Emirates NBD

EMIRATES NBD H1 2017 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD 2017 First Half Results Announcement, Analyst and Investor call and webcast. 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 operator. I would like to welcome you all to Emirates NBD results conference call and webcast for the first half of 2017. Supporting me today as per usual will be Surya, the Group's CFO and Paddy, our Head of Investor Relations. Together, we will review the operational and financial highlights for the first half of 2017. We refer to the results presentation which was made available earlier today, after which you will have the opportunity to ask any questions.

Slide three gives a summary of the half-year results, as well as highlighting some of the regional and global themes of 2017. I am delighted to report a record half-year net profit of AED 3.89 billion for the first half of 2017. This is all the more impressive when you remember that since the beginning of the year, we faced an uncertain regional liquidity position, lower GDP growth expectations, and some political tensions within the GCC. Following the rate hike in December, the US Fed continues its tightening cycle by hiking interest rates another 25 basis points in both March and June, with Fed implied rates expecting one more increase this year. Both the Dubai Economy Tracker and the UAE PMI increased in June to 56.5 and 55.8 respectively, and faster output and new order growth. However, as a result of the extension of OPEC's oil production cuts in 2018, we have revised down our forecast for the UAE's GDP growth to 2% this year, down from 3% in 2016. For UAE regional banks, liquidity continued to improve throughout 2017. The UAE system-wide AD ratio strengthened to 99% at the end of May compared to a four-year peak of 104.7% last year. Whilst our approach to liquidity management remains prudent, we have seen a significant improvement in both liquidity and funding costs in 2017.

We feel that last year's funding stress was a useful contingency exercise for the regional banking system. As for credit quality, earlier concerns about the SME segment have abated, as initiatives such as the one led by the UAE Banking Federation have helped provide a collaborative framework for SMEs to manage debt and for banks to continue to support SME lending. Concerns about the regional contracting industry have also subsided, given the improved liquidity conditions and outlook. Nevertheless, we continue to monitor the situation closely.

Other topics on the horizon for UAE banks are BAT, the transition to Basel III, and IFRS 9. Given our strong liquidity and capital position, along with our healthy coverage ratio, we are well positioned and do not expect the new regulations, which are expected to take effect next year to materially impact the bank's operations. Within this framework, we were also pleased to report, for the first time, the liquidity coverage ratio and Surya will provide more details on that shortly. As mentioned earlier, it is pleasing to report a record half-year net profit of AED 3.89 billion for the first half of 2017, up 5% year-on-year. The operating performance was helped by control on expenses and lower provisions. Net interest income improved 2% year-on-year due to loan growth, and helped by a recent improvement in margins. The bank's balance sheet continues to strengthen with further improvements in credit quality and capital, coupled with solid liquidity ratios. Emirates NBD affirmed its credentials as the region's leading digital bank with a revamp of its online banking platform, including the launch of FaceBanking, a video banking facility that allows eligible customers to talk to an advisor at any time for assistance, or sign up even for a new loan instantly. The bank also announced a planned investment of AED 1 billion over the next three to four years to carry out a digital transformation programme. In this important year of giving, it was also pleasing to having published Emirates NBD's first sustainability report earlier this year, confirming our commitment to being an ethical and responsible bank. The bank has 10 disability friendly manages amongst our network, and we also are piloting a digital sign language platform for people with hearing disabilities.

Overall, I am pleased that despite an uncertain global environment, we delivered a strong performance. Cost control measures implemented last year have positioned us well into 2017 and provide headroom to continue to invest in the bank's digital transformation programme through a technology multiyear refresh commitment. In Q2, we continue to see margins improve, helped by rate rises and improvement in funding costs. We have a solid balance sheet, a prudent business model, and a focused strategy, and this will allow us to take advantage of the growth opportunities in our preferred markets and confidently face any challenges that present themselves.

Now, I will hand over to Surya.

