EMIRATES NBD Q1 2016 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL
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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, welcome to Emirates NBD First Quarter Results Announcement Analyst and Investor call. If we're 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'd like to welcome you all to Emirates NBD's results conference call for the first quarter of 2016. Supporting me today, as per usual, is Surya, our Chief Financial Officer, and Paddy, our Head of Investor Relations. Together we will review the operational and financial highlights for the first quarter of 2016. We will refer to the results presentation, which was made available to you earlier today, and then you'll have the opportunity to ask some questions.

Let's go to slide three, we continue to see global and regional themes have a big influence on business sentiment in the UAE. Global growth concerns have caused some companies to scale back on capital expenditure plans and introduce cost saving measures. Lower global growth expectations were also viewed as a key factor in the US Federal Reserve's decision to scale back its rate hike forecast in March. The rebound in oil price from $30 a barrel in January to about $40 a barrel has improved its sentiment and confidence in this region. It is also reflected in the stock market performance of many oil producing countries. In Dubai, the stock market finished the quarter 28% above the lows of January, whilst in Abu Dhabi the stock market finished the quarter 18% higher than its low in January.

The pace of fiscal reform was started in 2015 with the removal of fuel subsidies has also picked up in 2016, as some countries in the GCC have announced a framework that would be concluded in mid-2016 with UAE expected to implement that by 2018. The large non-oil element of the economy, coupled with strong sovereign wealth buffers, Dubai and the UAE continues to have a resilient economy, it would persist including a strong Dollar and [certainly] both global growth and oil price, so despite this, the UAE PMI rose to 54.5 in March, continuing to rebound from its near four-year low in January. Liquidity pressures in the sector continue to ease in the first quarter from the tight conditions experienced in the second half of last year. Amid these global and regional conditions, we made an encouraging start to the year and it's pleasing for me to report a solid set of results for Q1. Net profits improved 8% year-on-year, underpinned by income growth, control on expenses, and improved cost of risk. Emirates NBD's strong structural liquidity means that we can be selective in our choice of rating funds through our granular retail franchise, large corporate deposits, interbank market or capital markets. We are seeing cost pressures ease in these wholesale sectors in Q1. The bank's advances to deposits ratio remains comfortably below 100% and finished the quarter at 95.9%. Credit quality improved in the first quarter of 2016, as reflected by the improvement in the impaired loan ratio to 6.9% and the increase in the coverage ratio to 113.5%. We continue to actively manage our stock of legacy NPLs and we believe there is scope for further improvement in credit quality.

Overall, I am pleased that despite the challenging environment, we have delivered a solid performance. As we expect loan growth to be modest in 2016, it remains crucial that costs remain firmly under control. As we mentioned in previous quarters, issues such as credit quality concerns in the SME market and tighter liquidity has had a limited impact so far on Emirates NBD. Our balance sheet remains very healthy and will allow us to take advantage of any growth opportunities in our preferred markets. We're confident that going forward, our prudent business model shall continue to deliver a solid performance and deal with the opportunities and the challenges that will present themselves.

I will now pass over to Surya to start going through the details of the presentation. Over to you, Surya.

Surya Subramanian

Thank you, Shayne. I will speak through the financial results highlights on slide four. Emirates NBD's first quarter revenues at AED 3.9 billion grew 2% over the year, supported by a 3% growth in net interest income, which was partly offset by a 1% decline in non-interest income. Revenues declined by 4% compared to the fourth quarter of 2015 due largely to net interest margin contraction and lower one-off gains from investment related income. The year-on-year growth in net interest income is driven by asset growth.

The quarter-on-quarter decline in net interest income is due to NIM contraction primarily resulting from a smaller volume of write-backs, more than offsetting the modest asset growth recorded in the first quarter of 2016. Non-interest income declined 1% year-on-year and 4% quarter-on-quarter, and core fee income held steady, but income from property and investments declined. Net profit at AED 1.8 billion is an improvement of 8% over the previous year and a 15% decline over the previous quarter for reasons just mentioned.

