EMIRATES NBD Q3 2015 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL
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PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Emirates NBD Full Year Results Announcement Analysts and Investors Call. If we are all ready to begin I will now pass the call over to our host Mr. Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

I would like to welcome you all to the Emirates NBD results conference call for the Full Year of 2015. Supporting me today, as per usual, will be Surya and Paddy, our Head of Investor Relations. Together, we will review the operational and financial highlights for the financial year of 2015. We will refer to the results presentation, which was made available to you earlier today, after which you will have the opportunity to ask questions as per normal.

2015, has been a more challenging year than 2014, both globally and regionally we saw a number of geopolitical issues arise. The US Fed delivered a much anticipated increase in interest rates whilst number of commodity prices slumped including iron ore, gold, and much closer to home, oil. 2015 saw GCC countries experience budget deficits as a result of that lower oil price. Faced with a particular period of lower oil prices, many countries in the region are adjusting their budgets. In 2015, we saw some GCC countries start to reform their approach to subsidies and taxation. The economies of Dubai and UAE, however, have been fairly resilient in 2015 due to the large non-oil element of the economy and the past efforts to increase diversification. Nevertheless, we are not insulated from the economic headwinds that have buffeted the wider region.

The weaker price of oil concerns over a global slowdown and the relative strength of the US dollar affected business and investor sentiment, as reflected in the UAE PMI and the Dubai Economy Tracker readings that have come down to low 50s. While still in expansionary mode, growth has clearly moderated compared to 2014.

Market liquidity conditions tightened in 2015 due to the outflow of government deposits, resulting in higher inter-bank rates and greater competition for corporate deposits. During 2015, we have seen the system-wide advances to deposit ratio deteriorate whilst Emirates NBD delivered an improved AD ratio as a result of our strong structural liquidity.

There has been a lot of talk in the media about cases of SME skips that have raised concerns about credit quality in this space and, while the banking sector exposure to SME loans is minimal, estimated around 3 to 5% of loans, the problem being that all banks classify it differently. As lenders we are mindful not to exacerbate the situation by pulling lines on SMEs. The Central Bank has been proactive in working with all banks to ensure a coordinated approach. We remain committed to SMEs and will continue to support this important segment of our business.

Amid these global and regional challenges, it's very pleasing for us to report a strong set of results for Emirates NBD in 2015. Net profit is up 39% underpinned by income growth, control on expenses, and significant improvement in the cost of risk. We maintained a tight control on costs even as we continue to invest in people and systems to grow our businesses. Not only has Emirates NBD delivered improved profitability, but we have also strengthened the balance sheet.

2015 marked an important milestone when, for the first time in the bank's history. We became a USD 100 billion bank due to 12% growth in the balance sheet. We also saw total income exceed AED15 billion and net profit surpass AED 7 billion, further reinforcing Emirates NBD's leadership position in the region. These results have enabled the board of directors to recommend an increase in the 2015 dividend to 40 fils from 35 fils.

Credit quality improved in 2015 and the impaired loan ratio trended down to 7.1% and the impaired loan coverage strengthened to 111.5%. There is further scope for improvement in credit quality as we continue to work our way through our existing stock of impaired loans.

Our capital position remains strong with an 18% Tier 1 ratio and a 20.7% capital adequacy ratio. The bank's AD ratio improved 1% to 94.2% in contrast to the 6% deterioration in the system-wide AD ratio. This strong performance is due to our highly diversified and stable deposit base. CASA deposits represent 56% of total deposits and underlines the value of our retail franchise.

Overall, I am very pleased, despite a challenging 2015, we have delivered a strong performance. We delivered a healthy growth in net profit, supported by enhanced asset mix, sustained improvement in credit quality and an improving cost of risk. Our strong balance sheet will allow us to take further advantage of any growth opportunities in our preferred markets. We are confident that, going forward, our prudent business model shall continue to deliver a solid performance and deal with the opportunities and challenges that will present themselves.

I will now hand over to Surya to start going through the details of the presentation.

Surya Subramanian

Thank you, Shayne. As usual, I will talk through slides four and five, which highlight the financial results for the year and quarter.

Revenues for the year at AED15.2 billion grew by 5% over 2014, with an 8% growth in net interest income and 1% growth in non-interest income. The growth in net interest income is largely due to asset growth and the lower cost of deposits. Growth in non-interest income was more modest at a headline level. However, there's 14% growth in core fee income, which was offset by lower gains from the sale of properties and investments that we had in 2015 compared to 2014.

Net profit for the group was AED7.1 billion in 2015, 39% above the profit posted in 2014. This increase in net profit was driven by income growth, a modest rise in expenses to match business volumes and the beneficial effect of reduced provisions. As indicated in our earlier quarterly calls, we continue to invest in customer-facing activities to enhance customer satisfaction, experience and to deliver future revenue growth. Revenues in quarter 4 increased by 13% from the previous quarter. Net interest income grew 3% quarter-on-quarter due to loan growth coupled with a modest widening in margins.

Non-interest income grew 39% in quarter 4, as core fee income continued to grow, and we also had some exceptional investment-related income. One encouraging factor is the growth trend in core fee income, which continues to grow despite the challenges we face in the economy as we serve more customers for retail remittances and we serve more corporates for derivative products. Total costs for quarter 4 at AED1.36 billion, increased by 21% over the previous quarter as we invested as normal in the last quarter on people and campaigns to hit the ground running in the new year. Overall, cost for 2015 increased at a more contained 8%.

