EMIRATES NBD H1 2015 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL
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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD H1 results announcement analyst and investor 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 – Emirates NBD – Group CEO

Thank you, operator. I would like to welcome you all to Emirates NBD results conference call for H1 2015. Supporting me today, as per usual, are Surya, the Group Chief Financial Officer, and Paddy Clerkin, our Head of Investor Relations. Together we will review the operational and financial highlights of H1 2015. We will refer to the results presentation which was made available to you earlier today, after which you will have the opportunity, as normal, to ask questions.

I am delighted to report that we have delivered another healthy set of results, with net profit up 41% in H1 2015 to AED 3.3 billion. This was driven by growth in both net interest income and non-interest income, a modest increase in costs, reflecting frontline investments and a lower impairment charge.

Net interest income improved by 9% in H1 2015 to AED 4.982 million. Net interest income grew by a modest 1% compared to H2 of last year as loan growth was largely offset by contraction in margins.

In Q2 we saw strong customer demand for term deposits as UAE banks increased fixed deposit rates to improve their liquidity ratios as well as lock in money over the half year and in anticipation of interest rate increases. These effects were anticipated and were one of the reasons why we guided for a slight contraction in NIMs this year.

Non-interest income delivered 4% Y-O-Y growth in H1 due to increases in income from foreign exchange, derivatives and higher asset management fees.

Emirates NBD Asset Management continues to develop and is the largest UAE asset manager, with assets under management in excess of AED 11.2 billion. Our award-winning credit card business continues to grow, thanks to a range of innovative product offerings. Property income declined on lower property sales compared to previous periods. Income from investment securities also declined on the back of greater uncertainty in global markets, coupled with the continuing exit from non-core portfolios.

The Bank's balance sheet strengthened further, thanks to an improvement in liquidity, capital and credit quality ratios. Liquidity strengthened further as the Bank grew its deposit base while prudentially issuing AED 8.9 billion of term debt. Capital ratios grew on the back of strong retained profit. Impaired loan ratio improved further to 7.4% as the Bank actively managed its existing stock of impaired loans while the impaired loan coverage ratio increased to 109.8%.

Overall, I'm delighted that we have delivered another set of strong results with healthy levels of growth to both income and profit. Our prudential balance sheet offers protection against future volatility in the global financial markets while providing a strong financial foundation for growth. We remain cautiously optimistic for the remainder of 2015.

I will now hand over to Surya to start going through the results in detail.

Surya Subramanian – Emirates NBD – Group CFO

Thank you, Shayne. I will speak through slides 3 and 4, which have the H-O-H performance and the Q-O-Q performance.

H1 revenues, at AED 7.6 billion, built on the strong start we had in the earlier quarter. Y-O-Y growth in total income is 7%, thanks to growth in retail assets and the lower cost of funds.

Net profit for the Group was AED 3.3 billion in H1 2015, which is 41% above the profit posted in H1 2014. The increase in net profit was driven by growth in both net interest income and non-interest income, a modest rise in expenses, as indicated in earlier calls, as we continued to invest in customer-facing activities and, finally, the beneficial effects of reduced provisions.

Revenues in Q2 were down 4% on the previous quarter. Net interest income was flat Q-O-Q as loan growth was upset by a contraction in margins. Non-interest income fell in Q2 due to lower gains from the sale of legacy property. The net interest margin for H1 2015, at 2.83%, declined by 8 basis points since the beginning of the year. Loan spreads declined as we faced competitive markets. Treasury spreads also declined as we extended the maturity of our new medium term liability issuances.

Non-interest income in Q2 declined 12% Y-O-Y and 11% Q-O-Q due to lower gain from the sale of legacy properties, on reduced volumes and lower income from foreign exchange and derivatives. Total costs for the quarter, at AED 1.16 billion, increased by 7% over the previous quarter. This increase relates to staff costs, linked with driving business volume and customer development and service improvement efforts.

Provisions for Q2 2015 are AED 901 million, which is 17% lower than the previous quarter. This helped improve the coverage ratio to 109.8%. We continue to see provisions normalising throughout the remainder of 2015.

The NPL ratio improved further during the quarter to 7.4%. Headline advances to deposits ratio improved to 93.3% on the back of our deposit-gathering efforts and Emirates NBD remains well-placed to meet relevant prudential liquidity requirements.