Our total costs for the first quarter at AED 1.3 billion increased by 16% over the previous year due to higher staff costs linked with anticipated increased business volumes. Costs have improved by 8% over the previous quarter, as we spent less money on discretionary items like marketing, legal, and professional fees. The cost-to-income ratio at 32% for quarter one has is within guidance and we have already implemented cost control measures within the group, as we continue to firmly manage expenses.

Provisions for first quarter are AED 829 million, which is 24% lower than the previous year. This represents 109 basis points' cost of risk, which is lower than the cost of risk observed for 2015. Continued conservative provisioning over the quarter boosted the coverage ratio to 113.5% and our NPL ratio improved during the quarter by 0.2% to 6.9%. Emirates NBD's headline advances to deposits ratio at 95.9% remains within our management target range, and the strong current and savings account growth in quarter one has enabled us to recover some of the more expensive fixed deposits.

That brings us to the net interest income and NIM drivers in slide five. Our margins tightened by 20 basis points over the quarter and 28 basis points over the year to 2.62% at the end of first quarter 2016. While loan spreads widened over the quarter, the increase was not sufficient to keep pace with a 14 basis points' rise in EIBOR. This coupled with a smaller contribution from write-backs resulted in a four-basis-point decline in loan spreads over the quarter. Loan spreads tightened over the year as margins on a range of products experienced downward pressure in a competitive environment and were not able to keep pace with the 36 basis points' increase in EIBOR.

Deposit spreads declined over the quarter due to the higher balance of fixed deposits during quarter one, which rolled off towards the end of the quarter. Over the year, our on-going efforts to attract and grow current and saving accounts balances helped contribute to a widening in deposit spreads against EIBOR.

Our Treasury continued to deploy excess liquidity profitably in the first quarter albeit at lower yields than last quarter of 2015. Over the year, new term funding rates replaced the more expensive maturing liabilities also. While liquidity has become a valuable resource, the UAE remains a very competitive market, although we expect to see less aggressive loan pricing across the sector than in previous years. We also expect some benefit in the coming months as products adjust to the US rates hike expected sometime this year. Any further rate hikes will afford us the opportunity to reset margins. Expensive deposits roll off will have help maintain margins for the remainder of 2016. All these factors combine to enable us to retain our margin guidance in the 2.70-2.85 range for the full year.

Speaking now through slide six on funding and liquidity, our advances to deposits ratio at 95.9% in quarter one is comfortably within our target range of 90-100% and we at Emirates NBD remain well placed to meet relevant prudential liquidity requirements.

As Shayne mentioned, our strong structural liquidity provides us flexibility in options to raise funds. We have AED 1.5 billion of debt maturing in the first quarter, which we replaced with AED 2 billion raised through private placements. Some of this was five-year funding, which we raised at margins below 200 basis points and this compares favourably with potential pricing that for mid-markets would have offered in the first quarter.

We have AED 7.6 billion maturing in the remainder of 2016. AED 3 billion of debt is a [club deal], which matures in 2016 December. We are currently in discussions to replace this ahead of schedule, and feedback has been very good, both in terms of pricing and volume, so we may look to upsize this deal. We are 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. We have various options open to the group, including issuing unconventional or Sukuk format or issuing in the range of currencies. Given our ability to raise private placements as evidenced by the AED 2 billion issued in quarter one 2016 alone, we are very confident of refinancing maturing debt through the year. Our liquid asset position remains strong and at AED 46.3 billion covers 12.7% of total liabilities.