Provisions for quarter 4 2015 are AED599 million, which is 27% lower than the previous quarter. I will have you note that this is also the sixth consecutive quarterly reduction in the cost of risk. These provisions together with problem loan recoveries helped improve the coverage ratio to 111.5% before taking into account the beneficial impact of collateral. We continue to see provisions normalising in the coming quarters. Our NPL ratio held steady during the quarter at 7.1% and has improved 0.8% during 2015.

The headline advances to deposits ratio, as mentioned by Shayne, improved by 1% to 94.2%. This improvement against the system-wide deterioration of 6% speaks about the strength of our franchise. I will speak more about this shortly. I am also pleased that during the year, Fitch affirmed their ratings on the bank while Moody's improved their rating outlook for Emirates NBD to positive from stable. The improved outlook reflects the favourable trends that we have delivered in both profitability and balance sheet strength.

Moving on to slide six, our net interest margins, declined by 5 basis points during 2015 to finish the year at 2.85%. We saw a decline in margins in quarter 2 and quarter 3 before margins recovered in the final quarter. The decline in earlier quarters was due to pressure on loan spreads and margins on a broad range of products experienced downward pressure in a competitive market. Treasury spreads remained flat as cheaper short-term funding offset an increase in more expensive term funding. Loan spreads in quarter 4 held steady against 11basis points increase in EIBOR rates.

Deposit spreads gave a positive contribution in quarter 4 despite significant competition for large corporate deposits over year end. The biggest contribution came from treasury spreads as we were able to deploy excess liquidity at attractive rates over the year-end. We expect margins to remain stable in 2016 in the range of 2.70 to 2.85. While the UAE remains a competitive market, liquidity is now a more valuable resource and we expect to see less aggressive loan pricing across the sector than in previous years. We also see some opportunity to reset margins when interest rates rise. All these factors combined to enable us to maintain margins in their current range with a slightly downward bias.

Slide seven reflects our funding and liquidity position. As already mentioned, the advances to deposits ratio improved to 94.2 during quarter 4 and remains within our target range of 90% to 100%. This is a very solid performance and underlines the value of the bank's well-diversified stable funding-base, and Emirates NBD remains well-placed to meet relevant prudential liquidity requirements. As Shayne mentioned, the bank has made significant efforts over the last number of years to strengthen our structural liquidity. We have done so by targeting CASA growth through our extensive branch network and superior product offering.

We took advantage of favourable market conditions in the early part of the year to raise AED10.6 billion of term funding in 2015 through a mix of public issues and private placements. We have AED 9.1 billion maturing in 2016. AED 3 billion of this is a club deal, which matures in December 2016, which we will most likely look to renew.

We are, as you know, regular issuers in the capital market, but we will only undertake a public issue when we believe the time is right both for the bank and its investors. Given our ability to raise private placements, as evidenced by the AED 5.8 billion issued in 2015, we are very confident in refinancing debt through private placements, public issues and other methods of raising term debt. Our liquid asset position remains strong and, at AED 50.5 billion, covers 14.8% of total liabilities.

Loans and deposit trends - slide 8 – we saw gross loans grow by 10% in 2015, with, Islamic financing growing at an impressive 27% during this period. Consumer lending also grew 12%, mainly due to growth in auto loans and credit cards. Our expectation for loan growth for 2016 is in the mid-single digit range. We expect a slower pace of growth in 2016 compared to the 10% loan growth delivered in 2015 as demand seems more subdued on the back of a slowdown in overall growth. We will, however, pursue growth opportunities in our core markets and with our key customer segments.

Deposits grew hand-in-hand with loans overall by 11%. The deposit growth we delivered in quarter 4 was through time deposits as we saw corporates locking in rates over the year-end. Despite this, current and savings accounts (or CASA as we call it), still represent 56% of total deposits and grew in absolute terms during the year. Deposit growth for 2016 will be in line with loan growth as we continue to maintain advances to deposits ratio in the 90 to 100% range.

With that, I will hand you over to Paddy.

Paddy Clerkin

Thank you, Surya.

On slide nine, we see that total non-interest income improved by 1% year-on-year in 2015. Core gross fee income improved by 14% year-on-year. This rise was driven by increases in trade finance, foreign exchange and derivative income, alongside growing credit card volumes.

Property income declined 47% on lower demand from bulk and individual property sales, compared to the high level of sales in 2014. It was a similar story with income from investment securities and other income, as this declined by 25% on the back of greater uncertainty in global markets, coupled with some large disposals in 2014, which were not repeated in 2015.

Moving on to operating costs and efficiency on slide 10. Costs increased by 21% quarter-on-quarter; as with other years we invested in marketing campaigns and other promotions in Q4 to hit the ground running in the new year. As a result and in line with previous guidance, the cost to income ratio is higher in Q4 compared to other quarters. Costs increased for the fullyear more modestly by 8% in 2015 due to higher staff costs linked with raising business volumes. The cost-to-income ratio rose modestly by 0.6% to 31% in 2015. And if you strip out the one-offs, the cost to income ratio would have been 32.7%. We maintain a strict discipline on spending, and we will look to manage the cost to income ratio within the longer-term target range of 33%.