Moving on to slide 5 on net interest income, we saw a decline in margins in H1 2015. This was due to a number of factors. Loan spreads declined as margins on conventional products experienced downward pressure from a competitive market. Treasury spreads declined as some high-yielding placements rolled off and the amount of our term debt was also prudentially increased. Partially offsetting these declines was a positive contribution from deposits as rates held steady against the backdrop of rising interest rates, making deposits relatively more cost-efficient.

We maintain our guidance for FY 2015 net interest margin in the range of 2.7-2.8% as we see continuing competition for loan growth and a rising cost of borrowing for both short and medium term deposits.

Moving on to slide 6 on funding and liquidity, advances to deposits ratio improved to 93.3% for the quarter and this is comfortably within our target range of 90-100%. Emirates NBD's liquid asset position is strong and, at AED 53.4 billion, has grown in line with deposits to cover 15.7% of total liabilities.

We took advantage of favourable market conditions to prudently raise nearly AED 9 billion of term funding in H1 2015. This decision to frontload our term funding requirements is paying dividends as we now see increased volatility in the capital market from a range of sources, such as China, Greece, commodity price impacts and expectations of rising interest rates globally.

We have continued to smooth our best maturity profile and this peaks in 2016 with AED 8.2 billion of maturity. We are very comfortable with the maturity profile of our term debt. On average, we have raised over AED 13 billion of term funding per annum over each of the last three years and, as mentioned, in H1 2015 alone we have raised AED 8.9 billion.

Given the prudent debt-raising executed in H1 2015, we have no immediate requirements to raise medium term funds. Our liquidity ratio remains very healthy and we will monitor the market and only look to access the capital markets as and when we feel the conditions are right.

Slide 7 has details of our loan and deposit trends. Gross loans grew at 4% in H1 2015. Islamic financing grew 13% in 2015 while consumer lending grew 3% in H1 2015, this mainly due to growth in personal and auto loans. Our expectation for loan growth in 2015 remains in the range of 5%, in line with GDP growth.

Deposits grew overall by 6% in H1 2015. Although CASA balances continued to grow in Q2, most of the deposit growth this quarter was centred on time deposits as we saw most UAE banks paying up for deposits to lock in liquidity in anticipation of rising interest rates before the year-end.

With that, I hand you over to Paddy to take you through the next couple of slides.

Patrick Clerkin – Emirates NBD - Head of IR

Thank you, Surya. On slide 8, we see that total non-interest income improved by 4% Y-O-Y and by 5% compared to H2 2014.

Core gross fee income improved by 15% year-on-year. This rise is due to increased fee income from larger credit card volumes, coupled with higher income from asset management and a strong increase from the forex and rates business. Core gross fee income was lower in Q2 than in previous quarters. This decline was mainly due to the sale of investment properties in Q1 which was not repeated in Q2.

Property income declined as we saw a lower demand for bulk and individual property sales compared to previous quarters. Inventory declined from AED 1.9 to AED 1.8 billion during Q2. Income from investment securities also declined on the back of greater uncertainty in global markets, coupled with a continuing exit from some non-core portfolios.

Moving on to operating costs and efficiency on slide 9, costs increased by 7% Q-O-Q and by 6% Y-O-Y in Q2 due to higher staff costs, linked with rising business volumes. The cost to income ratio rose by 3.1% in Q2 to 31.2% due to these higher staff costs and less exceptional income from items such as bulk property sales.

The year-to-date cost to income ratio was 29.6% for H1 2015 and, if you strip out the one-offs, the cost to income ratio would have been 31.7%. The longer term management target for cost to income ratio is 33%. We have invested in [tapering] systems recently to support future revenue growth but we still have some headroom for further investment, if needed.

Moving on to credit quality on slide 10, as we mentioned earlier, the NPL ratio improved further in Q2 from 7.8% to 7.4%, a 0.4% improvement. Impaired loans improved to AED 20.6 billion, helped by over AED 800 million of write-backs and recoveries in H1 2015. During the same period, the Bank's specific provisions increased by under AED 500 million and general provisions increased by over AED 900 million. This helped increase the coverage ratio to 109.8%.

Total portfolio impairment allowances now stand at AED 5.3 billion or 2.64% of credit risk-weighted assets and this comfortably exceeds the 1.5% Central Bank requirement. We have seen the cost of risk starting to normalise in 2015. Provisions were AED 400 million lower than in H2 2014 and AED 600 million lower than in H1 2014. We expect further normalisation of provisions for the remainder of 2015 and beyond.