In terms of loan and deposit trends on slide seven, gross loans grew by 3% in 2016 first quarter, underpinned by a 6% increase in Islamic financing, and this was driven by growth in retail, trade, and services sector, and 3% growth in corporate lending, driven by manufacturing and construction. Our expectation for loan growth in 2016 remains in the middle 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 the economy. We will, however, continue to pursue growth opportunities in our core markets and key customer segments. Deposits grew 1% over the quarter, but this was made up of a decline in time deposits by 7%, as more expensive fixed deposits gathered during the last quarter of the year rolled off in quarter one. CASA continued to grow at a healthy 8% over the quarter and now represents 59% of total deposits. Deposit growth for 2016 will be in line with loan growth, as we continue to maintain our advances to deposits ratio in the 90-100% range.

With that, I will hand you over to Paddy to take you through the rest of the presentation.

Paddy Clerkin

Thank you, Surya. On slide eight, we see that total non-interest income declined by 1% year-on-year in the first quarter of 2016. Core gross fee income improved by 1% both year-on-year and quarter-on-quarter; this rise was driven by an increase in credit card volumes, offsetting a modest decline in trade finance, brokerage, asset management fees, and other income. Property income declined significantly in Q1 of this year. There was a significant disposal of investment properties in the first quarter of 2015, which was not repeated this quarter. Total inventory reduced from AED 1.7 billion at the beginning of the quarter to AED 1.6 billion at the end of the quarter. Although we saw lower volumes of inventory sold in Q1 than in previous quarters, it is pleasing that current sales continue to generate profit for the group despite the decline in property prices over the year.

Investment security income increased by 135% in Q1 compared to the corresponding quarter in 2015. This increase relates mainly to the sale of all of Emirates NBD's holdings in Union Property shares.

Moving onto operating costs and efficiency on slide nine, in Q1 costs increased to 16% year-on-year. This increase was mainly due to a combination of higher staff costs, linked with raising business volumes, and then an increase in marketing related expenses. Costs declined by 8% quarter-on-quarter, as less money was spent on marketing, legal, and professional fees than in the last quarter of 2015. The cost-to-income ratio at 32% was 3.9% higher than the first quarter of 2016 compared with a year ago. This is within our desired target range of 33%. Excluding one-offs, the cost-to-income ratio was 33.6%. We have already implemented cost control measures within the group to maintain the cost-to-income ratio within the target range.

Moving onto credit quality on slide 10, as was mentioned earlier, the NPL ratio improved by 0.2% in Q1 from 7.1% at the beginning of the quarter to 6.9%. Impaired loans held steady in the AED 21 billion area, as we had AED 226 million of write-backs and recoveries in the first quarter of 2016; this alone with routine provisioning helped increase the coverage ratio to 113.5%. As with previous quarters, 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 earlier quarters.

The cost of risk fell by 24% in Q1 compared with a year ago. AED 829 million of provisions represents the cost of risk of about 109 basis points and this is lower than the 116 basis points recorded for the whole of 2015. Total portfolio impairment allowances now stand at AED 6.4 billion or over 2.9% of credit risk-weighted assets and this comfortably exceeds the 1.5% Central Bank requirement.

Slide 11 on capital adequacy shows that during the first quarter of 2016, Emirates NBD's Tier 1 ratio fell slightly to 17.6%. Over a similar period, the capital adequacy ratio declined marginally by 0.4% to 20.3%. The 0.4% decline in both these ratios was due to the annual dividend payment more than offsetting the quarterly rise in capital due to retaining profits, coupled with a 1% increase in risk-weighted assets. We expect, as with previous years, the 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

On slide 12 we see that retail banking and wealth management revenues grew by 6% over the quarter. This was driven by a 4% growth in fee income on the back of higher credit card volumes. Fee income now represents 39% of total income for the retail unit. This strong performance in fee income is a result of best-in-class products that we introduced over the last year and our award-winning digital platform. Loans grew by 1% in the first quarter. During the same period, deposits grew by 5% as CASA balances grew by AED 5.2 billion to represent 84% of total deposits in retail banking and wealth management. Islamic banking witnessed a 4% decline income from Islamic financing and investment products over the quarter. Fee income declined year-on-year as there was significant disposal of investment properties in Q1 of 2015 that was not repeated in 2016. Financing receivables continued to show strong growth, increasing by 8% from end of 2015 across a broad range of products. Customer accounts grew by 2% during the same period and as [inaudible] Islamic continues to expand its distribution network with a new branch opening in Q1, bringing the total number of Islamic branches to 61. Despite lower growth anticipated in 2016, we still expect the retail business, both conventional and Islamic, to perform well and as we look to expand our product offering and enhance our digital capabilities across those banks.