Moving on to credit quality (on slide 11) as was mentioned earlier, the NPL ratio improved in 2015 from 7.9% at the beginning of the year to 7.1%, an improvement of 0.8%. Impaired loans improved to AED 20.8 billion, helped by over AED 2 billion of write-backs and recoveries in 2015. This, along with the routine provisioning, helped increase the coverage ratio to 111.5%. As with last year, we do not give formal guidance on a hard target for NPLs. Our recovery unit continues to work on the existing stock of NPLs, and are hopeful that they will be able to build upon the success they delivered in 2015.

We have seen the cost of risk fall for the sixth consecutive quarter in Q4 of 2015. It is trending towards more normal levels. Provisions were AED 1100 million in Q1, AED 900 million in Q2, AED 800 million in Q3 and AED 600 million in Q4. Provisions in 2015 were 32% lower than for 2014. The annualised cost of risk in Q4 is around 82 basis points as against the 116 basis points for the whole of 2015. Total portfolio impairment allowances now stand at AED 6.1 billion, or 2.79% of credit risk-weighted assets, and this comfortably exceeds the 1.5% Central Bank requirement.

Slide 12 on capital adequacy shows that during 2015, Emirates NBD's Tier 1 ratio remains steady at 18%. Over a similar period, the capital adequacy ratio declined marginally by 0.4% to 20.7%.

Capital has grown by AED 4.5 billion in 2015 due to retained profits. The growth in capital has largely offset the increase in risk-weighted assets, leading to a stable Tier 1 and capital adequacy ratios during the year. The increase in risk-weighted assets is primarily due to an increase in loans and treasury sales activity. The increase in operational risk is formula-driven, and is a function of increased profitability. At this stage and given the bank's strong profit generation, we have no further plans to raise any Tier 1 or Tier 2 capital.

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

Shayne Nelson

Thank you, Paddy.

On slide 13 we see that for retail banking and wealth management, loans grew by 12% in 2015. We saw good growth, particularly in auto loans and credit cards. During the same period, deposits remained flat while CASA balances continued to grow by 2%. Revenues grew by a modest 1% in 2015, but this was partly due to a change in the internal transfer pricing arrangements. We saw our fee income grow by 12% in 2015 driven by strong growth in foreign exchange remittances and credit cards. This strong performance in fee income is a result of the best-in-class products that we have introduced to you during the year on our award-winning digital platform. Online and mobile banking transactions grew over 27% during the year, outpacing branch transactions, which fell 17% in 2015.

Islamic Banking showed impressive growth, with financing receivables increasing by 22% in 2015 across a range of products. Customer accounts grew by 25% during the same period. As a result of this impressive growth, Emirates Islamic delivered a 21% increase in the income from Islamic financing and investment products in 2015.

Despite the slower growth anticipated in 2016, we still expect both retail banking and wealth management and Islamic banking to perform well, as we look to expand our product offering and enhance our digital capabilities.

On slide 14 you will see that Wholesale Banking revenue improved by 2% in 2015 due to asset growth and higher fee income. Loans grew 7% in 2015, while deposits grew 16%. Deposit growth was a result of our increased focus to grow corporate deposits throughout the year, especially during Q4 as we conservatively funded the balance sheet to ensure the bank was not exposed to any liquidity squeeze over year-end. During 2015, the Wholesale Bank continued to focus on customer service quality and share of wallet. This included improved cross-sell of Treasury and Investment Banking products and increased Cash Management and Trade Finance penetration.

Treasury income fell 76% in 2015, primarily due to a realignment in internal transfer pricing adjustments. We also saw a reduction in the size of the investment portfolio as well as the roll off some balance sheet hedges. Sales revenue on interest rate hedging products and foreign exchange sales grew by 16% in 2015 as corporate clients started to hedge their interest rate exposures in anticipation of the Fed hike. Global funding issued AED 10.6 billion of term debt through a mix of public deals and private placements in eight currencies.

In summary on slide 15, 2015 has been another successful year for Emirates NBD. In a challenging year, we have delivered a 39% improvement in net profit to AED 7.1 billion. We have continued to strengthen the bank's balance sheet, with robust capital ratios and improved credit quality and liquidity ratios. We have seen total assets cross the $100 billion mark. Total income exceeded AED 15 billion, and net profit surpassed AED 7 billion, for the first time in the bank's history, further reinforcing our leadership position in the UAE. We have also enhanced our global reputation as we were named Bank of the Year both in the UAE and the Middle East by The Banker. We have expanded our product offering and enhanced our digital capabilities.

We have completed the integration of the Egyptian business onto Emirates NBD's systems platform, which will enable us to expand our product offering in the local market.

As for the macro outlook, we expect growth in the UAE to slow further to 3.8% this year as a more cautious fiscal stance of strong dollar, geopolitics and an uncertain global economic outlook continue to pose headwinds. However, oil output is expected to rise in line with official targets, and this, along with the infrastructure development, should help underpin GDP growth. On the global front, some uncertainty over US interest rates has been removed with the first increase delivered in 2015. We and the market expect further rate rises in 2016 and our balance sheet is positioned accordingly.

