Emirates NBD

EMIRATES NBD Q2 2016 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL
18 July 2016

CORPORATE PARTICIPANTS

Shayne Nelson – Emirates NBD – Group CEO

Surya Subramanian – Emirates NBD – Group CFO

Patrick Clerkin – Emirates NBD – Head of IR

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD 2016 First Half Results Announcement Analyst 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

Thank you and I would like to welcome you all to the Emirates NBD conference call for the first half of 2016, supporting me today as per usual, Surya, the Group's Chief Financial Officer and Paddy our Head of Investor Relations, and together we will review the operational and financial highlights for the first half of 2016. We will refer to the results presentation which was made available to you earlier today, after which you'll have the opportunity to ask questions.

If you go to slide 3, global and regional themes continued to have a big influence on our business sentiment, both in the UAE and further beyond. Through the second quarter, the price of oil rose further from the lows experienced at the beginning of the year. This has coincided with the rise in both in the UAE PMI and the Dubai economic tracker from the lows observed in the first quarter. We have also seen the impact that the UK's referendum on EU membership has had on volatility in the global foreign exchange and stock markets. Many analysts are citing this as the reason for delaying their expected timing of the next rise in US interest rates.

The large non-oil element of the economy coupled with the strong sovereign wealth buffers, Dubai and the UAE continued to have a resilient economy. However, headwinds persist, including a strong dollar and uncertainty in global growth.

Emirates NBD

During Q2, we also saw a significant increase in regional Governments and corporates either issuing or announcing their intention to issue debt. Governments in the region continued to move forward with budget reforms aimed at increasing non-oil revenues to help address fiscal deficits. Despite the liquidity improving in the first quarter of 2016, we saw liquidity conditions tighten in the second quarter. This was demonstrated by the increase to 101.7% in May of the UAE wide advance to deposit ratio. As a result, we remain cautious in our approach to funding.

Against this backdrop, it is pleasing for me to report a sold set of results for the first half of 2016. Net profit improved 12% year-on-year, underpinned by income growth and improved cost of risk.

Credit quality improved again in the first half of 2016, the Impaired Loan ratio strengthened further to 6.6% whilst the coverage ratio bounced at 118.5%. We continue to actively manage our stock of legacy NPLs and believe there is scope further improvement in credit quality.

The Bank's Advance to Deposit Ratio remains comfortably below 100% and finished the quarter at 96.1%. In the first half of 2016, we raised nearly $4 billion of term funding through private placements, a Sukuk issuance, and a club loan. This comfortably covers the $2.5 billion of maturities we faced at the beginning of the year and allows us to start to prefunding 2017 maturities. Our strong retail franchises also continued to grow their CASA account balances; CASA now makes up 57% of total deposits.

In June, Moody's upgraded Emirates NBD's long-term rating to A3, recognising the bank's improved and resilient financial profile.

Emirates NBD's solid financial and operating performance along with our best-in-class digital platform were also recognised in this year's Euromoney Awards for Excellence. We are the first bank in the UAE and the Middle East to win three categories, namely Best Bank in the Middle East, Best Bank in the UAE, and Best Digital Bank in the Middle East.

This recognition coincided with our announcement to invest AED 500 million over the next three years towards digital innovation as we look forward to launch UAE's first digital bank for millennials. This will create a new paradigm in the way people bank in the UAE. It will offer customers of the next generation self-service money management with innovative tools and applications.

Overall, I am very pleased that, despite the challenging global environment we delivered another solid performance. We have a solid balance sheet, a prudent business model and a focused strategy. This will allow us to take advantage of growth opportunities in our preferred markets and confidently face any challenges that present themselves.

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

Surya Subramanian

Thank you, Shayne, and I will speak through the financial results that are available on pages 4 and 5 of the presentation. Net profit for the group was AED 3.7 billion in the first half of 2016, that's 12% above the profit posted in the previous year. The increase in net profit was driven by a 2% increase in income, aided by loan growth and a 27% reduction in impairment allowances thanks to significant write-backs and recoveries. This more than offset an 11% increase in expenses. First half revenues of AED 7.7 billion grew 2% over the year, again driven by a 2% increase in net interest income due to asset growth, which helped offset a contraction in margins. Revenues in quarter two were down 4% on the previous quarter due to a decline in non-interest income. As I mentioned, net interest income itself was flat quarter-on-quarter, as loan growth offset the modest contraction in margins. However, non-interest income fell in quarter two as we experienced lower gains from the sale of investments.