If you go to slide 13, wholesale banking revenue declined by 12% compared to the previous quarter due to a change in internal transfer pricing coupled with margin compression. Loans grew 2% during the first quarter. Deposits declined by 3% over a comparable period, as the group's strong structural liquidity enabled the wholesale bank to retire some more expensive time deposits. The focus in 2016 continues to be on enhancing the quality of our customer service and share of wallet. This includes improved cross-sell of Treasury and investment banking products, and increased tax management and trade finance penetration. Treasury income grew by 129% in the first quarter of 2016. Net interest income benefited from a combination of US Dollar rate hike in December, cheaper interbank funding costs, and a change in internal transfer pricing. Sales revenue grew 16% year-on-year, as global markets witnessed higher volumes in interest rate hedging products, foreign exchange, and fixed income sales. Trading and investment revenues improved, as both the credit and foreign exchange trading teams delivered a strong performance despite the challenging market conditions. As Surya mentioned, the global funding unit issued AED 2 billion of term debt through private placements, which more than replaced the AED 1.5 billion that matured in Q1.

In summary, despite the first quarter of 2016 having its own challenges, we were able to deliver an 8% improvement in net profit, underpinned by income growth, controlling expenses, and improved cost of risk. We expect loan growth to be modest in 2016 so it remains crucial that costs remain firmly under control. As we mentioned in previous quarters, issues such credit quality concerns in the SME market and tighter liquidity had a [inaudible] first half on Emirates NBD. Liquidity pressures in the sector eased in the first quarter from the type of conditions experienced in the second half of last year. Emirates NBD's strong structural liquidity allowed us to maintain the AD ratio comfortably below 100%. Credit quality continued to improve in the first quarter of 2016, as reflected by the improvement in the impaired loan ratio and increased coverage ratio. The bank's balance remains very healthy and allows us to take advantage of any growth opportunities in our preferred markets. We are confident that going forward, our prudent business model should continue to deliver a solid performance and deal with the opportunities and challenges that present themselves. The UAE economy remains resilient thanks to a large non-oil industry, of which Dubai played an important and integral part. Headwinds persist including a strong Dollar and uncertainty in both global growth and oil price, but despite this, we've seen a rebound in the UAE PMI and Dubai economy tracker indices in March.

With that, I would like to open the call to 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 Shabbir Malik from EFG-Hermes. Please go ahead.

Shabbir Malik – EFG Hermes

I have a couple of questions. Your provisioning in the first quarter '16 was a little lower than last year. I felt that was still a bit high. Can you provide some colour on what segment drove provisioning in the first quarter and how much of this was precautionary? My second question is on… recently there was an agreement between banks that they would not… they will help SMEs which are facing stress by extending the time that they're given to repay loans. Would that have any positive impact on credit quality on the SMEs and could we see some lower provisions going forward? Thirdly, your foreign ownership limit is still at 5% and we are very close to the limit. Any update on this limit or any plans to change this soon? Thank you.

Shayne Nelson

Surya, will you take question one, the provisioning one?

