EMIRATES NBD Q3 2019 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
28 October 2019

CORPORATE PARTICIPANTS

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Operator

Ladies and gentlemen, welcome to the Emirates NBD 2019 Third Quarter Results Announcement Analyst and Investors Call and Webcast. If we're all ready to begin, I'll now pass the call over to our host Mr. Shayne Nelson, Group CEO of Emirates NBD. Please go ahead sir.

Shayne Nelson

Thank you operator and you are all very welcome to today's results call. Joining me as usual are Surya, the Group's CFO, Paddy, our Head of Investor Relations and we also have Neeraj, our Head of International with us. The results presentation was made available earlier today. We will review the operational and financial highlights for the first nine months of the year, after which you will have the opportunity to ask questions.

Page 3 of the presentation contains a summary of the key results. I am pleased to report a strong set of results with a net profit of 12.5 billion dirhams for the first nine months of 2019. This is a 63% increase from last year and includes a 4.4 billion dirham realized and unrealized gain from the Network International transaction. Excluding this gain, the Bank's Core Operating Profit grew 5% y-o-y, supported by a 17% increase in net interest income due to loan growth; and a 31% increase in non-interest income from higher foreign exchange and credit card income.

The Bank's balance sheet remains strong with healthy credit quality and liquidity. The Common Equity Tier 1 ratio declined by 3.7% to 13.7% in Q3 as we absorbed over 122 billion dirhams of risk weighted assets from the acquisition of Denizbank. We have announced a rights issue of up to $1.75 billion which could boost capital ratios by around 1.5%. The successful completion of this rights issue will provide a strong foundation to embrace controlled growth in the coming years.

We welcome Denizbank into the Emirates NBD family as it expands the Group's presence to 13 countries, servicing over 14 million customers. We will continue to support business growth across our international locations including the Kingdom of Saudi Arabia, Egypt, India, London and Singapore. In September the Bank raised the foreign ownership limit from 5% to 20% and signalled the intention to seek shareholder and regulatory approval to further increase this to 40%. We have seen foreign ownership grow steadily to around 7% since the increase.

Earlier today we announced that Patrick Sullivan will join as our new Group CFO. Patrick has extensive international experience and will be on board from the beginning of next year. Surya who is retiring will continue to be with us while semi-retiring with us in the next year, and subsequently continue to be on some of our subsidiary boards.

As our geographical expansion grows, Jonathan Morris has finally agreed to come out Senior Executive Vice President responsible with Turkey and a member of the Board of Directors of Denizbank. Jonathan will be based in Istanbul. I am also pleased that Neeraj Makin, in addition to leading Group Strategy, will also become Group Head of International following the retirement of Kevin Flannery.

Underlying our commitment to Emiratisation, we have announced a number of key appointments within the Group. Earlier today, we announced the appointment of Amer Kazim as Chief Audit Officer. Amer takes over from Mark Martinelli who will remain with the organization as advisor to the Board of Directors. The appointment of Amer Kazim follows the recent appointment of Ahmed Al Qassim as Group Head of Corporate and Institutional Banking, replacing Jonathan Morris, and in addition Ammar Al Haj as Head of ALM. Additionally, Marwan Hadi would join us at the senior level within our retail banking and wealth management division very shortly.

We are delighted to be ranked among the top 20 in the Forbes list of World's best regarded companies. And last month we announced the creation of E20, a digital business bank for entrepreneurs and SMEs. We were honoured to be recognised for our pioneering efforts in employee volunteering and corporate social responsibility by IMPACT2030, the corporate volunteering arm of the United Nations.

Turning to the UAE economy, the Bank's Research team forecasts 2% GDP growth this year but many corporates continue to find the operating environment challenging, not just in the UAE but globally. Residential property prices and rents have continued to decline in 2019 as increased supply and reduced demand remain headwinds.

Overall I am pleased with the Bank's performance. We delivered a healthy increase in operating profit whilst advancing key strategic initiatives. We will continue to drive efficiencies and capital optimisation across the Group whilst supporting cross-functional collaboration. As Expo 2020 draws closer, we are excited to keep innovating to deliver a modern technology-driven banking experience with a human touch.