We have touched on 2016 guidance earlier. As a quick recap, we expect loan growth of mid-single digits, stable margins in the 2.70 to 2.85% range, and we will continue to manage the cost to income ratio in the 33% range. Headline advances to deposits ratio will be managed in the target range of 90 to 100% and we will continue to actively manage past and emerging risks. Overall, we feel the bank is well placed to meet the opportunities and challenges that 2016 presents. Whilst we expect slow economic growth this year, we continue to see opportunities in our core markets and our key customer segments.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now start our question and answer session. If you wish to ask a question, please press 01 on your telephone keypad. If you wish to cancel your request, please press 02. Our first question is from Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani

Hi, good afternoon. It's Naresh Bilandani from JP Morgan. Thanks a lot for your presentation. Just a few questions from my side, please, and the first one is on the NIM guidance, which, to me, looks a bit conservative, especially when considering the rate expectations that we have; the market has on the Fed and how that would move into the regional reference pricing. Is this just because you're being more conservative on the liquidity pricing trend? I mean, I would have typically construed that the management is being conservative had a guidance of you saying the NIMs would potentially be flat year-on-year, but you've already provided a ceiling and a floor of 2.7% to 2.85%, so I'll appreciate your thoughts here. Could you also in this context provide a split between how much percentage of your deposits would be construed operational versus non-operational within the Basel III context? Many thanks.

Surya Subramanian

Hi, Naresh, this is Surya. On NIM guidance, Naresh, there are a couple of factors that affect NIM. Over the last few years we've been making the balance sheet more efficient. As you know, on the funding cost side we've been increasing the proportion of CASA balances and on the asset side, we've been growing the retail assets at a higher margin faster than the corporate assets, and that journey has to come to an end at some stage. You can only squeeze the lemon so much and it also is a function of where we see the market going forward. So, the beneficial effect of both those efforts, vis-à-vis the broader market, has to stabilise at some point and you are seeing that in 2016 So it's not so much a case of being conservative.

The other thing you'll notice – that both Shayne and Paddy mentioned during the year, we've had significant recoveries and recovery is not just affecting the provision line. Recovery also brings back interest into the P&L line as non-performing loans, stock being considered performing. We do expect further normalisation of cost of risk, but the stock of past loans that were impaired (that now became good, we'll keep it using as the time goes until the fresh stock that comes in and has the same characteristic for the fresh stock and it will take its own time to mature. So, these factors are all affecting the NIM.

To just give you one further guidance, we do do the static analysis on interest rate sensitivity. Other things remaining equal as rates went up 200 basis points. The books tend to benefit about AED1.3 billion in net interest income. However, we do know that market participants would want a greater share of that to bring in deposits. There will be some cannibalization from [currency savings], so all that is factored in. And the last comment I will say to conservatism is we are probably one of the only major banks in the system that have been consistently growing our NIMs for the last three years and there is a time when even our book has to fall.

And in terms of your second question on Basel III guidance; as you know, the Basel III guidance is not yet operational in the UAE. We do work in the background with the Central Bank to provide all the necessary data for the quantitative impact study of the QIS, as it's called. And at some stage, we will be able to disclose further once this becomes appropriate guidance.

Naresh Bilandani

OK, Surya, thank you very much. My apology if I may have missed it at some point, but at any point in time, have you disclosed what is your level of LCR, even it has been in one of the investor presentations? You haven't made that public yet, right?

Surya Subramanian

No. We haven't made that public. Although, if I recall right, two years back when this was first discussed in the broader market, several analysts had put out their own analysis and they estimated at that time that both Emirates NBD and National Bank of Abu Dhabi would be able to meet the requirements and they were not sure about the other banks. And that was more a function of the deposit-heavy nature of these two banks. But since then, there has been no market-talk that I'm aware of, nor have we put out any specific information or guidance in the market.

Shayne Nelson

Naresh, just one thing I'll add is that we have a system at the moment with liquidity that's 103% advance to deposit ratio. So, we're also being quite conservative in how we're looking at where liquidity is going. We also have nine in UAE short on liquidity at the moment, but also Saudi where the advance to deposit ratio fare at maximum for banks in 80%. And so, there's plenty of flexes; I wanted to give the system flex. But at the moment, liquidity is quite high given the current ratios that they have in the government funding some of their budget deficits with bonds, therefore pulling liquidity at the banking system. We are trying to play the conservative game when it comes to margin, because there is uncertainty about liquidity in the region. We're well-positioned, but that doesn't mean we won't get pressure on liquidity as other banks need to improve their own.

Naresh Bilandani

Thank you very much, Shayne. My final question, and I know it may not be very easy to make a call at this stage given the market situation, but where do you anticipate your medium-term cost of risk trend, especially given the asset quality risk could further manifest themselves in the coming quarters?

Shayne Nelson

Naresh, we don't provide guidance on cost of risk. You've seen the downward trend for quite a long time now, and that the NPLs are just about half in two years since December 2013, so you're seeing it come down. But also, we are playing the conservative game when it comes to future risks, and we'll continue to do that. We've now got a 111% cover, but we'll stop with provisioning. But we also are mindful that we have had quite a lot of it from the skips in the system here. We've been relatively unscathed in those skips, depending on who you really listen to in the market; AED5 billion to AED10 billion of skips. But we're very mindful that there is dislocation in some of the market and we have seen some banks suffering because of that.