Surya Subramanian

Yes. Shabbir, on provisioning, it's fair to say that the SME and the micro SME market appears more challenging than last year, although we believe our own experiences are better than the rest of the market, and on the corporate side we continue to benefit from improvements in our legacy book and the fact that across all sectors, corporate, retail, SME, we have been more prudent in underwriting, having been once bitten, twice shy in recent times. I can take you through the numbers, but if you go through the detailed financial statements that have also been presented at the DFM, if you go through the operating segment, you would actually see the dynamics that I'm talking about. Our profit provision, for example, this year was only AED 279 million, whereas last year it was AED 664 million, so whereas on the retail, which includes SME, last year we had only AED 94 million, this year we have AED 190 million, so this is really the underlying dynamics behind the numbers. Paddy did mention in his take on the credit quality slides, although we are not giving you any guidance, we expect these numbers, and we said that consistently during our full year call as well, we expect cost of risk, NPLs, coverage all to continue to improve during the course of the year.

Shayne Nelson

On the UBF agreement on SME, I suppose from our perspective, the impact on SMEs has been pretty limited so far. [inaudible] this scenario, the effect for us, I think, SME loans grew about 3% last year, sorry, in the first quarter, so it is not that we're shying away from the SME market. A lot of the skips in the SME market are coming from the micro segment, so we are certainly not pushing hard into that segment of SMEs.

Do I think it will make a significant difference with a UBF agreement between the banks? Well, I think in some regards, the bank caused some of our own problems by some banks pulling out of counterparties and then creating a liquidity crunch, so yes, it will help, and certainly I think without having personal bankruptcy laws and company bankruptcy laws, it will certainly help customers work out their problems with banks, rather than have to get out of the country. The effect on us I think will be miniscule, because so far the impact on us as a bank in SME skips has been very limited, so I don't see that it will affect our numbers materially at all.

On the foreign ownership, that is a Board decision, there has been no change on that at all.

Shabbir Malik – EFG Hermes

Thank you.

Operator

Our next question is from Mark Krombas from Qatar Insurance & Co. Please go ahead.

Mark Krombas – Qatar Insurance Co.

Yes, thanks for doing the call so promptly. I have a question on your outlook for NIMs. In the presentation, it is giving an outlook for NIMs a little bit – well, quite significantly above where we are now. Do you see that as a gradual stepping phase or do you see like an improvement in the second half more. Could you just talk a little bit about the outlook for NIMs?

Surya Subramanian

Thank you, Mark.

Shayne Nelson

Obviously, Mark must do his quarterly model.

Mark Krombas – Qatar Insurance Co.

You got it right.

Surya Subramanian

There are two dynamics in this one, one is the steady part, which is the overall balance sheet mix and the interest rate we carry, which is affected by US rate rise, affected by how successful we are in transforming fixed deposits to current and saving or relative of current and savings faster than fixed deposits, and the on-going mix from the asset side between the retail, the corporate and the margin compression in that market. That will assess – they will continue to give us the steady improvement because our book is positioned to benefit from a rate rise whenever it happens and, clearly, the expectation of a rate rise keeps getting pushed further and further out.

Order of magnitude, the statutory disclosure we made at the yearend was for every 200 basis point rate rise, other things remaining equal, we would improve earnings by AED 1 billion. Obviously, that assumes a 1st January to 31st December kind of maths, but you can factor that in your model.

The part that is not easily predictable is the interest in suspense releases we get as we bring recoveries from our legacy debt book. Last year, we recovered almost AED 2 billion from problem customers from legacy debt that is for the full year. This year, so far, we have only recovered a little more than 200 in the first quarter. Now, these come in lumpy shapes and forms, so these is no even number to it that says it comes 500 a quarter, and that would certainly give us the uplift we need to bridge between the current 260 that we are to the margin guidance of 270-285.

Shayne Nelson

I think the other thing to add to that, Surya, would be the last quarter of 2015 liquidity was much, much tighter than we're seeing it now in the UAE, and we had to fight for our customers. There was quite a steep rise in rates in that last quarter. We are not seeing that in the first quarter, but we did set quite a lot of our deposits to make sure we got over the first quarter of 2016. We [audio] some of that roll-off as we get into the second quarter.

Mark Krombas – Qatar Insurance Co.

Thank you very much.

