down and selling down our loans and therefore generate space within those limits. And also I think the market would -- the Sukuk market is also meaning that we don't come into the bank balance sheet necessarily but be coming to the bank but not the bank balance sheet. And so I think the churn of that and the better usage of capital is something I think we will continue to do. So I don't think there seems to be a drag necessarily on fee income and as we generate loans and sell them down, we'll take them to the market for the Sukuks.

Patrick Clerkin – Head of Investor Relations

Two more from Rahul. Was there any change in the volume of provisions set aside against Dubai World in Q4?

Surya Subramanian - Group CFO

I'll answer that one. Dubai World, as you would recall was an interest-only amortization. We started a couple of years back with a provision of slightly over 700 million that had been amortizing over the years through the EIR methodology of IS-39. And the last reported balance we had against it in quarter 3 from memory, I'll recall…..

It was a slightly -- close to 400 million, if I am not mistaken at quarter 3. We've obviously stopped disclosing the number in the pack, because now, it's a performing loan. That obviously washes with the rest of the provisions we had during the course of the year so you have had a release of slightly under 400 million and you have new provisions taking the net impairment charge to 4.995 billion.

Patrick Clerkin – Head of Investor Relations

Okay. And there are further questions from Rahul. What's the long-term ROE potential of the business?

Shayne Nelson - Group CEO

We generated a return on equity of 17.6% this year and an ROI of 1.46%, Rahul. So that was up from I think an 11, and what was the other number? One. So we're transforming the returns pretty quickly. Unfortunately, I think if I give that, we'll be able to be work out exactly what we think the profit number will be, right. So we don't give product forecast but I think you could work out pretty quickly that -- and I know I've seen some of the research you guys have already completed, the return of equity with a normalization of our bad debts will increase quite substantially.

Patrick Clerkin – Head of Investor Relations

Okay. A few questions from Eisa at Kamco in Kuwait, any expected settlement with Dubai Holding?

Shayne Nelson - Group CEO

Okay. On that one, so we don't comment on individual clients other than what's in the press. So I can't answer that.

Patrick Clerkin – Head of Investor Relations

A question, any update regarding Noor Bank sale?

Surya Subramanian - Group CFO

That's somebody else's bank.

Shayne Nelson - Group CEO

Yes.

Patrick Clerkin – Head of Investor Relations

And any expected recoveries in 2015 and 2016?

Shayne Nelson - Group CEO

Expected recoveries -- I hope so, is the answer. Certainly, the financial restructuring, you know, what they're doing is this job because that is what they are for. So we certainly hope so. What they are, is always to difficult to tell, I mean as you know, even if we cure a loan tomorrow and it's performing as an interest, we'll have to wait 12 months before we can reclassify this as performing. So even if you fix one today, it doesn't mean you get an immediate impact. But certainly I can assure you, they are working very hard. They've been very successful since their formation and they're doing a great job. So we expect recoveries in 2015 and 2016 and if we don't, I'll be a pretty disappointed man, at the end of the year with that unit especially.

Patrick Clerkin – Head of Investor Relations

Okay. Three questions coming in from Aybek at HSBC. The first question, Shayne, you've already answered on future growth given the central bank caps.

Shayne Nelson - Group CEO

Yes.

Patrick Clerkin – Head of Investor Relations

Second question, what's the view on general...

Shayne Nelson – Group CEO

The other thing I'd say on central bank caps is I would expect more government-related entities that are captured onto this to get rated. One of the things is when they're rated, that -- and if it would investment grade rating they don’t fall within the cap. So I would expect the market as we move forward to drive more the clients' GREs get right -- get rated, so that will also, I think, will help the industry as we move forward. So certainly, we are talking to our clients about that. You know, if we believe that getting investment grade rating, why don't you get rated because it helps everyone. And it also helps to -- if I go to the market it helps pricing, it also helps the bank's balance sheet as well.

Patrick Clerkin – Head of Investor Relations

Okay. The next question is, what's the view on general and collective provisions and Emirates NBD -- to take in 2015, what percentage of the loan book would they -- you know, would be like to allocate into this?

Surya Subramanian - Group CFO

Well, the central bank requirement is 1.5% of credit risk-weighted assets and we are above that at the moment. Part of it for the retail book is clearly a flow through mechanism and the rest of it within the corporate book is more of a model. And today, given where we were coming through the cycle, it's fair to say we're trying to be closer to the conservative end of the range because we needed to up our coverage and we keep re-assessing whether we need to be at the conservative end or at the more aggressive end but that's a function of the economy as it moves and how our loan book transforms itself.

I do not expect the percentage itself to change very much but if the absolute loan book grows then you would see a knock-on effect on that – on the volume of provision as well. But as Shayne said, it fits in very nicely into the transition to IFRS-9 which starts in 2017.