Surya Subramanian

Thank you, Shayne. I will, as usual, speak through the financial results on slides four and five, the half yearly and the quarterly financial results. Net profit for the group was AED 3.9 billion in the first half of 2017, 5% above the profit we posted in the previous year, and a record net profit for any half year in the history of this bank. The increase in net profit was supported by a 2% improvement in net interest income, a 9% reduction in costs and a 13% improvement in impairment allowances. Net interest income improved 2% year-on-year as loan growth more than offset net interest margin contraction. Non-interest income declined 12% year-over-year due to the one-off gain from sale of investment securities in the first half of last year, which was not repeated this year. Non-interest income also improved 10% compared to the immediate previous half two of 2016 as the earlier period was impacted by the devaluation of the Egyptian pound. Revenues improved 2% quarter-on-quarter, with net interest income up 6% on the back of loan growth and improved margins. Costs improved 9% as cost control measures introduced in 2016 have taken effect and this gives us headroom at Emirates NBD as we embark on the multiyear planned investment in our digital offering and tech refresh that Shayne just mentioned. Provisions of AED 1.26 billion improved 13% year-over-year as the cost of risk continues to normalise on the back of improving asset quality metrics. The NPL ratio improved to 6.1%, while the coverage ratio strengthened to 123.5%. We disclosed the liquidity coverage ratio for the first time, and are pleased to confirm that the LCR is a healthy 157.3%. You will remember that the long-term goal for the UAE Central Bank and the Basel Committee is for banks to reach 100%, and the initial start is much lower in steps, and we are well above the final destination ratio. The headline advances to deposits ratio at 95%, remains comfortably within the 90-100% target range. After delivering 5% loan growth in the first quarter, we maintain our guidance of mid-single-digit loan growth for the full year, spread across all business lines. We expect deposit growth to be similar to loan growth as we manage the AD ratio in the 90-100% range.

Moving onto slide six on net interest income, we see that margins continue to improve in the second quarter of 2017. Net interest margin improved 16 basis points quarter-on-quarter, with loan yields contributing half of this, as loans reset at higher rates due to the recent rise in interest rates. There was also a significant contribution from both deposits and Treasury funding costs over the quarter as the impact of higher funding costs eased during the period. Net interest margin is still 17 basis points lower than a year ago, as the cost of funding during that period rose faster than the repricing of the loan book during the same period. We will review our 2017 full year margin guidance in the third quarter, and maintain, for the moment, the average margin for the year between 2.35% and 2.45%, even though the margin for the second quarter, itself, exceeded this range. While regional markets are currently healthy, some uncertainty could arise in liquidity markets if the current GCC standoff becomes protracted. We have also seen that EIBOR moves have not totally matched US rate rises, although we do expect this to catch up later in the year.

Moving onto slide seven on loan and deposit trends, we see the healthy and improving deposit profile of the bank. Over the last year, we have grown deposits by 7% despite increased competition from regional banks. CASA grew yet again by 7% since the beginning of the year, and now represent 56% of total deposits. Should the existing favourable liquidity environment continue, we will be able to retire some of the expensive deposits that are maturing in Q3 and further improve the deposit mix and funding costs. Our gross loans grew 5% in the first half of 2017; the corporate book grew 6% with growth in real estate, financial institutions, and the trade sectors. Retail lending grew by 1% across a wide range of products, particularly mortgages. The Islamic book contracted by 1% during the first half of the year due to tighter underwriting standards. We maintain our guidance of mid-single-digit growth for the whole of 2017.

Slide eight on funding and liquidity. As Shayne mentioned earlier, we disclosed the liquidity coverage ratio for the first time and this is a healthy 157.3%. We will continue to disclose this ratio going forward. The advances to deposit ratio at 95% at the end of Q2 remains comfortably within the 90-100% target range that we have historically operated within. Liquid assets at AED 63 billion are 15.7% of total liabilities. All these measures demonstrate the bank’s strong liquidity profile and underlines the value of the bank’s well-diversified funding base. At Emirates NBD, we remain well placed to meet relevant prudential liquidity requirements. In the first half of this year, we issued AED 4.8 billion of private placements in four currencies with maturities between one and ten years. For the remainder of 2017, we have AED 1.6 billion maturing and we have also a modest maturity profile in 2018. This affords us the ability to consider public and private debt issuances opportunistically, although we have no immediate plans to access the public markets.

Slide nine shows our capital adequacy position. During the second quarter of 2017, both our tier 1 ratio and capital adequacy ratio improved by 0.5% to 18.3% and 20.7% respectively. The strengthening in capital ratio was due to the effect of retained profits more than offsetting a most 1.25 increase in risk weighted assets. We expect, as with previous years, for profit generation to grow the capital base in the remaining quarters. We welcome the UAE Central Bank’s issuance of the Basel III guidelines in March, which outlines minimum capital requirements and transitional arrangements. We await the release of the accompanying capital standards expected imminently to determine any impact on existing capital instruments. At this stage, and given the bank’s strong capital base, we have no immediate plans to raise any tier 1 or tier 2 capital, and with that, I will hand you over to Paddy to take us through the next few slides.