It's a major relatively small part of our book, and we've done very well compared to the market and especially our market share so far. So, it made an important part of our business and we'll continue to support it, but we're certainly playing the more conservative game when it comes to risk. So, if you look at where we are in the cycle, some of the cost of risk has increased just because of our balance sheet has been growing on the consumer side, so it's pure cost of risk of growth. There will be our fee-stock of large corporates; it's relatively all stuff that came back from the crisis as we're waiting through it.

Naresh Bilandani

Thank you very much, Shayne and Surya. Thanks a lot.

Operator

Our next question is from Chiradeep Ghosh SICO Bahrain. Please go ahead

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Chiradeep Ghosh

Hello from SICO Bahrain. My first question is, do you see that your lending book has been quite focused toward the retail? It's quite evident that this could be one of your focus sectors. In the past when there weren't any economic downturn in the region, we have seen a lot of defaults in the retail sector with the expats leaving the country. Are you seeing any such potential risk? And my addition to that is, do you see that your focus have been a lot towards mobile banking and your overall branch-related banking has come down, so is there a potential of you reducing the number of branches at any time in 2016?

Shayne Nelson

OK. I'll take that one. The two branches first, and we'll talk about the digital strategy. As I said, the digital transactions, but with the funds or Web-based are up 27%, branches are down 7%, 8%. We certainly aren't expanding our branch footprints within the UAE. That's been pretty stable for a number of years. Now, Islamic has expanded a bit because that's been a growth story for us. We wouldn't be getting the sort of readout deposits we've had in SME and consumer and in corporate, in the corporate growth, without that branch network.

So, whilst that infrastructure is important, do I think over time the nature of that infrastructure and how clients use that infrastructure will change? I think it will, and it will be more wealth management advisory than it will be transactional. But, UAE is still a very big cash society, and that cash and that collection of cash is very important and critical to us for our CASA balances that we maintain, nearly 60% of our deposits. We will not be closing down masses of branches even as we're seeing that swing to more and more digital; we'll make sure that we're tailoring our branch network to match our client-base meet client needs.

Focus on retail versus corporate; one of the first thing I'd say is that's not true. We're still very focused on our wholesale bank and the growth of our wholesale bank. The issue in this market has been the loan growth has been very low across the system. It's not just us, it's across the system. And margins, especially in the first half of this year, were very tight and they were contracting. So, if you're going to deploy capital, the retail space will a return on risk is a far better bet than on the corporate side even where the margins went.

Now, I see that changing. We are now seeing the cost of the liquidity situation, our capacity to re-price corporate loans, especially in the middle market section more so than the top end, but that will slow over time. Just because the system is 103% advance to deposit ratio, therefore liquidity is high, therefore it's a more scarce resource than it was before. When it comes to skips, people leaving the country, we have seen an increase in the system, as I said before, estimated, depending who you listen to, AED5 billion to AED10 billion of SME loans. Our impact on that has been miniscule compared to our market share of that market, which we believe is a better underwriting standard and conservatism when it comes to risk.

If I look back historically as to where banks lost money in the crisis; actually, the damage that was done to banks out of the retail sector was miniscule compared to the corporate sector. And whilst there's always a good story about how many cars were sitting at the airport, the reality behind that was actually defaults on personal loans of cars in that period were nowhere near as bad as a lot of other products.

Chiradeep Ghosh

Thank you very much. That was quite clear. And just one small question to add to that is the deposit side, not, well, most banks across the region are, not in the UAE or across the region, are struggling to gather deposits. You know, deposit growth has been quite good. I just want to get an understanding, from which sector or family is deposits coming, or just to get an understanding whether you would be able to hold to these deposits or you might see more pressure with deposits flowing out, just to get a better understanding on that.

Shayne Nelson

Well, its bleeding effect, and it's coming from a wide variety of areas both on the big corporate had very strong trend deposit growth, consumers had good CASA growth, Islamic had very strong deposit growth. So, obviously, us doing well it means we're taking market share from someone else, which is very positive for us. But it's been a strategy that we have adopted and talked about, as you guys know, for a number of years.

If you go back in the transcripts when oil started to slide in price and when I was asked by one of the callers, what was my greatest concern about that, it was about liquidity. So, we've been positioning ourselves for now a number of years around driving core current account, savings accounts and being the transactional bank in the UAE, and I think that's been hugely successful for us.

Chiradeep Ghosh

OK. That's all from me. Thank you.

Operator

Ladies and gentlemen, our next question is from Vikram Viswanathan from HSBC. Please go ahead.

Vikram Viswanathan

Yes. Thank you very much for the presentation. My first question is, during the last quarter 2015, there was a very strong loan growth. Loans have been increasing 10% year-on-year despite the very challenging environment and oil price weakness. It's a bit counterintuitive to me. Perhaps can you explain what is driving the strong growth?

Surya Subramanian

Hi, Vikram, this is Surya. The loan growth, as we mentioned, a lot of it is within the Islamic financing space. And we've also had growth continuously in our retail franchise as well. We've also have some success in the corporate side on syndications earlier in the year. And if you look at our financial disclosure, loan commitments have grown in recent times. And as loan commitments grow, they also get drawn down.