I'll now hand over Surya to go through some of the details of the presentation. Surya.

Surya Subramanian

Thank you, Shayne. As usual, I will speak through slides 4 and 5 on the financial results.

As Shayne mentioned, the Group's net profit of 12.5 billion dirham in the first nine months of 2019 represents a 63% increase on the previous year. This includes a 3.2 billion dirham realized gain and 1.2 billion dirham unrealized gain from the Network International transaction. It also includes 198 million dirhams of net profit from Denizbank for the two months since acquisition date. Excluding these two items, net profit increased 3% in the first nine months. All business units were able to deliver an increase in revenue during the year.

Core Operating Profit grew 5% year on year supported by 17% higher net interest income from loan growth and 31% higher foreign exchange and credit card related income. Excluding Denizbank, Core Operating Profit grew 2%, helped by a 20% increase in non-interest income and 8% higher net interest income as loans grew by 5%. The 14% increase in costs is due to a rise in staff and operating costs relating to international expansion including Denizbank. Excluding Denizbank, costs increased by 4%. The cost to income ratio for the first nine months at 30.3% remains within long-term guidance. However the Bank remains firmly focused on cost controls as was we face pressure on income due to falling interest rates.

Provisions of AED 2,755 million were 149% higher than in 2018, or 94% excluding Denizbank. We had given earlier guidance of an increase in the cost of risk reflecting the slowdown in regional and international markets. Net cost of risk rose to 103 basis points as a result of higher net impairment charges with lower writebacks and recoveries compared to 2018. Loans and Deposits grew by 5% and 6% respectively during 2019 excluding Denizbank. Loans grew by 2% in the third quarter following flat growth in the second quarter. We continue to guide for mid-single digit loan growth in 2019 and will provide guidance incorporating Denizbank next quarter.

The Liquidity Coverage Ratio of 149.3% and the Advance to Deposit Ratio of 91.8% continue to demonstrate the Group's healthy liquidity profile post acquisition. The NPL ratio improved to 4.8%. Denizbank loans were recorded at fair value on the acquisition date and thus resulted in no addition to NPLs. The Bank's capital ratios were impacted as a results of the increase in risk weighted assets although all ratios remain comfortably above the required minima.

Moving on to net interest income on slide 6. We see that margins advanced 1 basis point year-on-year to 2.82%, helped by higher margins from Denizbank. Excluding Denizbank, margins declined 5 basis points on higher deposit costs. Given the floating rate nature of the loan book and the deposit profile, margins typically follow a similar pattern to short term interest rates, rising during 2018 as the US Fed increased rates, before declining in 2019 as the Fed cut rates.

In Q3, we saw an 11 basis points improvement in margins, as the 19 basis point impact from Denizbank's higher margins more than offset an 8 basis point margin contraction. These dynamics allow us to maintain margin guidance and we expect NIMs to finish the full year close to 2.80%.

Moving on to slide 7 on funding and liquidity, we see that the Liquidity Coverage Ratio remains healthy at 149.3% whilst the Advances to Deposits ratio strengthened to 91.8%, at the conservative end of the 90-100% target range and demonstrates the continuing strong liquidity position of the Group post acquisition. Liquid assets are 107.3 billion dirhams or 18% of total liabilities.

During 2019 we raised 12.7 billion dirhams of term funding in 9 different currencies with maturities out to 20 years. Debt and Sukuk represent 9% of total liabilities, down from 10% at the beginning of the year, due to a smaller relative contribution from Denizbank. This is understandable given the challenges that Denizbank had in accessing the capital markets in previous years. One of the immediate advantages for Denizbank is the greater access and more competitive pricing for wholesale funding. Denizbank is experiencing a normalisation in money market relationships as well as broad interest for a potential syndicated loan.

We are now have slide eight on Loan and Deposit trends, we see that gross loans grew 5% during the first nine months of 2019 with 2% growth in the third quarter following a quiet second quarter. Corporate lending grew 6% with demand coming from the manufacturing, services, transport and the communications sector. Emirates Islamic registered 4% loan growth as it saw demand from manufacturing, personal, and trade sectors. Consumer lending grew by 1% during the same period. As Denizbank has a large retail book, this will effectively double the size of the Group's consumer loans. CASA across the entire Group represents 44% of total deposits. The domestic CASA engine for Emirate NBD remains strong and represents 50% of domestic deposits.