Patrick Clerkin

Thank you, Surya. Slide 10 shows core gross fee income declined 2% year-on-year, and 7% over the quarter, and lower income from foreign exchange and derivatives, partly due to fewer working days and from increased volatility in global foreign exchange markets. Income from property declined 23% year-on-year on lower demand from property sales and improved 121% quarter-on-quarter, due to a downward revaluation of illiquid inventory in the first quarter. Total inventory stands at AED 1.45 billion, and low property sales from inventory have slowed, current sales continue to generate profit for the group. Investment securities and other income was 33% lower year-on-year, and is due to the one-off gain from the sale of investment securities in Q2 of last year not being repeated this quarter.

On slide 11 we see that as a result of the cost reduction measures implemented last year, costs improved by 7% year-on-year. The cost to income ratio improved further in Q2, as the 2% increase in costs was more than offset by a 6% increase in income. Costs are expected to be within the 2017 guidance of the 33% range, and the cost base is now right-sized. This gives Emirates NBD headroom as we embark on a multi-year planned AED 1 billion investment in our digital offering and a technology refresh. Even without any income growth or cost savings, an AED 1 billion investment would have a 2% impact on the cost to income ratio.

Moving onto credit quality on slide 11, as mentioned earlier, the NPL ratio improved to 6.1%. Impaired loans held steady at AED 20.2 billion during 2017. During the year, we had AED 686 million of write-backs and recoveries, and this alone with routine provisioning helped increase the coverage ratio up to 123.5%. As with previous quarters, we do not give formal guidance on a 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. Provisions for the first half are AED 1.26 billion, which is 13% lower than the equivalent period last year. This represents a 76 basis point cost of risk, which is lower than the 83 basis points observed in 2016. Total portfolio impairment allowances now stand at AED 7.4 billion, or 3.18% of credit risk weighted assets, and this comfortably exceeds the 1.5% Central Bank requirement and provides some cushion for any future transition to IFRS 9.

On slide 13 we see that retail banking and wealth management revenues improved 7% year-on-year, but declined marginally by 2% over the quarter. Fee income in the first quarter accounts for 33% of total revenue. Loans grew 2% led by mortgages, whilst deposits grew by 7% in the first half led by continued growth in low cost CASA. The retail bank enhanced its digital banking and leadership, by launching a new online platform featuring a rich user interface, intuitive widgets, and FaceBanking, a video banking facility. In May, the bank launched SkyShopper, an ecommerce platform enabling shopping across multiple stores from the same portal. After a challenging 2016, Emirates Islamic recorded a healthy 182% improved in net profit of AED 387 million in the first half of 2017, and is well positioned to benefit

from current market opportunities. Financing receivables declined 3% from the end of 2016, due to a slowdown in new business, as Emirates Islamic tightened underwriting standards. Customer accounts increased 2% during the year, as EI's focused approach to improve its liabilities mix and cost of funding led to a shift from expensive Wakala deposits to CASA balances. As at the end of June, CASA represented 69% of EI's customer deposits.

On slide 14, we see that wholesale banking revenue improved 12% quarter-on-quarter, and 11% year-on-year, on the back of asset growth and improved margins. Loans grew 7% during the first half of the year, due to growth in real estate, trade, and FI sectors. Deposits were flat since the beginning of the year, reflecting efforts to optimise both the mix and cost of funding by reducing high yield deposits and building CASA balances. The focus in 2017 remains on enhancing the quality of customer service and share of wallet. This includes improved cross-sell of Treasury and investment banking products, and increased cash management and trade finance penetration. GM&T revenues increased 9% year-on-year, but declined 26% quarter-on-quarter. Net interest income showed strong growth due to positioning of balance sheet and raising interest rates in the first half. Net fee income decreased 53% quarter-on-quarter and 38% year-on-year, largely due to a decline in trading and investment revenues from credit derivatives and foreign exchange trading, as a result of increased volatility in regional and global markets. Sales revenue saw strong growth due to higher volumes in foreign exchange products. Global funding raised AED 4.8 billion of termed debt via private placements, and with that, I will hand you over to Shayne for his closing remarks.