Slide 11 on capital adequacy shows that during Q2 Emirates NBD's tier 1 ratio strengthened by 0.5% to 18%. Over a similar period, the capital adequacy ratio strengthened by 0.5% to 21%. The improvement in both the tier 1 and capital adequacy ratios was due to retained profits, which more than offset the increase in risk-weighted assets.

We would expect, as with previous years, for profit generation in the remaining quarters to grow the capital base. 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.

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

Shayne Nelson – Emirates NBD – Group CEO

Thank you, Paddy. On slide 12 we will see that the Retail Banking and Wealth Management loans grew by 4% in H1 2015 while deposits declined by 3%. We saw good growth, particularly in auto loans, for credit cards and mortgages. Revenues grew by a modest 1% Y-O-Y but this was impacted by a change in the general pricing for liquidity.

Islamic Banking showed impressive growth, with financing residuals increasing by 12% in H1 and customer accounts growing by 10%. Consequently, Emirates Islamic delivered an increase in net interest income. Emirates Islamic did experience a drop in non-interest income due to the legacy property disposal in Q1 that was not repeated in Q2.

We expect that Retail Banking and Wealth Management and Islamic Banking to continue to perform well in the coming quarters on both the asset and the deposit side.

On slide 13, Wholesale Bank delivered strong revenue growth of 13% Y-O-Y. Revenue growth was flat Q-O-Q. Loans grew by 3% in H1 2015 while deposits grew by 13%. The Wholesale Bank continues to focus on customer service quality and share of wallet. This includes improved cross-sell of treasury and Investment Banking products and increased customer management and trade finance penetration.

Treasury income fell 44% in Q2 2015 on lower trading income due to recent volatility in global markets and higher investment gains that were booked in Q1 2015. Sales revenue grew on higher volumes in interest rate hedging products and foreign exchange sales.

We expect sales and trading revenues to be strong in 2015 as more corporate clients look to hedge interest rate exposures on the expectation that global interest rates start to rise. Global funding issued AED 8.9 billion of term debt through means of public deals and private placements in eight currencies.

The outlook – we saw some signs of a slowdown in the non-oil sector growth in H1 2015 although this is from a relatively high base. This is due to several factors. The decline in oil prices has led to weaker investor and consumer confidence. The relative strength of the dollar will have an impact on retail spending, real estate activity and tourism.

The Emirates NBD Purchasing Managers' Index eased to its lowest level in three years to 54.7 in June but it is still well above the neutral 50 level. The Emirates NBD Dubai Real Estate Tracker indicates that activity in the residential real estate market slowed in the three months to June, with both prices and volumes lower than in the April survey.

The medium term outlook for Dubai's residential real estate sector is balanced, with growth prospects in the affordable housing sector. Residential real estate prices continue to decline across most sectors on an annual basis, with mid-range villa prices down 9.8% Y-O-Y in May while apartment prices have been more resilient.

Financial markets are focused on issues within their own region at the moment. Asia is focused on the volatility in the Chinese equity market. Europe has Grexit risks to consider. Australia, Canada and New Zealand are dealing with falling commodity prices whilst the US awaits the Federal Reserve to starting tightening monetary policy. For the Middle East, falling oil prices have preoccupied the market this year.

Notwithstanding this, we remain cautiously optimistic for the remainder of 2015 but are conscious of the headwinds that market uncertainty can present.

On slide 15, it has been another excellent half-year for the Group. Net profit up 41% to AED 3.3 billion, aided by lower provisions, positive jaws as income growth exceeded that of expenses. Total income grows 7% Y-O-Y to AED 7.6 billion, helped by an improving active mix, higher fee income and an efficient funding base. Impairment allowances improved by 24% Y-O-Y to AED 3 billion for H1 2015 as the cost of risk continues to normalise, strengthening the coverage ratio to 109.8%.

The balance sheet remains solid, with improving yields, strong funding ratios and a solid capital base. We do see some signs of a slowdown in the economy due to the recent global trends, lower oil prices and a strong dollar. We have already factored this into our 5% loan growth forecast that we provided at the start of the year. The Bank's strong balance sheet provides a solid platform to take advantage of the opportunities in Dubai, the UAE and the region.

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

QUESTIONS AND ANSWERS

Operator

Thank you, Mr Nelson. We will now begin 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 Nisreen Assi from Arqaam Capital. Please go ahead.

Nisreen Assi – Arqaam Capital – Analyst

Hello and thank you so much for the presentation. I actually have three questions. The first one is regarding the coverage, which is currently overshooting the 100% medium term target. So would you have a different medium term target on that front?