Total costs for half one at AED 2.5 billion increased 11% over the previous year on the back of late 2015 growth, which was in anticipation of increased business volumes. This has since been contained in the light of the new economic reality. Costs did improve by 2% over the previous quarter, as our cost control measures that were implemented in Q1 started to take effect. Provisions for the first half are at AED 1.456 billion, which is 27% lower than the previous year. This represents a 94-basis-point cost of risk and is lower than the cost of risk observed in 2015, which was about 116 basis points. During the first half of 2016, our financial recovery unit was able to either write back or recover nearly AED 1 billion from impaired loans. This helped to improve the NPL ratio to 6.6% while the coverage remains very healthy at 118.5%. As Shayne mentioned, our advances to deposits ratio at 96.1% remains within our management target range.

Moving on now to slide 6 that shows the details and drivers of net interest income, we saw declines in margins in the first half of 2016. This was predominantly due to a decline in loan spreads, as margins did not keep pace with the higher cost of deposits amidst pressure in a competitive market. Deposit spreads did improve quarter-on-quarter, as our healthy mix of current and savings account balances helped offset higher EIBOR and higher cost of fixed deposits. However, deposit spreads declined marginally year-over-year due to higher fixed deposit balances. Treasury spreads, however, improved year-over-year due to more profitable deployment of excess liquidity, relatively cheaper term financing, which we shall talk more about, and a good contribution from our investments. In light of these factors, we have adjusted our net interest margin guidance for 2016 down to the range of 2.55% to 2.65%, as we see continuing challenges in passing on the high cost of deposits. We also recognise that any delay in the US rate hike, first the opportunity for the banks to reset margins in the immediate future.

Emirates NBD

Slide 7 shows the details of our funding and liquidity. The advances to deposits ratio at 96.1% at the end of quarter two is comfortably within our target range of 90-100%. Emirates NBD remains well placed to meet relevant prudential liquidity requirements. As Shayne mentioned, we took advantage of favourable market conditions in the second quarter to enhance our structural liquidity. We have grown the bank's long-term funding ratio to 12% of total liabilities. This was achieved through issuing AED 5.4 billion of private placements, an AED 2.8 billion Sukuk rate by Emirates Islamic. That's $750 million upside from $500 million, and a AED 6.2 billion club deal, that's $1.7 billion, the largest ever club deal pursued by a Middle East and financial institution. In total, we raised AED 14.4 billion of term deposit in the first half of 2016, which more than covers the AED 9.1 billion maturing in the whole of 2016. This approach also enables us to make the capital markets opportunistically in the second half of 2016 for any further issuance and we will do so obviously when it was right for ourselves and our investors. Our liquid asset position remains strong at AED 51.3 billion and covers 13.7% of total liabilities.

Slide 8, which shows the loan and deposit trends, gross loans grew by 2% in the second quarter of 2016, underpinned by a 6% increase in Islamic financing, driven by growth in retail, trade and the services sector. There's also a 3% growth in the conventional retail lending driven by both across a wide range of products. Our expectations for loan growth in 2016 have been revised up from a mid-single digit to a mid to high single digit range. While we have delivered 6% loan growth in the first half of 2016, we expect the slower pace of growth in the second half as we expect competition to remain strong and demand to be a bit more subdued. We will, however, continue to pursue growth opportunities in our core markets and with our key customer segments. Deposits grew in total by 2% over the quarter. While there was a decline in current and savings account deposits, we had an 8% increase in fixed deposits during the same quarter, reflecting a preference by some depositors to lock in rates during the quarter. Current and savings accounts still represents 57% of total deposits, and deposit growth for 2016 will be in line with loan growth, as we continue to maintain the advances to deposits ratio in the 90-100% range.

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

Paddy Clerkin

Thank you, Surya. On slide 9 we see that total non-interest income was flat year-on-year and improved by 7% compared to the second half of 2015. Core fee income improved by 5% year-on-year; this rise is driven by an increase in credit card volumes and the income from foreign exchange and derivatives, offsetting a modest decline in trade finance, brokerage and asset management fees. We continue to see strong demand for our DirectRemit product as a cost effective and convenient way for customers to remit money. Property income declined significantly in the first half of this year. There was a significant disposal of investment properties in the first half of last year, which was not repeated in 2016. Total

inventory reduced from AED 1.7 billion at the beginning of the year to AED 1.6 billion at the end of June. Although we saw lower volumes of inventory sold in Q1 and Q2 than in previous quarters, it is pleasing that current sales continued to generate profit for the group despite a decline in property prices over the year.