Shayne Nelson – Group CEO

So in other word, accounting standard.

Surya Subramanian - Group CFO

Absolutely. That's what I'm here for, Shayne.

Patrick Clerkin – Head of Investor Relations

We have a few more questions. The next question is the investment in Emirates NBD's Egyptian unit.

Shayne Nelson – Group CEO

Yes.

Patrick Clerkin – Head of Investor Relations

And what's the allocated budget for that and how much can that add in cost?

Shayne Nelson – Group CEO

It was the allocated budget as it is for -- the budget for 2015.

Patrick Clerkin – Head of Investor Relations

For Egypt, yes.

Shayne Nelson – Group CEO

No, that's not one we will (inaudible).

Surya Subramanian – Group CFO

It's within our numbers.

Patrick Clerkin – Head of Investor Relations

And yes.

Shayne Nelson – Group CEO

And I think we've got the numbers in that for 2014 but (inaudible).

Surya Subramanian – Group CFO

You know, you can see, if I can say, it's critical investment for us, as Shayne mentioned, it's the first investment we have made overseas in a long while but it's still a small part of the balance sheet and the P&L.

Patrick Clerkin – Head of Investor Relations

Yes.

Surya Subramanian – Group CFO

You'd recall from history the paid $500 million for it.

Shayne Nelson – Group CEO

I mean in perspective, it's important business for us but we have lots of divisions that have far more revenue and profitability than Egypt within UAE now.

Patrick Clerkin – Head of Investor Relations

Okay. And just a couple of more questions, Nisreen from Arqaam has asked that with CASA at 59% of total deposits and is there any further room for reduction in cost of funding?

Surya Subramanian – Group CFO

In theory, you could go to100%, but in fact, as we know, we will never get there. It becomes tougher as you're trying to get to a 70% mark.

Shayne Nelson – Group CEO

But not that it wouldn't be 100%.

Surya Subramanian – Group CFO

Exactly.

Shayne Nelson – Group CEO

Structurally.

Surya Subramanian – Group CFO

So there's a little bit of play left there but I think the bigger play is obviously on the rate rise expectation because that then kicks in to the asset side of the balance sheet giving you a higher revenue without necessarily adding onto your cost. It's also fair to say we've had these debates whether some of these deposits would be cannibalized and moved from current and savings accounts to fixed deposits when that happens. Our strategy has been different. We haven't added to the balances of existing account holders. We've added new account holders. So the transactional volumes there will remain statistically.

Patrick Clerkin – Head of Investor Relations

Okay. A few more questions, the next question has already been addressed by Shayne from [Sutakan] and -- regarding sovereign exposure. And Siddharth at Franklin Templeton and Shayne has addressed your Dubai Holding question, and also your known GRE loan growth question. And so it's a normalized sustained ROE, we've addressed that one as well. Then the final question from, again, it's [Sridhar] at Franklin Templeton, and exposure to loans and Islamic loans and -- Islamic loans to sovereign assets has increased from 40% to 46%. And do you see any adverse reaction to these exposures on oil prices? And I think that's asking because of the government [lending], do we see an increased risk due to lower oil prices?

Shayne Nelson – Group CEO

For the UAE, is that what you're asking?

Patrick Clerkin – Head of Investor Relations

For our book, so our mix within our book..

Shayne Nelson – Group CEO

Yes. I suppose the exposure is -- and certainly, if you had Russian exposure, you'd be -- you certainly have more risk. I think fundamentally, the reserves, the reserves that the UAE has built up, that Saudi has built up, I mean that there's lots of buffer there for quite a while. So I think there's much risk in the balance sheet from that flow through at the moment. We don't have a lot of exposure to oil servicing companies or drillers, for example, so I don’t see that can be much of an explanation.

Patrick Clerkin – Head of Investor Relations

And the final question from Sandip at the ADCB, consumer banking interest income was increased on the 1.2%, so is only Islamic banking getting the benefit from retail individual customers?

Surya Subramanian – Group CFO

I mean I would certainly answer that as, you know, we look at things across the -- across the group. And we don't necessarily net off the cost of retail funding against the margin that we own in retail assets. It's done a group way basis, and so, you know that really -- there isn't a silo mentality here when it comes to funding or growth funding.

Patrick Clerkin – Head of Investor Relations

Okay. I think that's all the questions, [and complete]. Thank you all very much for attending in-person and via the webcast. For those who are here today, you're very, very welcome to continue afterwards and join us for some refreshments.

Shayne Nelson – Group CEO

And for those here, apologies for the sound of the audio and hopefully, you didn't get the feedback on the webcast. Thank you very much.

Patrick Clerkin – Head of Investor Relations

Thank You