Operator

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

Sandeep Srinivas – Duet

Hi there, thanks for hosting the call. My first question is on, when I look at your cost to income, you say you have increased cost in anticipation of higher business volume, but when I look at the loan growth outlook, it looks like the loan growth is going to taper from here on. Can you please help me reconcile this? What business are you talking about when you say business volumes are going to increase?

Shayne Nelson

Thanks for the question. There are a couple of reasons there. We started to ramp up our sales force quite aggressively into the second half after a very good first half of 2015. Unfortunately, there is a lag effect on that and if we had hindsight and knew what was coming in the second half of 2015, we wouldn't have increased the sales force so much. We have got a headcount freeze in place at the moment, and our national attrition should give us quite a big drop in headcount by the time we get to the end of 2016. We have also repositioned some of our businesses, particularly micro SME in both the Islamic Bank and the conventional bank, which has led to a headcount reduction there.

Remember, the sales force is not just about loans, it is also about deposits, and you will see there has been quite a significant increase in our CASA, for example, in the retail banking business, so it is not just about loans. If we look at the Islamic Bank, actually, the loan growth has been quite strong in the retail space.

A lot of the headcount increase that we did in the second half of 2015 was all about retail, it wasn't about corporate banking, it wasn't about treasury, it was about retail banking, where we believed we could gain market share. Unfortunately, in the second half, the market turned against us and the volumes dropped. Now, we are repositioning our cost base because of that.

Sandeep Srinivas - Duet

Thank you, and my second question is, since your advance to deposit ratio number middle of your guidance band, would you chase deposits going forward and how would that impact your cost of funding.

Surya Subramanian

We are not chasing deposits. We are, obviously, managing the balance sheet to make sure that we stay within the range. Of course, from quarter to quarter, the mix between term deposits and current and savings does change. It is also worth pointing out that in the last couple of quarters, we have been quite steady in maintaining a healthy advance to deposit ratio, while the system itself has deteriorated and now has gone above 100%. In effect, we are gaining market share relative to some of the others, especially on current and savings accounts on the back of our enhanced branch distribution network and some of the products that we offer.

Shayne Nelson

I slightly disagree with you, we are chasing deposits, cheap deposits. Certainly, we will continue to chase cheap deposits and CASA (Current Account Saving Account) is certainly something that is on strategy, we want more of it, and you can see we have had very good growth and strategically from a funding and balance sheet mix, if interest rates rise, US rates rise and obviously that will follow here, that gives us an immediate profit uptick, so it is a strategy that we have been adopting for a number of years now, and we will continue to chase those current accounts savings accounts, because they are very good value for us, not only now but in the future.

Sandeep Srinivas

All right, so you're comfortable with the current cost of funding, you think you can maintain that.

Shayne Nelson

We have given you the NIM guidance. We have said we're comfortable with it, so we wouldn't say that otherwise.

Sandeep Srinivas

All right, and finally a question on our credit risk weight. I see there is an increase in it, so could you just explain now where is that coming from.

Surya Subramanian

We have grown the balance sheet. There is a natural increase in the credit risk weight there, and if you look at slide eight which shows you the components… sorry, not slide eight, that is non-interest income, we have that on slide 11 on capital adequacy. You will see that our credit risk weighted assets, for example, are 219.6 billion this quarter, and that compares with about 198.8 last year, and there has also been a little bit of an uptick relative to last year on operation risk as the size of the business grows, and this is a standard formula.

We are quite comfortable with that. Our capital adequacy ratio dips not because of the increase in credit risk weighted assets, more because there is a first quarter dividend payout that goes out. Otherwise, the book itself is well managed relative to the CAR.

Sandeep Srinivas - Duet

All right, that is it from me, thank you.

Surya Subramanian

Thank you.

Operator

Our next question is from Elena Ponceca from Al Ramz Capital. Please go ahead.

Elena Ponceca – Al Ramz Capital

Hi, good afternoon, and thanks for hosting the call. I have a couple of questions. First is on the part in the fixed term deposits which rolled off in the last quarter, is there a portion which is from Government deposits? The second is, this morning there was a report saying that you are closing off your SME financing and cutting jobs, so could you please share more details on this?