The second one is regarding time deposits that have witnessed faster growth than CASA in Q2 2015 contrary to previous quarters. Do you see this as the trend for the remainder of the year and at which level are you targeting to maintain CASA?

The third one is regarding benefiting from listed pensions on your own. We see Emirates NBD as the major beneficiary from this so, given its strong position in trade finance, could we hear more colour on this and how much do you expect it to contribute to bottom line? Thank you so much.

Surya Subramanian – Emirates NBD – Group CFO

Hi, Nisreen. This is Surya. In terms of the coverage, we did mention earlier that the book continues to have general provisions provided in accordance with the accounting standard and in the investor pack we have shown that clearly. At AED 5.3 billion, which is currently 2.64% of credit risk-weighted assets, if you were to strip general provisions we have on the book, the underlying coverage on specifics is 83% and that is pretty close to the target we had in the old days... Portfolio provisions and general provisions will move along with the book as well as the way the accounting standards evolved from IAS 39 to IAS 9, so it's a function of the maths on the denominator and numerator that you see. We will give guidance closer to the end of the year as we have clarity on these accounting standards and the shape of the book.

As far as question 2 on time deposits is concerned, as I mentioned, the whole market has been paying up to protect year-end liquidity in anticipation of rising interest rates, which, of course, is anybody's guess although our own house view at the moment is September. There are some market competitors who think it's September but, nonetheless, everybody is talking about it before the year-end and we have seen people locking in, in anticipation of that. We, ourselves, went in for EMTN issuances to avoid the fight in the local markets to lock in liquidity well ahead of those movements.

So I expect to some extent you will see a greater build-up of time deposits but, having said that, absolute CASA volumes continue to grow and that will continue to remain on strategy.

Shayne Nelson – Emirates NBD – Group CEO

Just on time deposits and liquidity, I think there is no doubt that the markets are getting tighter on liquidity and that the competition for deposits has increased, so we are seeing rates lifting from where they were even six months ago. So I think there's no doubt that liquidity, it is being pored over a lot more competitively than it was historically.

On Iran, I think, if my memory serves me correctly, our economists believe it is going to be just above 0.3% GDP growth for the UAE, so that's a positive story. Certainly, given the historic links of Dubai and Iran, we expect to see increasing trade volumes, etcetera, but, having said that, we haven't seen the detail of the agreements yet as to when and how the current sanctions unlock and what timeframe.

So it is important as to what happens but we are certainly not going to see any movement until it goes through Congress, etcetera, but certainly we are optimistic about it. Dubai historically has been a big trading hub with Iran. I think Iran still will present many banking opportunities as we go forward.

Next question, operator.

Operator

Our next question comes from Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani – J P Morgan – Analyst

Hi, Shayne, Surya and Paddy. Thanks a lot for what I should say has been a very useful presentation – thanks a lot for that. Two questions from my side. The first one was on the rates. Can you just please provide some comments for the liquidity pricing? I know you answered this in the previous question but Surya did mention that some UAE banks have been paying up for deposits to lock in the liquidity. Do you reckon this trend could exacerbate a rising rate environment, i.e. my feel is that the general perception that the domestic and the regional banks are positioned to benefit in high US rates? Is that any risk, given the start of this trend that you have just highlighted?

In this context, I'm also looking at the three months EIBOR, which is up 10 bips year-to-date but that doesn't seem to have any positive impact on your yield. Please correct me if I'm wrong. Could you just provide some sense of sensitivity on how this Bank is placed to say benefit in a scenario of a 25-50 bips rate hike? Sorry, that was a very broad question but any comments that you can provide on this one would be very helpful.

The second bit I wanted to check was again asked in the previous question but some level of numeric guidance on how your revenues could benefit should the trade and financial sanctions on Iran be removed the next year that would be very helpful. I know the level of visibility in general from our side for individual corporates and banks like ENBD seems to be less clear at this stage. So alternatively, could you just answer it in a way that what is the potential amount of business that you couldn't secure because of sanctions in place currently, that would be very helpful. Thank you.

Surya Subramanian – Emirates NBD – Group CFO

Let me start with the specifics on the liquidity and hand over to Shayne. If you look at our year-end financials, the interest rate consistency that we disclosed for 200 basis points is AED 826 million. That's on a rising rate scenario and then our falling rate scenario is a lot less because they are already at a low unless we get into Europe's kind of negative interest rate scenario. If it hits zero, we would lose about AED 361 million.