We have a new slide nine on Loan composition, given its important post-acquisition and we thought it's useful to include the slides, and hopefully we'll continue sharing this with you going forward. It shows that loan book is now more diversified with 74% of loans from the UAE, 3% from the GCC and 23% of loans are now international. This improvement in diversification also extends to sector level where now 34% of loans are sovereign, 24% are retail and 42% are corporate if we split Islamic accordingly. The chart on the bottom left shows that 4% of the Corporate and Retail book relate to agricultural lending, with Denizbank being the second largest lender of agricultural loans in Turkey.

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

Patrick Clerkin

Thank you, Surya. Slide 10 shows that core fee income improved 26% year on year. This increase is driven by higher foreign exchange income from a strong Global Markets & Treasury performance in FX, together with a rise in the volume of card transactions. Investment securities and other income also showed a year on year improvement due to a higher gain on trading securities as a result of lower interest rates. The net effect of an improvement in both core fee income and investment securities income is a 31% year-on-year increase in total non-interest income.

On slide 11, we see that, excluding DenizBank, costs were 3% higher quarter-on-quarter and flat year-on-year, as the Bank continues to manage costs tightly. As is characteristic of banks with a large retail network, Denizbank has a higher cost to income ratio. The Q3 cost to income ratio therefore rose to 31.3% and the year to date ratio increased to 30.3%, still within our guidance of 33%.

On slide 12, as was mentioned earlier, we see that the NPL ratio improved by 1.1% to 4.8% as Denizbank loans were recorded at fair value on the acquisition date and thus resulted in no addition to NPLs. We have recorded some NPLs and provisions for Denizbank relating to the two months post acquisition. Provisions for the first nine months of 2019 amount to 2.8 billion dirhams, a 149% increase on 2018. The Bank also had just under 800 million dirhams of write-backs and recoveries, significantly less than 1.4 billion dirhams recorded last year.

The cost of risk in the first nine months was 103 basis points, up from 63bps in 2018. Earlier we had signalled that the cost of risk for the existing business would rise to between 80 and 100 basis points due to lower write-backs and recoveries coupled with a slower economy. This is slightly higher than the expected range as it now also includes the impact of Denizbank.

The coverage ratio improved by 1% in Q3 to 126.6% on the back of increased provisions. The coverage ratio including collateral remains healthy at around 250%. As Surya mentioned earlier, we will look to provide guidance incorporating Denizbank when we report next quarter's results. Stage 1 and 2 ECL allowances, excluding the pre-acquisition impact of Denizbank, now stand at 8.4 billion dirhams or 2.2% of credit risk weighted assets. This comfortably exceeds the 1.5% Central Bank requirement.

Slide 13 shows that, in the third quarter, capital ratios declined as the Bank absorbed a 122 billion dirham increase in risk weighted assets. The Common Equity Tier 1 ratio fell 370 basis points to 13.7% however all capital ratios remain comfortably above the minimum regulatory requirement. The group generated 5 billion dirhams of net profit which comfortably absorbed a 1 billion dirham adjustment relating to acquired intangibles.

There was also an increase in Tier 2 capital on increased eligibility of reserves from a larger credit risk weighted asset base. The proposed rights issue of $1.75 billion will enhance capital ratios by approximately 1.5% and bring the CET-1 ratio in line with the average of the four large UAE banks.

Turning to a divisional performance on slide 14, we see that, in 2019, Retail Banking and Wealth Management revenue improved 10% year on year. Net interest income grew by 11% supported by growth in liabilities whilst fee income advanced 8% due to an increase in cards and foreign exchange transactions. Loan balances rose 2% supported by strong acquisitions of personal and auto loans. New card sales were up 21% over the previous period whilst deposits grew by 1% backed by enhanced promotions and new product launches. Liv. now has over 300,000 customers as new products were extended to the Liv. offering. The bank announced the creation of E20, a digital business bank for entrepreneurs and SMEs.