Shayne Nelson

Thanks, Paddy. In summary, the first half of 2017 has proven to be a record half for Emirates NBD, despite some uncertain market conditions. There's about a 5% improvement in net profit underpinned by loan growth, a control of expenses and improved cost of risk. After a decline in margins throughout 2016, it is pleasing to report an improvement in margins in the first half thanks to a contribution from both the loan book and cheaper funding. We have strengthened the bank's balance sheet with improved credit quality in capital ratios, and we continue to operate with conservative liquidity buffers. Emirates NBD affirmed its credentials as the region's leader in digital banking with a revamp of its online banking platform, including the launch of face banking, our video banking facility that allows customers to talk to an advisor at any time for assistance or sign-up for a new loan instantly. The bank also announced a planned investment of AED 1 billion over the next three to four years to carry out a digital transformation programme.

In terms of macro outlook, Dubai's economy continues to perform well, however, as a result of the extension of OPEC's oil production cuts into 2018; we have downgraded our forecast for the UAE's real GDP to 2% this year, down from 3% in 2016.

Emirates NBD

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

QUESTIONS AND ANSWERS

Operator

Our first question comes from Hootan Yazhari, Bank of America Merrill Lynch. Please go ahead.

Hootan Yazhari - Bank of America Merryl Lynch

Good afternoon gentlemen, a couple of questions please. Can we start with funding costs? Obviously you have ben relinquishing some expensive sources of funding, which has helped you manage your funding costs down during the quarter. Do you foresee that continuing or has the recent reduction in oil production and weakness in oil prices started to put some upward pressure on funding costs. The second is regarding legislation changes. Obviously, with Basel III approaching, if there is any guidance you can give us on how that will impact your tier 1 ratios or capital adequacy ratios and any guidance you can give on IFRS 9 and how you're thinking about that would be very helpful. Thank you.

Surya Subramanian

I will take your questions in the order you asked them. On funding costs, there are two parts to the story. The first is very specific to us. Late last year in order to avoid the yearend squeeze and given the challenges that existed in the market, we did go out in the market to take some deposits that is of higher cost to protect ourselves and ensure that we sleep well through the year-end. Those will be dropping off our books even as we speak, mainly during this quarter and a little bit in quarter four, so that gives us some natural benefit in the net interest margin and income.

On an overall basis, regional liquidity situation has improved, notwithstanding what you see in the price of oil or the current GCC discussions that are happening in the region with our neighbours. It was a lot tighter, when you look at the Central Bank’s statistics for the UAE, the overall system wide AD ratio was well over 100% last year. This year it has come down to about 99% in May. All these put together are making sure that we don’t really bid-up as a system for deposits, and at the same time, our current and savings accounts continue to grow maintaining the healthy deposit mix that we have, which obviously benefits from the US rate rises as they flow through to the local market via EIBOR. So we are... I would say at this moment, comfortable in our outlook on funding costs, although there is a tendency sometimes for these to tighten after the summer months, but we don’t expect the same tightening this year as we saw last year.

On your questions on regulation, Basel III, the UAE Central Bank had indicated a couple of years back that they will follow the Basel guidelines and they have then, obviously, released the guidelines this year, but the detailed standards are awaited. We do not expect it to have a material impact on us. Most of the risk in this market tends to be credit risk, it doesn't really change much between Basel II and Basel III for the types of business we do. There is a small sliver of market risk demand that does change, but in our case, if you look at it, as with most banks in the region, the market risk demand is hardly 2-3% of total capital demand.

On the supply side, it is possible that some of the instruments, especially the AT1 may or may not eligible and we also have to see where they are not eligible, whether there are any grandfathering provisions, but we can comment on that only when we see the detailed standards issued by the Central Bank which they said should be available to us any time.

On IFRS 9, the UAE Central Bank had asked for quantitative impact study from the banking industry. That was done last year and submitted. I can say that it doesn't have a significant impact to the bank. In fact, Paddy, as he went through the credit quality slide would have mentioned that our portfolio impairment provision stands at 3.18% of credit risk weighted assets, and that would support any potential impact you have on IFRS 9, especially on what we call stage two loans under IFRS 9, because that is anew classification that does not exist under the IAS 39 regime. We do not expect a material impact out of moving to those impairment provisions under IFRS 9, nor indeed the other aspects of IFRS 9 which are the classification and the hedging, so I would say at this moment, we are almost guiding business as usual as we transition from IAS 39 to IFRS 9. No doubt, when we release our first quarter results in 2018, we will be able to give you a more specific response to this with numbers.