So, as a bank, we are positioned for a rate rise, especially with the growth in CASA deposits. For your 25-50 basis points, you can just arithmetically scale the AED 826 million for 200 basis points and the shape of our book hasn't changed dramatically between the year-end and now although CASA volumes have grown slightly, I would say by about 2%, compared to where it was at the year-end.

Beyond that, to your questions in terms of what we expect in the market to pay up for deposits, what we see for the year-end in terms of tightening liquidity conditions and the Iran impact, I will hand over to Shayne. A question from the competition.

Shayne Nelson – Emirates NBD – Group CEO

I think the market has been quoting up to 30-40 basis points on the EIBOR for 3 and 6 month deposits. So I think ... we are seeing deposits at flat EIBOR... So I think there certainly is more competition out there for those term deposits... Will that continue is a good question. I think some banks have been positioning themselves in this half for the end of the year and some just to get over this half, so it would be interesting to see what happens as we get into Q3 on pricing, to be honest, but certainly from our position, we have strong liquidity and we will remain that way.

On Iran, it's pretty hard to be more specific. It's very difficult. We don't know the timeline but what we do know is that, if you look at the opportunities in Iran around infrastructure that is requiring investment, there's so many opportunities there I think and, given the historical ties with Dubai, I think our clients will be in there pretty quickly and we will be supporting our clients. I think negotiations aren't complete yet but Dubai is well-positioned to benefit from it and, as our clients benefit, so will we.

Naresh Bilandani – J P Morgan – Analyst

Sorry – thanks for that, Shayne – could I just go back to the first question first? Do you think there has been any change in the customer or the corporate customer behaviour with regards to the level of acceptability in a higher rates environment because we keep hearing the news to corporates trying to squeeze the banks on the levels of pricing and this still remains to be a very competitive space? How easy will the path of these higher rates be into your books?

Shayne Nelson – Emirates NBD – Group CEO

I think that's a good question and I will probably answer it more generally than specifically. I think we are probably seeing the bottom of the spreads in the market. Liquidity tightening, I don't think it is possible for spreads to drop any further on the corporate side. If anything, I would expect them to start to be going the other way, given the increase in the cost of funding.

So I think we are probably at the bottom of the cycle for spreads for clients. Whether they lift or not I think is largely dependent on how we see rates in H2. I would say spreads at the moment are at the bottom. I would say, if anything, they will be lifting, not decreasing, on the corporate side.

Naresh Bilandani – J P Morgan – Analyst

Okay, Shayne, thank you very much. That was very helpful, thank you.

Operator

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

Shabbir Malik - EFG Hermes – Analyst

Hi and thank you very much for the presentation. This is Shabbir Malik from EFG Hermes – a couple of questions from me. What is your outlook for loan growth in H2 and, compared to H1, do you think there is scope for improvement or do you see growth slowing down in H2?

My second question is do you have a view on what a normalised cost of risk for the Bank would be now that you have at least two quarters of 2015 behind you?

Just coming back to the Iran question, how well do you think Emirates NBD is positioned relative to other UAE banks to benefit from the lifting of sanctions on Iran? Thanks.

Surya Subramanian – Emirates NBD – Group CFO

Shabbir, Surya here. On loan growth, our guidance for the full year was 5% and in his commentary Shayne mentioned that its' kind of thrown into the pool all the things that are happening in the world, both the positive, the negative and the uncertainties that we face, and our H1 experience is that a 4% loan growth kind of is in line with that 5% target. So I would expect a similar continuation into Q2.

Also, if you look at some of the economic data that has been released all around, by the government, by IMF, by our own in-house economists and I'm sure many of you around the call have your own economic research, while we talk about growth slowing down, we are still talking about growth. We are not talking about contraction. So for the loan growth, we expect that to continue. At this moment we maintain our guidance at 5% full year, which is pretty much in line with what we have done for the half-year.

Shayne Nelson – Emirates NBD – Group CEO

But I think it's fair to say that it's not as if we are missing many of the loans.... We are doing the deals. There is not significant demand from corporates at the moment for lending. It has slowed down, I would suggest, in H1. We can obviously see what our H1 looks like coming into H2 as they take a while to get documented, etcetera, but loan growth has slowed in the corporate field and I don't anticipate it to pick up for a while. I think a lot of the companies are quite cash-rich and they have been more conservative about their leverage.