Emirates Islamic delivered a 15% year-on-year increase in revenue to AED 715 million on higher lending activity. Financing receivables grew 3% and Customer accounts increased by 9% during the year. CASA represents 63% of EI's customer accounts. EI's headline Financing to Deposit ratio stood at 83% and is comfortably within the management's target range.

On slide 15 we see that Wholesale Banking revenue declined 4% year-on-year as the compression in margins more than offset the growth in fee income. Fee income of AED 321 million increased 6% quarter-on-quarter due to higher lending related fees and increased investment banking activity. Loans grew 6% during the year from growth in the Bank's core and short term lending business. Strong deposit growth of 10% reflects the Bank's ability to attract and retain liquidity.

Global Markets &Treasury revenue declined 32% year-on-year as Net Interest Income was affected by falling interest rates. The Rates and Foreign Exchange desks contributed to a year-on-year increase in fee income by taking advantage of volatility in their respective markets. The Global Funding Desk raised AED 12.7 billion of term funding through private placements with maturities out to 20 years in nine currencies. The desk also successfully raised a US$ 1 billion Perpetual Tier 1 earlier in 2019.

With that I will pass you back to Shayne for some further comments on Denizbank and his closing remarks

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Shayne Nelson

We have included a couple of extra slides to highlight some of the key features of the acquisition that have not already been covered elsewhere.

On slide 16 shows that there was negative goodwill of 142 million dirhams from the acquisition. The fair value of net assets acquired was 10.1 billion dirhams compared to a purchase consideration of 9.95 billion dirhams. A 1.6 billion dirham fair value adjustment was applied to the 10.7 billion dirhams book value of assets acquired. The purchase price also includes just over a 1 billion dirham adjustment for intangibles relating to such things as brand value.

The final slide gives some further detail on the profile of Denizbank. There are four points to highlight.

Firstly, as well as providing loan diversification, Denizbank also provide margin diversification. As interest rates have fallen, Denizbank has widened its margin from 3.18% last year to around 4%. This helps reduce the impact of falling interest rates on the overall group. Secondly, Denizbank's NPL ratio during 2019 increased above the level indicated by the BRSA guidelines. This demonstrates Denizbank's proactive approach to risk management.

Thirdly, Denizbank's liquidity has improved since the start of the year, reflecting the benefit of improved access to funding. Finally, one can see that Denizbank's Cost to income ratio has improved during 2019 and, since acquisition, is running at 33%. Again this is a good achievement given its extensive branch network.

So to summarise, I am pleased that we have delivered another strong quarter of results, with growth in both net interest income and fee income whilst keeping expenses under control. We have made significant progress with strategic initiatives, including the acquisition of Denizbank, the increase in FOL and the announcement of a rights issue.

As we face pressure from falling interest rates and modest economic growth, we have a strong balance sheet to help us navigate through these challenges and enable us to continue delivering long term value to our shareholders.

And with that I would like to open the call to your questions. Operator please go ahead.

QUESTIONS AND ANSWERS

Operator

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

Shabbir Malik - EFG Hermes

Hi. Thank you very much and all the best on the consolidation and the Turkish acquisition. A quick question about the provisioning this quarter. I just want to understand that at the standalone level, can the bank make extra provisions to compensate for any risks that you see, foresee in the Turkish subsidiary going forward because I noticed that provisioning this quarter at the standalone level traded upwards and the NPL formation, if I look at the standalone level, again, it has not been that significant. So I just wanted to understand that.

Secondly, in terms of the provisioning model, the IFRS 9 model, what we've seen with one of the regional banks is that even after the consolidation, there has been an extra provision taken through the P&L because of the differences in the IFRS 9 model between the acquired entity and the acquirer. Is that been something that's been reflected this quarter differences in the provisioning standards between Denizbank and Emirates NBD that's been recognized through the P&L this quarter?

Surya Subramanian

In terms of the provisioning level, if you noted when Paddy was taking us through the slides, we talked about lower writebacks and recoveries. So compared to last year and this is I'm talking about the ENBD base business excluding Denizbank compared to last year writebacks and recoveries were almost AED 600 million lower, and that's one of the reasons why the net cost of risk was up.