Investment security income increased to 29% in the first half of the year. This increase relates mainly to the sale of all of Emirates NBD's holding in Union Property shares.

Moving onto operating costs and efficiency, costs increased by 6% year on year on the back of 2015 growth in anticipation of increased business volumes, which have since been contained, as Surya mentioned, in light of the new economic reality. In Q2, costs improved by 2% quarter-on-quarter as these cost control measures implemented earlier in the year started to take effect. The cost-to-income ratio rose by 0.6% in Q2 to 32.6%, as lower exceptional income compared to Q1 offset cost improvements. The year-to-date cost-to-income ratio was 32.3% for the first half of 2016 and it's within our desired target range of 33%. If you strip out the one-offs, the cost-to-income ratio would have been 33% in the first half. We anticipate that the bank will benefit further as the cost control measures implemented earlier in the year starts to take effect.

Moving onto credit quality on slide 11, as was mentioned earlier, the NPL ratio improved in Q2 from 6.9% at the beginning of the quarter to 6.6%, an improvement of 0.3%. Impaired loans reduced to AED 20.4 billion at the end of Q2, as we had nearly AED 1 billion of write-backs and recoveries in the first half of 2016. This along with routine provisioning has helped to increase the coverage ratio to 118.5%. As with previous quarters, we do not give formal guidance on a hard target for NPLs. A recovery unit continues to work on the existing stock of NPLs and are hopefully that they will be able to build upon the success they delivered in earlier quarters.

Provisions for H1 are just under AED 1.5 billion, which is 27% lower than in the previous year. This represents a 94-basis-point cost of risk and is lower than 116 basis points' cost of risk observed in 2015. Total portfolio impairment allowances now stand at AED 7.1 billion or 3.2% of credit risk-weighted assets and this comfortably exceeds the 1.5% Central Bank requirement.

Slide 12 on capital adequacy shows that during the second quarter of 2016, Emirates NBD's tier 1 ratio improved slightly to 17.8% and over a similar period, the capital adequacy ratio also improved to 20.5%. The 0.2% improvement in both the tier 1 and capital adequacy ratio was due to capital increasing, due to retaining profits at a faster rate than the 2% increase in the risk-weighted assets. We expect, as with previous years, for profit generation and 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

Thanks, Paddy. On slide 13, you will see that for Retail Banking and Wealth Management, revenues grew by 1% over the quarter. This was driven by loan growth which help offset a modest reduction in fee income. Loans grew by 5% and deposits grew by 7% in the first half. The Retail Bank's e-banking platform received further recognition in this year's Euromoney Awards as we were named Best Digital Bank in the Middle East. This recognition coincided with the announcement to invest AED 500 million towards that digital innovation as we look to launch the UAE's first digital bank for millennials. Islamic banking witnessed 2% growth in income from Islamic financing investment products over the quarter, with fee income driving the increase in revenues. Financing receivables continued to show strong growth, increasing by 13% during 2016 across a range of products. Customer accounts grew by 7% during the same period. Emirates Islamic successfully re-entered the Sukuk market after a four-year absence with a $750 million standalone issue, as we previously mentioned. The deal generated $2.25 billion of demand, which allowed Emirates Islamic to upsize the deal while tightening pricing. Despite slower growth anticipated for the remainder of 2016, we expect the retail business, both conventional and Islamic, to perform well as we look forward to expanding our product offering and enhancing our digital capabilities.

On slide 14, wholesale banking revenue advanced by 5% compared to the previous quarter, helped by growth in the loan book and a rise in fee income. Deposits declined by 4% during the quarter, reflecting continued efforts to reduce the average cost of funding, whilst maintaining liquidity at that optimal level. The focus of 2016 continues to be on enhancing the quality of customer service and share of wallet; this includes improved cross-sale of Treasury and Investment Banking products, and increased Cash Management and Trade Finance penetration.

Treasury income declined by 26% in the second quarter but grew by 70% in the first half of 2016 compared to our corresponding period in 2015. Net interest income benefited from a combination of a US rate hike in December, cheap interbank funding costs, and a change of internal transfer pricing. Sales revenues saw a 28% growth as global markets generated high volumes in Interest Rate hedging products, Foreign Exchange & Fixed Income sales. Trade and investment revenues improved to both Credit and Foreign Exchange Trading teams, delivered a strong performance by challenging market conditions. As Surya mentioned, the Global Funding unit operates AED 14.4 billion of term debt by private placement, the EI Sukuk issue, and $1.7 billion sub-yield.