Surya Subramanian – Emirates NBD – Group CFO

On the cost of risk, Shabbir, you know we haven't given any specific guidance on that. However, if you look at the range of market analysts, they vary between 15-100 basis points and in earlier calls we have mentioned we are kind of comfortable with that range as the normalised cost of risk. With the provision charge coming down each Q-O-Q, we are getting nearer and nearer that range. As I mentioned earlier in my commentary, we should be getting close to that range as we progress into the rest of the year as well. So wait for our Q3 results and Q4 results.

We are beginning to see recovery for sure. I think that is the more positive story and that has also been building up over the last two years. Some details are there in our investor pack and, when we disclose our financials at the end of the year, you will also see the movement in the [yields] that will show that there is still a positive story.

The incremental NPLs have definitely slowed down dramatically and we are beginning to see some positive stories that would be events-driven. So it is a bit difficult to say we would have a small cost of risk. It is more likely to be a moving cost of risk but moving in the positive direction.

Shayne Nelson – Emirates NBD – Group CEO

I think, on the last question again on Iran, we are one of the few banks that still has an office in Iran. We have a rep office there. We have for a number of years. It is fair to say it hasn't done much in the last few years (in fact, it has done zero) but what it has done is kept our relationships alive in Iran and warm. I think as the UAE clients start re-engaging with Iran, there's no bank better prepared than we are.

If you look at every historic counterparty in the UAE that deals significantly with Iran, we bank them. So I think we are at a competitive advantage when it comes to that but certainly it's a market that will create many opportunities for the banking industry in the UAE and in the region as a whole.

Naresh Bilandani – J P Morgan – Analyst

Thank you very much

Operator

Ladies and gentlemen, if you wish to ask any further questions, please press 01 on your telephone keypad. Thank you for holding until we have our next question.

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

Ambreen Jiwani – Ghobash Trading & Investment – Analyst

Hi, this is Ambreen Jiwani from Ghobash Trading & Investment. My first question is regarding the core non-interest income. The growth in that has dropped significantly from where it was in Q1. It was up about 22% or so and this time around it's up 15%. I want to know what has been the driver of the slowdown.

My second question is regarding the AED 800 million write-back that you are talking about. Is it from a particular entity or is it from a number of entities? Thank you.

Surya Subramanian – Emirates NBD – Group CFO

To respond to the question on non-interest income, I would refer you to slide 10 that we were looking at. We have at the bottom of slide 10 – sorry, slide 8, we have the Q-O-Q movement as well. Now we did see some slowing down in Q2 if you look at the normal banking fee and the trade finance but bear in mind that Ramadan has also been moving forward. So this year Ramadan came in obviously earlier into Q2, so we see that as a seasonal trend, although Q2 levels of fee income banking, fee income and trade finance by itself is higher than what you would have seen in the earlier quarters of last year.

As far as the recoveries are concerned, they do cover a broad range of industries but certainly, with the property market having come back and we alluded to it in some of the earlier calls, a number of our customers have seen their collateral values improve and they have then had – both with the rising GDP and improved collateral values, they have had the cash flows to settle some of their debts as well.

Ambreen Jiwani – Ghobash Trading & Investment – Analyst

Great, thank you. Just one more question, if I may? Could you highlight a bit on which sectors you are seeing the corporate loan growth coming from? Is there a demand?

Shayne Nelson – Emirates NBD – Group CEO

I think the demand is still pretty much across the area. I think where we are seeing a slowdown is residential housing construction. I think if I look in the market, developers are being a lot more cautious at the moment. So ... there appears to be a lot more land for sale than it was historically, with ... developers deciding now that they would rather not develop and pass it on to another developer.

So I think there has been a slowdown in that area but I think, besides that, the property sector demand still is reasonably widespread albeit I would say in the corporate space it has slowed down. It has slowed down. We are not getting massive volumes of new corporate loans coming through and I am not just talking about Emirates NBD. I am talking about the whole system.

Ambreen Jiwani – Ghobash Trading & Investment – Analyst

Thank you so much

Operator

Our next question is from Vikram Viswanathan from HSBC. Please begin.

Vikram Vishwanathan – HSBC – Analyst

Hi and thank you for the presentation. You mentioned in one of the slides that you are seeing more pressure on the lending side in the conventional products vis-a-vis the Islamic products. Is it possible to expand on this and tell us why is it that there is more competition in conventional compared to Islamic? That's my first question.

The second question is when we look at your debt maturity profile, which is on page 6, there is an AED 8 billion worth of debt which is coming up for maturity in 2016. Am I right in understanding that you already refinanced this AED 8 billion during 2015? These are my two questions.