And we had earlier indicated that the cost of risk would normalize in the 80 to 100 basis points range, and that was the range we gave excluding Denizbank. As far as Denizbank itself is concerned on acquisition date, which is 31st July, we took over their assets at fair value, which means it comes across effectively free out NPL from an accounting perspective. However, new NPL formation or increase in those NPL post-31 July would have been recorded in our books, and that is a minor number at the moment.

As we go along for the rest of the year, those figures could change. But you would note in the Note 22 to the financial statement operating segment, the retail and SME provisions of Denizbank that flow through for two months are captured. It is primarily the corporate provisions that tend to get fair valued.

Moving on to the second part of your question, which is an IFRS 9 model. Denizbank has always been reporting IFRS 9 results because their early parent Sberbank also used to report under IFRS 9 so they have their existing models that have been certified by their auditors. What we will be doing going forward is to make sure that model governance policies are aligned between the two organizations.

However, there could be differences in the model inputs themselves because the Turkish economic condition do not apply to the UAE, and vice versa, as well as the market dynamics in the two markets are different. So it's very likely that model inputs would be different, but model governance, model methodology will be aligned. At the moment, during our due diligence, we did not find any significant reason to overlay as you call it their results, but this will be a continuing piece of work that we would do.

Shabbir Malik - EFG Hermes

So basically, when you run the IFRS 9 model at the group level, you only run it at the ENBD standalone level and Deniz runs at the Denizbank level, and then you consolidate the provision that those two models throw up rather than applying a ENBD centric model?

Surya Subramanian

No, Shabbir, I'd like to clarify we have models at a granular level. So even as ENBD it's not fair to say ENBD because we have distinct models for ENBD Egypt, distinct models for ENBD Saudi, distinct models for Emirates Islamic because they have a different client profile and different models for the conventional Emirates NBD. So there is no such thing as a consolidated model. There is a model that is fit for purpose for a market or a customer segment or a product.

Operator

Our next question comes from Ali Sawsan of SICO. Please go ahead.

Ali Sawsan - SICO

Thanks for taking my question. It's actually similar to the previous question. I just wanted to know Denizbank NPL is 0.2% as shown in your presentation. But according to Denizbank website for Q2 2019, it was 8 billion Turkish Lira. Could you please explain the discrepancy between these two figures? Thanks.

Surya Subramanian

Yeah, it is exactly what I told Shabbir earlier. Denizbank reports locally under BRSA guidelines. Those are slightly different from IFRS. However, the key answer to your question is that on the date of takeover, which is 31st July, although Deniz has existing NPLs under local accounting, we take it over at fair value.

So let me give you an example. Let's say that, there is a gross loan of 100 at Denizbank, for which they have a provision of 60. In their local books, they would show you NPLs of 100, provision of 60, therefore, coverage of 60 etc. When we take it over on consolidation post-acquisition, we take it over at a net fair value of 40 because that is the value that we assigned to it in the purchase consideration so it comes to us as 40 NPL free.

Now we've done this earlier when we acquired Dubai Bank, when we be acquired BNP Paribas Egypt, but those numbers were, obviously, small relative to the group. Not to make much of a impact on the group NPL, however Denizbank is about a third of our balance sheet so it shows up, but the more important point if I may note is really the diversification. We talked about the diversification, the loan book, and that effectively spreads the risk and the reward we have in the organization, and gives us a different opportunities to grow the business as well.

And that's really why you're seeing this number changing. All incremental new NPL formation in Deniz would be recorded as a consolidated NPL in Emirates NBD as well.

Patrick Clerkin

Yeah, there's a couple of questions have come in on the web. One's from Alok Nawani. One is very similar to the 8 billion, and asking as per your Credit Quality slide NPLs from Deniz Bank is just AED 200m. Can you please explain why we have a large variance? why is it 200 million? The 200 million relates to new NPLs that arose in Denizbank post-acquisition.