In summary, despite the first half of 2016 having its own challenges, we were able to deliver a 12% improvement in net profits, underpinned by income growth an improved cost of risk. We expect loan growth

to be modest for the remainder of 2016. It remains crucial that costs remain firmly under control and we now are starting to see the impact of cost control measures implemented in the first quarter.

Liquidity pressures persist in the sector, but Emirates NBD's strong structural liquidity allowed us to maintain the AD ratio comfortably below 100%. Credit quality continued to improve in the first half of 2016 as reflected by the improvement in the Impaired Loan ratio and the increased coverage ratio. The bank's balance sheet remains very healthy and profitability remains resilient. These features were recognised in June with Moody's upgrading Emirates NBD long-term rating to A3.

Emirates NBD's solid financial and operating performance along with our best in class digital banking platform were also recognised in this year Euromoney's Awards for excellence. Again, I will mention our millennial banking platform.

The UAE economy remains resilient thanks to a large non-oil industry and with our strong balance sheet, we look forward to meeting the opportunities and the challenges that will present themselves in the second half of 2016.

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

QUESTIONS AND ANSWERS

Operator

Thank you very much Mr Nelson. Our first question is from Sanyalak Manibandhu from NBAD Securities. Sir, please go ahead.

Sanyalak Manibandhu - NBAD Securities

Thank you for that. I especially have two questions. One is on your thoughts on further consolidation in the banking sector in the UAE in light of the announced FGB/NBAD merger, and I also understand that there are conversations going on between ADCB and UNB and also ADIB and the unlisted Hilal Bank. My second question is on the trend in the cost of risk. You mentioned 94 basis points cost of risk, that is for the whole half, but if you look at the trend, it was 1.1 in the first quarter, 81 basis points in the second quarter, so my question is, what do you think the trend would be into the second half of 2016? Thank you.

Shayne Nelson

I will take the bank consolidation question. I have been on public records historically saying that I believe there were too many banks in the UAE for the size of the population and the size of the economy, and with the merger of FGB and NBAD, you end up with five banks controlling two-thirds market share of the UAE, whichever way you want to mention loans, deposits etc. You now have the rest of the bank fighting over one-third market share. What I would say is if you look at the investments that we're putting into, for example, the digital platform, AED 500 million, if you want to keep competing in these markets now, scale matters, because you need scale to invest. I think there will be further consolidations in the market, I think it makes sense. I don't know, you mentioned a whole bunch of names, I am not privy to any of those, but from my perspective, I think it is good for the market and it is good for the consumer if there is further consolidation, because this gives us the capacity to invest as an industry, and also the capital for any buffers of hard economic times.

The cost of risk, do you want to do that one?

Surya Subramanian

Yes, Sanyalak, this is Surya. On your comment on cost of risk, first off, you realise that we do not give specific guidance on cost of risk. However, a couple of years back, when we were at the peak of our cost of risk, we did indicate that we would like to get to a normalised cost of risk over time. Those days the debate of a normalised cost of risk was somewhere between 50-80 basis points. Of course, the world economy and the local economies have deteriorated since and there is greater uncertainty. Nonetheless, as you pointed out, we are at 81 basis points cost of risk for the quarter. While we do not give a specific guidance on the number, Paddy did mention that our expectations are that the improving trend will continue. Some of it is due to the benefit of the corporate recoveries, on the legacy debt we have provided for, others just that we believe our risk management practices and underwriting in recent years leave us in a better shape and position than the rest of the industry, where we are beginning to see some higher provisioning show up in bank results.

Shayne Nelson

I suppose, just to add onto that, I suppose it is fair to say, if I look at the numbers, our NPL formation in the corporate bank has been pretty minimal new formation, and if you look at a lot of the, what the flow-through is, has been on top of what we have had historically, or is mainly an increase in the SME micro space. For us, it has not been a big deal because of our size, but I know for other banks, their SME has created problems, but for us it is a bit of a rounding error. That is how the market has been moving. We continue to see, especially that micro SME space still having some problems.

Sanyalak Manibandhu - NBAD Securities

Okay, thank you for all of that.

Operator

Our next question is from Nikhil Poddar from ADCB Securities. Sir, please go ahead.