Shayne Nelson

I think Ahmed Hassan on the web asked a similar question on IFRS 9. Also, he asked a question on; "Can you shed some light on the Qatar exposure?" James Webb also asked about Qatar exposure and Rajesh Bhandari also asked about buying Qatari loans. One, two, three, I will take Qatar and I will just make some general comments about Qatar.

We have been getting questions on what do you think the economic impact would be on the UAE and what effect do you think it will have on the bank? I think the first thing I'd say is if you look at the trading capital flows between Qatar and the UAE, they are not significant. I think Qatar is about number six in tourism numbers, so there is some effect there, but the reality is that I'm more concerned about confidence than I am about the direct economic effect. Economies revolve around confidence and if people are delaying material purchases like houses and cars, obviously that affects us as an

organisation. When it comes to exposure, if you looked at our financials impact last year, Note 43, basically, it will show you that we have less than 6% of our assets and 4% of our liabilities in the GCC, so outside the UAE, and given that we've got a large branch in KSA, you could assume correctly that our exposure to Qatar is immaterial. We don't have a branch even in Qatar anymore. We had an office in the QFC years ago, which we closed down quite a number of years ago. Laon book. Our strategy on buying loans, whether it's Qatari or whether it's something else, we are a lead bank in most big syndications. We do not go to the secondary market and buy loans as a matter of strategy. We'd lead syndications. We don't become a stuffy for other people.

Any other questions, operator?

Operator

Our next question comes from Nikhil Poddar, ADCB Securities. Please go ahead.

Nikhil Poddar - ADCB Securities

My question is on the loans to the Government, which continues to be the major component of the credit growth. Therefore, how does the management plan to reduce its exposure to the levels required by the Central Bank? Is there any roadmap there?

Shayne Nelson

Our exposure to the Government, I think we get this question every quarter, so it's not a new one to us, we're comfortable with our exposure to the Government just certainly the Central Bank is well aware of who we are, but we certainly wouldn't discuss plans for a client with the general public.

Surya Subramanian

I do want to add to that that the loan book, excluding the sovereign exposure, has also been growing, if you noticed, about 8% growth excluding the sovereign book.

Operator

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

Shabbir Malik - EFG Hermes

I have just one question. Is there any update on raising the foreign ownership limit? Thank you.

Shayne Nelson

Again, a perennial question for us. It's actually one for the board, not for the management team. At this stage, there is no change in the foreign shareholding ownership.

Operator

Our next question comes from Naresh Bilandani, J.P. Morgan. Please go ahead.

Naresh Bilandani - J.P. Morgan

There was news recently that the UAE banks engaged in buying out the loans of Qatari banks through the UAE entities. Could you please provide some more colour in this regard and if these sales were material in size or did you engage in such purchases by any chance? Thanks.

Shayne Nelson

I've already answered that question. Just to reiterate, our strategy is not to buy secondary loans no matter who was offering them, whether it was Qatari banks or any other bank. We are a lead syndicate bank; we are a leader in loan syndications in this market. We take primary. We don't see how you build relationships with clients buying in the secondary market and that's certainly not our strategy.

Operator

Our next question comes from Vikram Viswanathan, NBK Capital. Please go ahead.

Vikram Viswanathan – NBK Capital

I was just going through the trends in non-interest income. There has been a bit of weakness this quarter. The overall non-interest income is down about 7% on a year-on-year basis. I just wanted to ask you if you can provide us some kind of outlook for the second quarter. Should we expect the same trends or should you… do you expect some kind of recovery?

Surya Subramanian

Thanks for that. There are two things affecting our non-interest income. When you look at it on a year-over-year basis, if you look at half one of this year over half one of last year, last year we did have one-off sales of investment securities that delivered significant profit. That was not repeated this year. This

year, we have taken a downward revaluation charge on some illiquid property inventory, which obviously gives you a negative effect. If I strip off both these and look at the core underlying banking income, it is I would say consistent with last year, so you could argue it's flat and not growing dramatically, which is true, and we are obviously going to push for that in our business strategy. When you compare half one of this year against half two of last year, half two of last year was lower, as I mentioned during my talk earlier; half two of last year had the Egyptian devaluation impact, which clearly doesn't repeat itself this year, but those are the underlying…

Shayne Nelson

We hope.