Alok also asked about the profits and that would accrue to Emirates NBD and why is it where we only show in two months profits not the profits since the back to 2018? Those profits Alok are reflected in the purchase price, and as we mentioned, we only report the profit from the acquisition date onwards

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Operator

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

Jagadishwar Pasunoori - Franklin Templeton

Thanks a lot for taking my call. So the minimum CET1 in the UAE is 11%, for ENBD, and I believe it's 8% in Turkey. How will it be in a consolidated basis? Is it like 11% across applied in Turkey as well or is it a combination? That's one question.

And the second question is like you reported like 103 bips of cost of risk excluding Deniz in the last quarter, so that's like on the high end of your guidance. So going forward, do you see that high end going to be meeting or is it on the lower end or somewhere in the middle end? Can you tell me about like what are the sectors that are impacting this high cost of risk? If you can talk about the risk nature and what's happening in the UAE, that would be great.

Surya Subramanian

Thank you. On the capital ratios for Emirates NBD, we are a D-SIB, so we have a minimum CET1 up 11%. Now, irrespective of what each local jurisdiction has on consolidation, the minimum requirement for us would remain 11%. Also as I mentioned earlier when Denizbank is assessed in Turkey, they are assessed under their local BRSA, which is a Banking Supervision Authority, local authority guideline rather than IFRS, so there are differences between what the local regulator wants and what IFRS wants. We consolidate on IFRS and we'll still maintain above 11%.

On the cost of risk, the 103 basis points for 2019 includes Denizbank. Our guidance range had been excluding Denizbank. We will be providing fresh guidance at next quarter, which is with full year results, which will include five months of Denizbank. And going into 2020, we will provide all the full year guidance for 2020 at that point in time.

In terms of sectors, we do not really reflect sectors of NPL formation at this moment. However, at the year end, we do provide an appendix that includes the Pillar 3 disclosures, which will show you sectoral breakdowns of NPL. That is done once a year. At the moment, the problem was not so much new provisions, it was more lower recoveries and writebacks. And these are just falling asset values, generally across all asset classes, so that impacts recoveries writebacks.

Operator

Our next question comes from Aybek Islamov from HSBC. Please go ahead

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Aybek Islamov - HSBC

Yes, good afternoon everyone. Firstly clarify the Network International the gain on sale. So I think you mentioned that includes both realized and unrealized gain on sale in the third quarter right, so I wanted to clarify that in first place.

And I think secondly, you just spoke about the cost of risk in the UAE. Well definitely, it looks like it picked up the bad asset charges in the core UAE business. They increased quite a bit quarter-on-quarter, and you mentioned that the recoveries have reduced. So my question is what's your sense for the cost of risk? Are we getting on to the new level of cost of risk in the core UAE business and domestic business here? That's my second question. And that's it for now, yeah, thank you.

Surya Subramanian

Okay. Aybek, I'll take the NI question and I'll pass on to Paddy for the cost of risk. Just in terms of NI, today we continue to own 11.9% of the company still. The last quarter, we were above 20% so we were accounting for it as an associate then. Now we stopped accounting for it as an associate. And in accounting terms, we treat the asset at fair value OCI, which is through other comprehensive income.

And there is a Note 28 in the financial statements that talks about the accounting aspects. What it means is we record profits on the unrealized profit on the unsold portion. However, any subsequent gain or loss on that unsold portion would not affect income statement. It will go directly to equity. Now that is an election choice that is allowed under our IFRS 9, and we have taken that.

Patrick Clerkin

Aybek, just regarding the cost of risk, yeah, one of the components why it has picked up are based for the lower writebacks and recoveries, and I mentioned that we had AED 1.4 billion of writebacks and recoveries last year. The comparable number this year is AED 800 million, so that is one of the drivers.

Again, what we stressed at the beginning of the year when we gave our 80 to 100 basis points guidance was that the 63 basis points that we had last year was historically low and long-term average we've seen closer to 80 to 100 basis point, so we did expect that reversion up towards 80 to 100 basis points. And in terms of future guidance, we haven't given any guidance for next year onwards. We will look to do that at the next quarter results, not just for cost of risk, but for all the other metrics that we give guidance on. And by I do stress that a 80 to 100 basis points that we guided for was in relation to this year's cost of risk.