On the trade finance side, we've have some success as well. And our Egyptian franchise also continues to grow where we continue to build bridges within the Middle Eastern, broadly GCC corporates with whom we have existing relationships. And what happens on the ground in Egypt, obviously, we would not give you name-by-name details of these, but it could be, if I were to say, trade sector has grown, services sector has grown, these are some of the sectors that have grown on the corporate side.

Vikram Viswanathan

All right. Thank you. My second question is with the inter-bank rates clearly moving up in Dubai, I'm sure you're looking to pass on the increase in rates, into lending rates, right? The question I want to ask is about 40% of your lending is to the state, is to the government. Can this loan be re-priced upwards in a rising environment? That's my first question.

The second question is, despite all of wholesales debt, which is coming up for maturity in 2016 and 2017, I'm assuming that with LIBOR going up, the refinancing cost will also be higher, right? How does this impact your margins and how can you hedge this?

Surya Subramanian

OK. Vikram, obviously, we cannot talk about specific contractual arrangements we have with any specific customer, so I can't answer the first part of your question. However, if you do look at the details and financial statements that we have both in maturity analysis and the interest rate re-pricing profiles, we will be able to draw some conclusion. As I said earlier, the book is provisioned to benefit overall from a rate drive. And to the second part of the question, obviously, any IBOR linked loan, the pricing would go up. But don't forget that e-borrowing cost of deposit, which is about 30% to 40% of the book, will also continue to go up. And to Naresh's question earlier, the names would be a mix of all these.

As far as term funding is concerned, term funding is just about 10% of overall funding. And we have seen term funding kind of continue to always be more expensive compared to, say, CASA, or even some on the short-term fixed deposits we have, but we manage it within the overall balance of the pool. We always have multiple levers to move. The balance sheet is broadly comprised of CASA, fixed, EMTNs. A lot of our EMTNs that are maturing this year are one-year private placements, which we keep rolling over. So, those who follow the market trends for the one-year rate, we also have longer-term rates locked in.

And on the loan side, if you look again at the interest rate re-pricing profile, there are the fixed rate loans, which are in retail, but it's a small proportion of the overall balance sheet. The rest of it continues to re-price with the [print] re-pricing tenures. We have, as I said, been successful in managing the NIMs for the bank over 12 successive quarters, and we are confident of maintaining our margin within the guidance of 2.70% to 2.85%.

Vikram Viswanathan

On the [money] side, just on the re-pricing of loans. Between the retails loans such as mortgage loans and personal loans, they automatically re-priced, right? I'm just wondering how we – although, in theory, the corporate loan should also re-price. I'm just wondering, given the growth outlook, how are the corporates taking this rate increase? Are they saying not to it or are they OK to paying high interest rates? Any feedback on that will be quite useful.

Vikram Viswanathan

A higher cost of risk in the Islamic financing and lower cost of risk in conventional products.

Shayne Nelson

I think it's fair to say anywhere in the world where you are for a price increase from a corporate to pay more loans, they're not going to borrow new loans, they're not going to be happy, Vikram. I wouldn't say that we'll do it with pleasure, but it's fair to say that they also understand the liquidity in the market. And it's not just one bank asking and telling them that they need to re-price, its multiple banks. Like anywhere else in the world, UAE has good – the big clients have multiple bank relationships. And while those that are funding out of the UAE, all understands what the liquidity position is, and it's now a scarce resource, and the clients more and more understand that as everyone is pushing the point.

Vikram Viswanathan

All right. Thank you. My last question is on the dividends; although dividend per share increased, the dividend payout ratio has declined compared to 2014. I just wanted to find out if it's a Central Bank intervention or is the bank's division to reduce the payout ratio.

Shayne Nelson

That is a board and shareholder call, Vikram, so I'll put no more comment on that.

Vikram Viswanathan

All right, OK, thank you. That's all from me.

Operator

Our next question is from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik

Hi, thank you, everyone, for the presentation. I have a couple of questions. I noticed that in the fourth quarter, CASA deposits was slightly lower compared to the third quarter. I just wanted to understand is it because of, I guess, I'm switching because interest rates have started to move up and probably term deposits offer a better yield compared to CASA. And is this something that you expect to continue going into 2016?

My second question is on credit quality. If you look at the principals these days, they talk about job cuts in banks and some of the industries, oil and gas, and some other industries in the UAE. Have these loss in jobs translated into a deterioration in credit quality for the bank, or have you seen any trend in credit quality on the consumer segment that would suggest that things are not that great.

And in terms of the SME book, where do you think we are right now in terms of provisioning? Are we in the middle of it, or are we done with most of it? Thank you.

Shayne Nelson

Yes. I will say two and three together, and I'll give the CASA questions to Surya. Look, I think there's no doubt that we have seen some increase, minor increase, in the cost of risk in retail because of some loss of jobs. So, the loss of jobs has not been that significant at this point in time. And one of the things that we do, obviously, is we collect the salaries, we have relationships with those corporate clients and SME clients, and we collect the salaries that pay off the loans. And when they get the end of service salaries that helps us, being the primary cash flow holder of that individual, right? So, other banks could feel it more than us because we would have first right to grab that cash, right? So, that will be my first comment on that.