Surya Subramanian

We hope. Egypt is getting better by all counts and stories that we read, so that is the underlying story between that. I hope that answers your question.

I will take some questions that came off the web right now and one was on what is the quantum of cumulative provisions as they relate to legacy NPLs that can be released back to P&L? I guess that's a leading question. I can't quite answer it that way, but what I can say is that for the last two or three years we haven't really been adding to net NPLs, so the peak really happened two, three years ago after the global financial crisis and since then in one of the earlier calls, I also mentioned that we don't have the large ticket new NPL formation. It's the smaller ticket new NPL formation. What is to be noted though is the coverage we have, which is over 123% that is made up of both specific and portfolio provisions. If you just look at the specific level of coverage, it's well over 80% and this excludes collateral. If you start taking collateral into account, we have close to over 200% coverage, so in theory, some of this will come back but in practice the earlier ones have already come back and the more difficult ones do take their time to work out, and some of the more public restructuring, as you know, is dated into 2022 and so on, so we do keep trying and there is some upside in those numbers, but I wouldn't ever guide to say that the entire 20 billion stock of non-performing loans is going to come back in any one significant chunk.

There was also a question asked in terms of what is the QAR/USD FX rate that we have used. It is obviously a pegged rate, but there was some stress on the peg during the reporting quarter, and the rates that we have used is 3.66 to the US dollar; this is relatively public information. I think the rates have come back up a little after the quarter end. As Shayne mentioned, we don't have any relative exposure to Qatar and also the exchange rate really affects the net open position rather than the assets per se, and that's also a very miniscule portion of our book.

Patrick Clerkin

We just had a question in from Ahmed from CI Capital noting that we've seen the NPL ratio improving and can we expect to see this trend going forward into 2017? As we've mentioned, and we keep mentioning, on the call it's very difficult for us to give directional guidance regarding the NPLs. We are hopeful of further write-backs and recoveries, and that's something that we have been able to deliver over the last number of quarters, but we certainly… we don't give any… we give directional guidance, but we don't set hard and firm numbers in terms of targets for NPLs. We do anticipate that there will be a further improvement in the NPL position, but we certainly can't give you a hard number that we can earmark.

Operator

Our next question comes from Alok Nawani, Ghobash. Please go ahead

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Alok Nawani - Ghobash

Just one question from my side with regards to your cost optimisation programme; it's obviously yielding very good results. I was wondering can we expect these savings to continue into 2018 and can we see a similar decline that we have seen so far this year until the end of this year, and just to add onto that, your digital CapEx programme of AED 1 billion, has that already started or is that due to start towards the end of this year?

Shayne Nelson

It's a good question, but I think as Paddy mentioned, we expect once we get that programme to a full swing it should have about a 2% effect on our cost-to-income ratio. When we gave the guidance earlier on the cost-to-income ratio of around 33, we did expect the programme to start a bit earlier than it has and it's not because we're not willing or not have the board approvals for it. It's a matter of getting the right people in place. One of the things that we did as part of this project is do a full skills assessment of our technology people to make sure that we have the skills that are necessary going forward, not just for now, and so as part of that, we are hiring a bunch of new senior people and that's taking a bit longer to get finalised. Hiring people always takes longer than you'd expect. However, we have got quite a few of those people in place and we'd expect we'll start to see a ramp-up in our cost-to-income ratio, as we come into the second half. For your models, I wouldn't be building models that say that we're going to deliver 29% cost-to-income ratios going forward, because that's not our aim and, frankly, I think as a bank if we're investing at that level I think we're investing too low, so we believe that 33 is a good

number for the bank to continue to invest in, reward staff, and deliver to the shareholders, so that's basically why we've been guiding on 33. We do think it's a bit low at the moment and we would like to spend more to basically secure the future.

Patrick Clerkin

I've just had one more question come in. I will field that one. It's just which parts of the loan book have we seen growth in? If you look at the financials, you'd be able to see that corporate… that we have seen good growth in the corporates, up about AED 9 billion since the beginning of the year, sovereigns up about 5. Retail is up about 1% and we have seen about a 1% decline in Islamic retail and mortgages we have seen reasonable growth there.

I don't think we have any other questions.