Surya Subramanian – Emirates NBD – Group CFO

Vikram, I will respond to the debt maturity, which is an easier question. The way we positioned the EMTNs is not so much whether we raised money to pay off money that falls due. You would also have noted that we are increasing the proportion of EMTNs to the total book and we had mentioned a few years back that we would slowly want to keep getting this up to ideally – and I mean over the long term – a 15% level and we are today nearer the 10-11% level. At the start of the crisis, we had been more like the 8% level.

So it is not so much to say that we have raised money to pay off 2016 but, having said that, particularly as I mentioned in this call, we have been raising 13 billion each year. Getting to pay off 8 billion is not so much of an issue. Not all of that is public issuance. Some of it is also the private placements that we do that roll into 2016 and these typically get rolled over on an annual basis and then there is a limited amount of public debt issuances there as well.

In terms of the interplay between the conventional and the Islamic markets, I will hand over to Shayne.

Shayne Nelson – Emirates NBD – Group CEO

I think there's a basic rationale there. I think there's 53 banks, licensed banks, in the UAE plus regional banks playing in our market. Most are conventional. Therefore, I think there is more competition there.

If I look on the other side of the balance sheet, when it comes to raising money via Sukuks, there's a pricing arbitrage there as well as there's a deeper liquidity pool in Sukuks than there is in conventional banks basically because conventional banks and conventional investors will take Sukuks where only Islamic funds ... will only take Sukuks. So there is somewhat of a pricing advantage there but certainly I think both are competitive but the conventional space is more competitive than the Islamic.

Vikram Vishwanathan – HSBC – Analyst

Okay, thank you very much

Operator

Our next question is from Rahul Shah from Deutsche Bank. Please begin.

Rahul Shah – Deutsche Bank – Analyst

Hi, thanks very much. A couple of questions related to the softer property market that we are seeing in Dubai. Firstly, I know property income seems to be on a downward trend. Is that something that we should expect to continue? So that's my first question.

The second was in relation to the NPL and risk cost outlook, how sensitive that is to property prices. If you could give us a sense of that, that would be helpful. Thank you.

Surya Subramanian – Emirates NBD – Group CFO

Rahul, just a clarification on your first question – were you referring to property income generally in the market or property income on our books?

Rahul Shah – Deutsche Bank – Analyst

On your books

Surya Subramanian – Emirates NBD – Group CFO

We have two types of property on books, Rahul. One we hold as inventory, which was a debt swap we did with Union Properties a few years back, and the second is the investment properties we hold within the Islamic portfolio, which is part of the customer offering, and to the extent they have had any surplus properties, they have been offloading those as well, and there was a tiny portfolio which is the Bank's own legacy property portfolio where we used to have say a branch on the ground and first but we had 20 floors of commercial or residential on top of that and there's a strategy because we are not in the space. We have been bringing all these down year-over-year.

So to the extent we have already made sales in the past years, there's less to sell in the future. That's a simple trend. As far as prices themselves go, all these are legacy portfolios, which means they were bought – our only portfolios are the Islamic Bank portfolios that were bought pre-crisis. The UP swap was done in the early years post-crisis. So they are all in the money. It's just a case of how much money we make, depending on where the property market goes. Do we make more money or slightly less than more money? That's the issue.

On the NPLs and cost of risk outlook, as I said, we haven't really done any significant new underwriting post the financial crisis in the corporate space and, if you look at the year-end disclosure, our relative exposure to the construction real estate sector, these have all been coming down as well. So while there will be normal cost of risk, typical cost of risk in a banking business, we do not expect to see the impact of any drop in collateral values the same way as it hit 4-5 years back during the global financial crisis. This slowdown that you see, I mentioned it is still slowing down on growth rather than negative and it's a normal economic cycle as opposed to a sudden market dislocation that we faced the last time.

Shayne Nelson – Emirates NBD – Group CEO

I think you saw up to 13 we had our prices improving quite rapidly in Dubai especially but Y-O-Y to December 14, we had prices drop and for H1 we have had prices drop, not significantly but they continue to slide in some sectors. So I think we are seeing a more normalisation of prices, which I think is good for the economy.

I think the other thing that you need to be mindful of is that the strong dollar and equally strong dirham is making less demand from offshore. So the historical European, Russian and Indian money that was coming in to buy property as an investment is less likely to come now, given the increased valuations in their local currencies.

Having said that, volumes remain okay albeit they are a lot softer than they were historically and I think one of the trends we are seeing now is it's more owner-occupied rather than investment coming in as purchasers.

Operator

Our next question is from Sanyalak Manibhandu from NBAD. Please go ahead.