On SMEs, it seems to have the heat going out of it a bit, because I think the banks are working together better through the UBF and through the Central Bank, and to coordinate our responses to some of the issues around the SME sector. Some people have left the country because business has been poor and because there are no bankruptcy protections that are effective for individuals or companies, and therefore, they are afraid that they will end up in jail; understandable.

Others have left the country, because of this trend, have been tightening underwriting standards and risk appetite, and multiple banks pulling lines at the same time on SME, therefore, exacerbating the problem, hence why we've had the banking federation and the Central Bank and the banks getting together to actually stop that sort of process happening. Some viable businesses that were there that were easily recoverable were brought down by the banks' actions themselves.

And, I think, at the last conference call I was on the floor, I did one of these because, my concern is the banks themselves will cause up a problem if we're not careful. I think that's improved. I'm not seeing the same flow of problems in SMEs that we were if I go back six months ago at the third quarter, even beginning of the fourth quarter. So, I think that has improved.

Surya Subramanian

And Shabbir, to pick up your first question on CASA deposits, I wouldn't say that it shifts from CASA to interest paying fixed deposits yet because the fixed deposit market for the retail hadn't really gone up. What got bid up was really the largest ticket corporate items. So, if I had to decompose, if you look at the loans and deposits trends chart, you'd see that fixed deposits themselves grew significantly in that quarter. And we also ended up with excess liquidity, because we were probably ahead of the game in the early part of the quarter, so we deployed most of it back in inter-bank towards the end of the year.

So, we didn't have the rush in the last three weeks of December when I normally like to take my leave. However, the CASA itself, you recall we have campaigns going on the earlier part of the year, and it's quite normal that once the whole world knows who has won the Bentley, a few people lose interest and take away their large e-funds from us as well. Year-over-year, CASA, ended the year at [AED160 million] compared with [AED151 million] at the start of the year. It's still a growth quarter-over-quarter, and really, there was a bit of a drop. Some part of that CASA would be corporate, who would be more rate-sensitive and switch, obviously, when people were bidding up prices, they take it out of their transactional account

Especially those who have overdraft lines find it easy to borrow at a cheap rate arbitrage for the crossover over over the yearend or the quarter-end that any other bank is offering. So, it's more of that dynamic. Bear in mind that our customers, especially on the retail side and the SME, our payroll accountholders, transactional accountholders and the growth in CASA has come from new customers, new products, rather than increased deposits from the same customer. So, we do hope the balances will be more sticky even with the rate price impact, but obviously next year will be the proof of the pudding.

Shabbir Malik

Thank you very much.

Operator

Our next question is from Sandeep Srinivas from Duet. Please go ahead.

Sandeep Srinivas

Hi, there. Congratulations on the quarter. I just want to understand the different market situation, given that you are better off in terms of advanced LDR ratio and the capital adequacy. Do you think it's getting easier for you to gain market share?

Shayne Nelson

We certainly have been gaining market share. I wouldn't call it easy. But if I look at, say, for example, on the wholesale bank side, we've been a house bank, especially in Dubai, for just about every major corporate you could think of. Where we have done a better job, I think, is one, improving out our cash management service, our trade platform, and our cross-sell into derivatives, etcetera, that we didn't have a lot of – some of the products we didn't actually have. I think, embedding ourselves more of a house bank helps. Having the largest network when it comes to branches; ATMs, and I think importantly, having the best digital platform is really helping us.

We are gaining much, and you can see it, but it's not that easy. When you're as significant as us, to gain a percentage point is not an easy feat by any stretch of imagination. So, I wouldn't be complacent about it. I'd say, at the moment, we're doing well and we'll continue to strive to increase our market share where we can. There is a way we are likely to increase it, housing loan is one area I'm not happy with their market share; I'd like more there.

Sandeep Srinivas

Reframing the question would be like, do you see your competitors getting more conservative in lending and pulling back, because in early 2015 you had some banks that are lending at very aggressive prices. Do you see that moderating now?

Shayne Nelson

I think one of the things we've certainly seen is quite a few banks dropped out of SME that saw the growth that banks like us were achieving and jumped in very aggressively with underwriting standards that I don't think were that prudent. I think we have seen some market participants pull out of certain sectors of the market. So, that helps us, but the example I would give you would be on SMEs, 60% of SMEs that walk in the door to open an account with Emirates NBD don't get their account open. Why? One, because minimum balance requirements that they have to maintain with us, and two, we independently go and see their business.

We have an independent contract to go and see their business to make sure, one, it's a proper business, and two that it looks like it's actually doing something. And then our underwriting standards on SME are also quite tight. And we also have an earlier [loan] process on SME to look at the risk profile to see if they're improving or deteriorating. I think overall, the risk dynamics in that book for us is good and, in fact, against our market share, our losses in that book year-to-date have in 2015 and so far in January have been very good. So, we're well under our market share of losses at what it should be for skips, for example.

I think that, yes, there are banks are pulling out of certain markets, liquidity means that some banks to get within their – Central Bank a 100% guideline need to pull back on their lending. So, there are some banks also pulling out of doing large ticket transaction because they haven't got the funding capability, which we have.

Sandeep Srinivas

And just last question on the Basel III, do you have any updates from Central Bank?