Shayne Nelson

Sure, thank you. Government deposits for us are miniscule, and there has been no effect at all on Government deposits, we're not NBAD.

If I look at the SME business, as I said, our SME business has – actually, our loans have grown by 3% quarter-on-quarter, so there is no way that we're backing away from SME financing. As I have said earlier, I believe banks have an obligation to SME, both business and social. It is just a GDP driver for the country. Where we are refocusing is away from that micro segment that is more problematic in the SME space. We believe there is a very good opportunity for us to grow SME as we have been this year already, as other banks are exiting this area in total. We have been able to get good buy-ins with better collateral and a good rate, because some banks are exiting the market.

On staff cost, it is a matter of the sales staff that we're largely focused, and some of the support staff that we're focused on that micro segment. We are de-risking away from that, so those members are no longer required. We have actually let some of them go through natural attrition and then others through a redundancy programme in both banks.

Elena Ponceca – Al Ramz Capital

Thank you.

Operator

Our next question is from Abdulrahman Al Sudai from NCB Capital. Please go ahead.

Abdulrahman Al Subaye – NCB Capital

Hello, and thank you for hosting the call. My question is on Expo related projects and when are you expecting to see some action there.

Shayne Nelson

We have had some initial discussion with the Expo team on the infrastructure, so certainly the planning is well underway. We have seen the new logo, it was recently released, and I think that already generated some sort of – increased confidence in Dubai becoming more obvious. The official Expo spend is AED 32 billion, but at this stage, I am sure you will see it announced in the paper when one of the new projects comes along.

Abdulrahman Al Subaye – NCB Capital

Thank you.

Operator

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

Sanyalak Manibhandu – NBAD Securities

I have two questions. The first one is on Basel III and when can you mention that ENBD probably won't be raising any new capital in 2016. That is a reasonable statement, but I am just thinking about 2017 and ahead on the 2018 implementation of Basel III. Do you think that you will be needing some capital? That is the first question.

The second question is on UP, you mentioned that you have sold out the last of your position in UP. Do you have any other positions in terms of legacy securities related to NPLs etc to sell out at all?

Surya Subramanian

Hi, Sanyalak, this is Surya. I will take the second question on UP and other securities and then hand over to Paddy on the Basel III and capital.

First to clarify, UP was an investment holding we had, it was not an impaired security because you did use the word “impaired security”. We traditionally had setup this company as a legacy 100% property arm of the Bank long, long back and then floated it. At one time, at the peak, we held 48% in Union Properties, and we have progressively brought down our stake over the last couple of years. It was held as an available-for-sale security in our books after they stopped being an associate. This quarter we have brought our holding down to zero. We do have odd bits of pieces of investment here and there, nothing material, and probably the only one worth mentioning, because it is in a listed entity is NGI (National General Insurance) where Emirates NBD – that is also a listed entity in the UAE – where Emirates NBD holds about 36% of the shares in NGI, and that was also a legacy company that Emirates NBD had floated many years back.

Relative to the balance sheet size, if you look at the valuation for NGI in the markets, it is less than 0.001% of our total balance sheet, so neither here nor there.

I will hand it over to Paddy for the comment on Basel III and our need for capital.

Paddy Clerkin

Certainly, we still await guidance from the Central Bank regarding Basel III, so we’re very much still under the Basel II regime. We do have a Tier 2 instrument which is callable in 2018, and we have got some Tier 1 securities that are callable, both in 2018 and 2020. Really, until we see what the framework is for capital on the Basel III regime going forward, so until the Central Bank give further guidance, it is really impossible for us to know how those instruments will be treated. Once that guidance is issued, then we will be better placed to make a decision in terms of whether those instruments would be called in 2018/19 and 2020, and how we would address that. Again, do bear in mind that the profit generation from the Bank is very strong, so we have very strong capital ratios at the moment, and the retained profit continues to strengthen the capital base.