Shayne Nelson

It's fair to say that it's harder to get recoveries in a very soft property market, given that most of our collateral is property. So generating sales for those recoveries in this market is difficult and some of the provisions, you just see as us topping up provisions on existing portfolio to reflect that decrease in the valuations we have at security as well.

Surya Subramanian

We have a few questions on the web. One is from Alok Nawani of Ghobash. Continuing on the theme of cost of risk, he wants to know what do you expect the figure to be in Q4 2019 and he's looking as far forward as 2021. I think we haven't yet given guidance into 2021 and we will give guidance for 2020 with the full year results in January.

For the moment as Shayne and Paddy have mentioned, we've talked about a slight increase in the cost of risk, but we are not talking about out of range cost of risks. Alok has a second question on how should we think about ENBD's dividend payout ratio post the consolidation of Deniz? Alok, that is a shareholder call, and you will know the answer to that at the next AGM.

We have as you know in the past been consistent with the 40 fils dividend payout payment. And it is fair to say that the financials of the bank post-acquisition will continue to support at least that level of dividend payout if the shareholders wish to choose to maintain that, and if the regulators approve.

There is a question from Mohammad El-Namash of AvaLAN. He says, what will be the impact of the latest request from the Banking Regulation Commission in Turkey to reclassify loans as non-performing by the end of the year? What will the impact be on Emirates NBD NPL ratio and coverage? Shayne?

Shayne Nelson

I think the good thing about that was that in some regards, it took a lot of the manager argument out of NPLs because we as you know, by the time we'd acquired Denizbank and we did two due diligence on the bank. And we've been seeing all the high risk or large exposures for about 18 month, so we had a very good view of what I've used were on the portfolio.

And in fact, the BRSA coming out with that list was quite hopeful for us because it took any argument out of what with the existing management of IFRS so because it concerned the portfolio that we had highlighted. I think out of the over 200 names that came out, I think we had two small ones that weren't picked up because that was too small for us to see it.

So for us, it was a confirmation that we'd done the right due diligence on the portfolio. I think on the NPLs ration and coverage, I think we just need to see how that pans out as we go through the portfolio going forward.

Surya Subramanian

Thank you Shayne, and there is more mall question on the web from Mohammed Al Mussa from Hassana. He said how much of Denizbank's funding and assets are in TRY versus USD, and what are the benchmark rates and duration for Denizbank's liabilities and assets?

Mohammed, these are the details are public in Denizbank's own financials. They are a listed company in Turkey. So I'd refer you to their Q2 financial statements or if you wait another week or so, the Q3 financial statements will be published. And most of these questions would be answered. We would be sharing this dynamics in our consolidated balance sheet to some extent at the year-end financials. We do not show this at the interim.

There's a question from Elena Ponceca from the National Investor. Can you share how you're going to deploy the proceeds of the rights issue and best of luck to Surya. Thank you very much Elena. I need that in my retirement, but Shayne, would you like to take the first question?

Shayne Nelson

It's only semi-retirement. I think the first thing I'd say is that, if you look at the average of the four large banks in the UAE, the CET1 ratio is around 15%. So I think that's the first thing I'd say about that. For us, we see good growth opportunities in Saudi, Turkey and Egypt. So I think from our perspective, there is plenty of growth opportunities outside the UAE, where don't get me wrong.

Do we still want to grow on the UAE? Absolutely, but if you look at loan growth within the UAE, it's pretty constrained. So you know whilst you have analyzed this long enough, we're a conservatively run bank. We like good capital buffers. We don't like to be below industry average, but we also believe that we can use this capital productively in our offshore markets as they grow, and also it gives us a strategic flexibility if something else comes along.

But having said that, before you asked me the questions, no we are not considering anything at the moment. We certainly bid down this Deniz acquisition.

Surya Subramanian

Shayne, the next question is also for you from Mohammed Mussa of Hassana. How healthy is the UAE retail banking market, any signs of recovery.