Sanyalak Manibhandu – NBAD – Analyst

Thank you. I have two questions. One is on loan repricing. So later on this year or around the time the Fed opts to target interest rate, one would expect banks to reprice. My question is where do you think it would be easier to reprice, the retail portion of the book or the corporate portion of the book? That's the first question.

The second question is about the cost of risk again. I can see that the cost of risk is coming down as you say but is there a danger that you don't reach the 1 to 0.5 range that you are talking about until 2016, early 2016, as opposed to within the second half of 2015?

Shayne Nelson – Emirates NBD – Group CEO

I think on the loan repricing, most of your corporates, except for the short term stuff, they have locked in contractually, so your capacity to rapidly reprice that is quite limited. Certainly, the short term stuff, trades and working capital, you have more capacity but your term loan stuff is pretty much locked in. It's your resale side of the book that has more capacity to reprice more quickly.

I think one of the things of price is that, given the amount of CASA we have got actually, any repricing should be beneficial for us and Surya explained to you earlier as to the interest rates, so potentially what it does to our profitability. So I think that's on the positive side.

On the cost of risk, certainly we are seeing a decline. If I look at the shape – I think we have explained to you earlier that we have an early alert process where we look at any potential problem loans coming into our portfolio. What I would say at this stage is we remain in a good position and we are not seeing a deterioration of any significance in our book at all other than what we would expect normally as a cost of risk.

So what you are seeing, really a lot of this is either we are topping our portfolio provisions or it's historic as we are winding out some of these problems from our legacy. I think we are well-positioned to meet those guidelines that we talked about earlier.

Surya Subramanian – Emirates NBD – Group CFO

Look, also if you are seeing a trend ... the 1%, you're looking at about 2.6 billion for annual provision charge or on a quarterly basis, you are looking at about 625 or thereabout. We are currently at 900 for Q2. We were slightly over a billion for Q1. So that's kind of still taking us closer to the 625.

Sanyalak Manibhandu – NBAD – Analyst

I took your statement in Q1 to mean that you will actually reach the target in Q2. So by my calculation, cost of risk is about 1.3 in Q2 from 1.6 in Q1, looking nearer 1 in Q2, so there was a slight disappointment from what I saw but that may be interpretation or miscalculation on my part. So my question is really...

Shayne Nelson – Emirates NBD – Group CEO

We hope not to disappoint you in H2.

Sanyalak Manibhandu – NBAD – Analyst

Yeah, that was my angle. Do we get to see 1% cost of risk from Q3 or do we get to see that in Q1 2016? That was really my question.

Shayne Nelson – Emirates NBD – Group CEO

Well, I think the bottom line for that is that we don't give forecasts on that but certainly what I would say is the quality of that book continues to improve and we are hopeful that we will continue to see a reduction in that cost of risk as we go forward. That is about as clear as we can be.

Sanyalak Manibhandu – NBAD – Analyst

Thank you very much

Operator

Our next question is from Vikram Viswanathan from HSBC. Please go ahead.

Vikram Vishwanathan – HSBC – Analyst

I just have a follow-up question on the property portfolio. You were mentioning that you still have this inventory left from the Union Property portfolio, right? I want to know where does this classify in the balance sheet. Is this part of the properties which is worth about AED 830 million?

Surya Subramanian – Emirates NBD – Group CFO

No. The entire UP portfolio was classified as inventory and you would see it in the year-end financials. I do not believe we make that detailed disclosure in the quarterly financials but we have been progressively selling this down. Some of these not necessarily by us but there have been notices in the market about some of those sales and where it is trades hands between different parties. I think there was an exhibition by Emirates [Streets] also a while back and they made those announcements.

Vikram Vishwanathan – HSBC – Analyst

Right but where do you classify this in the balance sheet, under which item? Would it be under loans and advances or property and equipment?

Surya Subramanian – Emirates NBD – Group CFO

....other assets

Vikram Vishwanathan – HSBC – Analyst

Oh, I see, okay, thank you.

Operator

Ladies and gentlemen, if you wish to ask any further questions, please press 01 on your telephone keypad. Thank you for holding. We have no further questions. Back to you, Mr Shayne, for the conclusion.

Shayne Nelson – Emirates NBD – Group CEO

Well, if there are no further questions, I would like to thank you all for your participation in today's call and wish you all Eid Mubarak. I will hand back to the operator to provide details if you have any further follow-up questions and to conclude the call. Thank you, operator.

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. You may now disconnect.

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