Sanyalak Manibhandu – NBAD Securities

Thank you.

Operator

We have one further question come through coming from Wasi Hassan from Shuaa Capital. Please go ahead.

Wasi Hassan – Shuaa Capital

Thank you for hosting this call. A couple of quick questions, the first one on undrawn credit commitments, note number 17. Could you kindly just give some clarity on the number going up? I believe it is about 19% since December. Is there a particular segment in the portfolio that this has been focused on? Is this mostly credit cards?

Surya Subramanian

The undrawn commitments on credit cards wouldn't come here, because those are uncommitted lines. These are… typically, the undrawn committed commitments are on committed corporate lines, and I believe you're referring to the fact where 23 billion as at the end of last year reached 28 billion as at this quarter in note 17. This is normal business for us. We have had some good deals, mostly corporate, and some of these are project based, short-term project based.

Wasi Hassan – Shuaa Capital

Great, thanks. Just one more question, I believe the Egyptian business is reported under "Other Segments" in the operating segments. Is there any information available on the portfolio mix on the lending side, is this mostly corporate? Is this mostly retail?

Shayne Nelson

It is mainly a corporate book there. BNP when I had the business didn't drive hard in the consumer space. We have changed that and we are driving quite hard in the consumer space and deposit growth at the moment, but it is still very largely a corporate based book in Egypt. .

Wasi Hassan – Shuaa Capital

Just one follow-up question to that, is there any sort of guidance you have on the Egyptian portfolio expansion in 2016?

Shayne Nelson

The only thing I would say about that would be that Egypt to us remains an attractive market that we want to grow in, be it organic or inorganic opportunities if it makes sense for us financially.

Wasi Hassan – Shuaa Capital

Great, thank you

Operator

We have a further question. Please go ahead.

Unidentified Participant

Hi, I have two quick questions, one is regarding the Egypt book, like with the devaluation of the Egyptian currency how much impact you had on your P&L. The second question is regarding the Emirates Islamic profitability. In the press release, you are mentioning you have a net profit of 45 million compared to your financial statement it says a loss of 50 million, 49 million. Am I looking at the right number?

Surya Subramanian

I will take the question on Egypt first. The translation on our investment in Egypt goes through the other comprehensive income line in the detailed financial statements, so it is included in that final total on total comprehensive income. To the extent it affects our results, it impacts the capital ratios marginally, but when we did get into Egypt a few years back, we were aware of the fact that the currency is subject to devaluation, so we had modelled that within our investment thesis, and I would say that so far, notwithstanding what we have seen in the market in Egypt, the business continues to deliver as per our investment thesis. As Shayne just mentioned, it is a market where we are still hopeful for the future.

Shayne, any comments on Egypt before I go to the Islamic Bank question?

Shayne Nelson

No

Surya Subramanian

On Islamic Bank, you made two points, you said the Islamic Bank has reported da profitability of 45, what was the other number you quoted?

Unidentified Participant

Yes, in the press release you are mentioning 45 million net profit, compared to the financial statement, I think it is a loss of 49 million.

Surya Subramanian

No, we see a profit of 45 million in the Emirates Islamic financial statement as well.

Unidentified Participant

Page number 26?

Surya Subramanian

Of the Emirates NBD financial statement?

Unidentified Participant

Yes

Surya Subramanian

Okay, just a minute.

Now, when you look at page 26, which is the operating segment, Islamic Banking is not just the legal entity of Emirates Islamic, it also includes any Islamic banking we have within our window in the main bank, which we call "Al Watani Al Islami", so you see the aggregation of the Islamic Banking as an operating segment there.

Unidentified Participant

Okay, got it. Thank you.

Surya Subramanian

Thank you

Operator

For any further questions, please contact our Investor Relations Department whose contact details can be found on the Emirates NBD website and on the results press release. A 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.

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