Nikhil Poddar - ADCB Securities

Thank you for the presentation. I have a couple of questions, the first is on the cost control measures, which the bank has taken in 1Q16. Could the management share more detail on the measures taken? The second question is on the write back, this quarter has witnessed a write back of AED 724 million. Could you please explain is there anything chunky in nature out there? Thank you.

Shayne Nelson

On cost control, I think one of the things that we did was to ramp up our headcount quite aggressively, especially in the second half of 2015. Remember, in the first half of 2015, actually it was a very solid period, and we were putting a lot more sales force. Our cost control is largely around headcount, because we ramped it up quite aggressively, therefore, we need to bring it back quite aggressively. The cost control includes things like headcount freeze across the Group. We had made some redundancies that have been made public, and mainly in the more problematic areas that we have seen in the market like micro SME, is where we have focused our areas. You have seen Emirates Money, we have folded that now into – which played in that micro area – we folded that into our normal SME space.

A lot of our cost control has really been… yes, we have focused on the normal cost control measures like travel, but that is minuscule compared to the headcount issue. That, to us, is the main issue, it is a big portion of our cost base, as it is for any bank, and therefore, if you really wanted to hit the cost line, you have got to hit headcount. That is what we have been doing, and we continue to wind that down through a combination of span and control reviews, headcount freeze and some limited redundancies in some areas.

Surya Subramanian

Michael on your second question on write backs, we obviously cannot share names, details of customers, that is not our policy, but when you look at the amounts of write backs that we have been having and

recoveries and upgrades and this happened even last year. This is a trend that is reinforced by the efforts by our financial recovery unit. We do have chunky loans from 2009/10/11/12 that would continue to improve as we work through the restructuring efforts. It is fair to say that in quarter two, there was a chunky repayment, but we have had chunky repayments in other quarters as well.

Nikhil Poddar - ADCB Securities

Sure, thank you.

Operator

Our next question is from Jagadishwar Pasunoori from Franklin Templeton. Please go ahead.

Jagadishwar Pasunoori - Franklin Templeton

Hi, this is Jagadishwar here, thanks for taking my call. One question is on CASA deposits, they have gone up from 160 billion to 172 billion in 1Q and then they have declined 3 billion to 169. Can you please throw more light on that and then how is the competition among the banks for these CASA deposits as well? Do you expect further write backs? Are the recoveries going forward in the next couple of quarters?

Surya Subramanian

Jagadishwar, on the CASA deposits, if you look at slide eight, which shows the loan and deposit trend, as you rightly pointed out for quarter two we had a slight dip in the CASA down by about 3 billion that has happened in other quarters as well. Sometimes we do have some depositors who take a view and move from current and savings accounts to fixed deposits and vice versa, but the longer term trend, as you can see, is still positive in terms of the amount. We started at 141 billion two years back, we are now at, say, 170-ish billion, if you take the average of the last two quarters. Our strategy has been to continue to build these deposits, and that is more to focus on the transaction services, payroll accounts, remittances. However, what we cannot control is large corporate players who are rates sensitive, so the retail tends to be sticky, the larger corporate players tend to be rates sensitive, and they take a view on rates, or when the market becomes tighter on liquidity, they switch from current and savings to fixed deposits. That is a balance sheet alignment decision we take continuously in ALCO and whenever we see the need to address structural issues in the balance sheet, we go for term funding to avoid this need of volatility between CASA and the fixed deposits.

On the recoveries, I did mention in response to the earlier question, we do expect to see that trend continue in the future, but we are not giving any guidance as to the amount or what it would result in the net cost of risk.

Jagadishwar Pasunoori - Franklin Templeton

While you are on the deposits, can you talk more about the competition among the banks on these CASA deposits? Is it intense? Are you seeing more increased competition? If you could throw some light, that would be great.

Shayne Nelson

I think, actually, the current account saving account we started very early on to make this part of our strategy to build these deposits years ago, on the basis of they're just about zero cost and cheap for us, and we built all the platforms around that to enable it. You too adopt a current account saving account strategy as other banks have lately to us, but it is not an easy build. You have to actually build that relationship as well as just go and grab a whole bunch of accounts and have the right cash management services and technology that go with it. I think, yes, other banks can compete hard in that market with us if they so desire, but they have to have the technology, the relationships to actually build that. the competition actually has been tougher in the term deposit space, that is where it is more price sensitive from our perspective, and liquidity being tight in the market, and not just the market, but the region, remember, the Saudis are tight on liquidity Qatar is right on liquidity and we have seen deposits moving from ourselves, for example, to CASA, because we wouldn't pay what CASA would pay, as an example. If it was too costly, we would rather lose it.