Surya Subramanian

You know that the Central Bank has introduced liquidity regulations. It's not exactly Basel III; it's a local version with migration path to Basel III that regulation is out.

They have issued the quantitative rules earlier in 2015, and just, I think, on the last few days of December, they came out with the qualitative rules as well, and that's something that we will have to follow.

But what is mandatory at the moment is not Basel III, but it's a local regime on, I would say, it's an enhance liquidity framework for the short-term and the existing framework that the Central Bank has for long-term. We are not yet into the LCR and NSFR framework.

Sandeep Srinivas

And there's no update on the timing also?

Surya Subramanian

Well, there is a part – there is no exact date given, but the aim is total implementation by end of 2018.

Sandeep Srinivas

OK. Thank you.

Operator

Our next question is from Ambreen Jiwani. Please go ahead.

Ambreen Jiwani

I have four questions. Number one is related to the Egyptian entity. I see that in the segment breakdown, the income from this segment has gone up quite significantly and the profit generation has been good. Is that a trend that could continue?

Shayne Nelson

I guess you're right, the Egyptian operation had a very good 2015. And, certainly, our plans are for it to continue to grow. We took the Egypt as an exciting market for us. And that acquisition has been a very good one for us.

On expansion there, I think one of the things that, as you know, we bought it from BNP, that really had not demonstrated to the consumer space whatsoever just about. I mean, so getting onto the Emirates NBD platform means that now we can put in the digital platform, which I think will give us a big advantage of.

But all banks in the UAE, generally, is pretty good at digital. I don't think the same is the case of many banks in Egypt. So, I think we wouldn't be able to push hard on the digital space there without opening a massive number of branches.

We have announced there that we would like to grow our branch network to 100, but as you know, for a country the size of Egypt, 100 branches is hardly that many. And our real push for growth in the consumer side there is around the digital strategy of acquiring through digital servicing through digital where we can. But it's a good story for us, Egypt.

Ambreen Jiwani

Could you guide us as to what portion of your profits are actually coming from this entity

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Shayne Nelson

We don't provide guidance on that. We stopped reporting Egypt separately because – shortly, if you look back on it, it was a small percentage of revenue and profitability, and therefore, we decided not to keep reporting.

Ambreen Jiwani

OK. So, I would assume it's still below 10% then?

Surya Subramanian

Yes.

Ambreen Jiwani

OK. Second question is related to NPL. Your NPL book, which is still more than AED20 billion, could you give us a breakdown, a sectoral breakdown? And I'm just trying to gauge which sectors could lead to further recoveries, if any?

Surya Subramanian

Ambreen, if you look at the credit quality slide that we spoke about earlier that Patrick took us through, the bulk of the stock is still in what we call core corporates. And that's AED14.4 billion of the AED20.8 billion. And the next highest is Islamic, which is AED5.8. Both are adequately provided, and I would say that opportunities exist for recoveries from both. To a large extent, what we're dealing with in this stock is the corporates, the real estate sector, that was affected during the 2008-2009 crisis. We worked our way through most of this debt and, in some instances – I would say in most instances, we have restructuring agreements in place.

What we are seeing as a trend in the current market; as you can see the chart is more on the SME, in the lower end, the larger corporates and even the real estate players notwithstanding the slowdown in the property markets. They themselves are not yet affected. So, our recovery trends, we continue to be hopeful with this stock.

Ambreen Jiwani

OK, thank you. Third question, in the other operating income there is a head called other income, which had grown significantly the fourth quarter. Is there any particular reason for that?

Surya Subramanian

One part of it is just increase in banking services, the volumes that we put through, the remittances that we put through, some of it creates ancillary income, but I mentioned in my earlier commentary when I was talking about the growth in noninterest income, that we did have a single large transactional income, investment-related income. These are non-repeated, however, a bank of our size that keeps having some of these large incomes from time-to-time.

Ambreen Jiwani

OK. And this gets classified under other income, not investment income?

Surya Subramanian

That's right. It doesn't really fall into any other categories that you put it into.

Ambreen Jiwani

OK. Sure. Thank you. Last question, about your exposure to the government of Dubai, I understand that the proportion should be decreasing, but I don't see that happening yet. What is the management's strategy to deal with this?

Shayne Nelson

We're in regular discussions with both the [relative] of the stakeholders, which obviously, would be the customers itself and the Central Bank. And the rate of growth slowed in 2015, and now they've got compliance to make it tighter, so it will be a mixture of increased capital, obviously. And, I think, you have to look at the Dubai budget for 2016; we expect that also to show us and we're hopeful that the position will be rectified within the timeframe, and if not, we'll need to negotiate with the Central Bank.

Ambreen Jiwani

OK. So, you're mostly looking for these loans to be paid back, rather than you swapping it with some other bank and offsetting the impact on the absolute level?

Shayne Nelson

I'm sorry, but I wouldn't discuss much strategy on the phone – with what I do with the client. Thank you

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Ambreen Jiwani

Thank you so much. I really appreciate it.

Operator

For any further questions, please contact our Investor Relations Department, whose contact details can be found on the Emirates NBD website and in the results press release. A replay of this call will also be available on the Emirates NBD website next week.

Ladies and gentlemen, that concludes today's conference call. Thank you all for your participation and you may now disconnect.

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