Operator

We have a question from Waled Mohsin, Goldman Sachs. Please go ahead

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Waled Mohsin - Goldman Sachs

A couple of questions from my side. First in terms of Emirates Islamic Bank, I just wanted to get an update on asset quality. We have seen a little bit of an increase in provisions, nothing alarming, obviously much better than the experience on the book last year. I just wanted to get a sense of your strategy with the Emirates Islamic book in terms of origination, in terms of how you're approaching origination on that book, and particularly in the experience of provisioning on the front book. The second question is in terms of your digital strategy. I'm quite excited to see the AED 1 billion investment in that portion of the business. You've talked about the efficiency drive and the potential benefit. I wanted to focus a little bit on the revenue pools and opportunity that you see over there. You did mention that customers who come through multiple channels, there's obviously a lot more cross-sell to those customers. I just want to get a sense of how do you see the current customer base of Emirates NBD. What's the average cross-sell ratio for them and where do you see that improving in terms of the digital drive, and if this is going to be a big focus under this drive to get the cross-sell ratio up and also focus on the revenue opportunity, in addition to the cost focus that you've already alluded to? Thank you very much.

Shayne Nelson

If I look at how we're looking for our digital transformation strategy, this is not just about getting our architecture right. A significant part of the cost is getting our architecture right. A significant cost goes into improving the skill sets of the people that we have within our technology, but as importantly, it's the way we're working, so we're already now adopting agile strategies when it comes to product development processes to try to break down some of the bureaucracy that is in-built in banks, and having multi-skilled teams developing products and services and processes off the back of it. Our aim is always when we're doing this to build straight through. There is not an option that we go to paper when we're rebuilding all this stuff.

If I look at where we're looking to enhance our cross-sell and where we see revenue opportunities, we've always been a digital leader in this region. 52% of our clients already use digital platforms every 90 days. 94% of our transactions are the digital ATMs, CDMs. We couldn't handle our customer base with our branches if we didn't have our digital platform, but certainly we see opportunities in improving our data management with clients and using our data to enable us to cross-sell into clients, and our CRM platform that we've delivered is a big part of that. Already we've got a capacity to cross-sell using our CRM based on parameters we're setting. We also see things like instant loans as we link into the credit bureau. Obviously we're linked into now, but once we get the scores up and going, and approved, we'll be able to do instant approvals on loans online. We see there is a lot of cost saving and there's a lot of customer benefit in what we do.

When it comes to competition, I think the two big banks in the markets, FAB and ourselves, will have about 45% market share. I think the question to ask on competition is always going to be around what are the small banks going to do when the two major banks are investing heavily in their digital platforms and they control 45% of the market? I think there is more concern if I was sitting in a smaller bank as to how we'd be able to compete with two very large banks investing a significant amount of money.

The other example I'll give you is we've got a chatbot called EVA, which is answering questions like 'What's my account balance? What are my last transactions? I'd like to order a chequebook' and can do all that electronically for you. That will again save headcount and that's taking a lot of pressure of our call centre, so I think if you look at our digital sales that we have at the moment, which are quite reasonable and growing all the time, if you look at things like SkyShopper that we've launched as an e-commerce platform that brings in clients and non-clients into our platform to shop, you may say, well, how is that different to an Amazon etc, but from our perspective some clients don't trust just going on the web as a whole. They like to come to a secure platform that the bank offers and gives them safety and surety.

I think there is lots of stuff that we're doing when it comes to digital and certainly our view going forward is it's not the banks we're going to be competing with. Our view is, it's the Amazon's, it's the Alibaba's, it's the Facebook's, it's the Apple's and we are trying to build our platform to be able to be as efficient and as agile as theirs are and compete head to head with those sorts of parties.

On EI, if we look at… I think you're right, the performance has turned around quite well there and if you saw, the bad debt charges improved significantly from what they were last year and the major problem, as you know, that we had there was on our SME, micro SME in particular, and certainly that problem has dissipated significantly. But very much our strategy around that is very similar to the main bank here about what we originate, what we roll out, and certainly one of the things we can do and we are doing is leveraging off the digital platform we're building here to roll out on a sharia compliant basis to the Islamic bank, so leveraging on from the same technology, people, processes etc. Certainly from our perspective we see Islamic as very much stabilised. We didn't pull down their risk appetite considerably to stabilise the organisation, given what happened with that micro segment, and they're now in a very good position I think to deliver a solid set of performance, not only in the first half, but in the second half.

I think with that, thank you very much for participating in today's call and we look forward to talking to you again shortly

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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 and webcast 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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