There is intense competition for the market, especially on term deposits and chunky term deposits. The first quarter wasn't too bad at the end of the quarter. We found the last month of the second quarter, prices started to move up quite rapidly as people went for coverage for their quarter end balance sheets. We did find it quite tough in the last couple of weeks, especially, of the quarter with liquidity. Remember, that the market is 101.7, so someone can't have 100%. It is impossible, but we are also seeing that pressure pushed onto the market from other countries like Saudi and Qatar.

Jagadishwar Pasunoori - Franklin Templeton

Okay, great, thank you.

Operator

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

Shabbir Malik - EFG Hermes

Thank you very much for the presentation. I just had one question on NIMs. You mentioned in your last call that at the end of fourth quarter 2015, you had taken up some expensive term deposits, which are likely to mature and that would lead to lower cost of funds. This quarter we didn't see any improvement as such in cost of funds, so maybe I was wondering if you could provide some more colour on why there was no improvement in cost of funds. The other thing is in terms of your asset yield, why has it been difficult for the bank to pass on the higher cost of funds to customers, and how long do you think this process is going to take. Thank you.

Surya Subramanian

Shabbir, the situation between last year and now has changed. We expected that… last year, by the way, liquidity was tight, if you recall, starting towards the end of quarter three, early part of quarter four, and those deposits did roll off during quarter one, but as Shayne mentioned, we had to replace with higher cost deposits again towards the end of quarter two. You realise that we are just not competing for some of those funds with other banks and corporates, we're also competing with the GCC governments who are increasingly approaching the market for funding as well, so it is a constantly evolving game.

As far as our ability to pass the price back to the customer and the lending side is concerned, there are two factors. If EIBOR itself doesn't go up, which it hasn't, because the US rate rises got deferred, the customer loan pricing doesn't get affected immediately. However, if supply and demand on the supply side is affected, it does drive the cost of deposits up. That is one challenge. The other is the lag in the reset, even when rates go up, loans reset, three, six, nine months after the cost of deposits have gone up, which tend to reset faster. It is a dynamic that we are watching and we hope to maintain it at this level going forward, hence he revised guidance, which is just about close to where we are at half one.

Shayne Nelson

I think the other point I would mention is we do have some foreign banks that have come back into the market offering pretty cheap financing, Chinese and Japanese banks would be an example. That also makes it difficult for you to increase your margins if they're willing to lend at the old margins. We have said some pressure from players coming into the market, but have kept the pressure on us when it comes to corporate margins unfortunately, but fortunate for the customers.

Shabbir Malik - EFG Hermes

Thank you very much.

Operator

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

Chiradeep Ghosh - SICO Bahrain

Hi, this is Chiradeep here from SICO Bahrain. My first question is primarily on the consumer loan. Your consumer loan book has increased quite well, that is what we see. I just want to understand, you believe that you will face stiff competition with FGB and NBAD merging, especially on the consumer side, considering the experience that FGB has and the branch network which NBAD will have. That is one. in continuation, we still see that the bank's primarily lending book is going towards the related party exposure, so do you think that… is there any plan to move out of that or you will stick to the current strategy, which you are following?

Shayne Nelson

On competition, the FGB model and the NBAD model would be very different. FGB's model has been more of a, I suppose, an indirect sales force versus NBAD has been more branch orientated. I don't know what their strategy will be when they merge. I would suggest the more successful strategy for them so far has been the direct sales force model. Competition for us is fine. We're the biggest market player so far. When they merge, they will be slightly in front of us when it comes to consumer, but it will take them a few years to get that merger complete when it comes to system integration, culture etc. I think we're in a pretty good position at the moment. We have very strong market share, we have very strong capabilities, bring it on.

On the government exposure, I would say it is the least it has grown, I think, this quarter than for the last five or six years. It has actually reduced in its growth rate quite considerably this quarter. It is certainly not something that we want to continue to grow aggressively, and hopefully that is evidenced that we're not.

Chiradeep Ghosh - SICO Bahrain

Okay, that is all from my side. Thank you very much.

Operator

At this stage, it looks like we have no further questions. Back to you, Mr Nelson.

Shayne Nelson

Okay, if there are no further questions, I would like to thank you all for joining us on this call, and I will hand you back to the operator to provide details of any other contact details if you have any follow-up calls and therefore, I would like to conclude the call. Thank you very much for joining us, cheers.

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 very much for your participation.

END