Shayne Nelson

I think that the way I would answer that question is it depends who you are. And what I mean by that is we've invested as you know a lot of money in our digital technology and we would argue that we're the market leader in the Middle East in digital technology, and we are picking up market share. So even though the market is not growing much, we are picking up market share.

So if I look at our bad debts in retail banking, they really haven't increased much at all despite how we feel in the economy. So our risk management on that retail books been very strong. We are seeing market share growth in that. And I think that we will continue because if you think about it, if we're arguably the best digital bank in the country, in the region, and we're investing so much more in it as we come to the end of our digital transformation by the end of next year. How these other banks are going to compete with our technology going forward with that investment?

So I think even in a market that is not showing big growth, you can still grow while taking market share. And I think our investment in technology is certainly paying off when it comes to growing our customer base. And you can tell that by things like Liv, over 300,000 customers, a lot of banks in this country haven't even got 300,000 customers. So, I think we've done some great innovation that's bringing more clients the bank more market share to the bank.

Operator

Our next question comes from Suleman Soorani from Tricap Investments. Please go ahead

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Suleman Soorani from Tricap Investments

Hi. I've got three questions. First on the capitalization, you know, right now you stand at about 13 – 17 CET1 versus 11% requirement, and you're doing a rights issue, which will boost it up to 15%. So I want to understand what CET1, are you comfortable with like long-term you really want to maintain 15% or because I mean frankly right now I mean at 13-17, you've got a decent buffer there right. So I just want to understand the rationale for right and would do you want to keep it at 15% going forward, number one?

Number two on the provision calculation, if I look at the financial statements, I guess about 35 billion provision on 22 billion NPL, so that's about 162% coverage versus 127% shown on the presentation. So I'm assuming you're adjusting it for the ECL provision, but how does it work because for our calculation, we still assume that you are 162% covered, which is very adequate right. So how does it compare with what you've shown in the presentation?

And thirdly on the outlook on Denizbank again on slide 17, I see that Denizbank had 1.7 billion profit in FY'2018, and this year we're looking at annualized about 1.2 billion. So how is the outlook for 2020? Do you think the bank can go back to 7.77 billion number in 2020? And I'm assuming they're all calculated on the same exchange rate right? so Denizbank profit in FY'2018 was AED 1.8 billion, and this year, if I just analyze the two months number, I'm looking at about AED 1.2 billion. So going forward, say in 2020, are you looking Denizbank to at least match the FY'2018 profit. What's the outlook basically? And also the numbers are all calculated on the same exchange right 575 or whatever the number is far all like FY'2018 exchange rate is the same as FY'19 right for the presentation? Thank you.

Surya Subramanian

Okay. Let me start with your second question. In terms of the provision and the coverage, if you look at the financial statement's page 33 Notes to Risk Management 22, we have a line on additions through acquisition of close to AED 8 billion. Now that was brought in just to show the gross and net and reconciliations in the financial statement. And going forward, you'll be able to see the movement in both provisions and NPLs going forward.

However, the acquisition assets are really at on a net asset basis, which is why the IR slide shows you like a 22 on closer to a 22 on 22 number, 28 on 22 number. We can show you reconciliations if you want working on the notes that I said if you come to us offline. That is more of a presentation issue.

In terms of capital buffers, we have always maintained conservative capital buffers, and as Shayne mentioned earlier, we need capital to both support our organic and our inorganic growth strategies. We have never been public about what buffer we maintain. However, it's fair to say that you have a regulatory minimum. You have a normal Emirates NBD conservative buffer, and now that we have Turkey, we also need to have a little bit of a buffer for the foreign exchange volatility that you mentioned as well.

In terms of understanding what is the profit of Denizbank's going forward? The IR slide shows 2018-2019 six months, and that's based on public numbers that Denizbank has disclosed. Those are their BRSA numbers. They are not the IFRS numbers. What we show you for the two months, post-acquisition is the IFRS numbers, which are, of course, restated at average exchange rates applicable to each month.

So going forward, it may not be possible just to say I multiply by 6 to get an annualized number because exchange rates could be different. Also the dynamics of Turkey being such, interest rates have moved dramatically as have currency rates in the last 12 months. The provision outlook will also change so bear with us for one more quarter; we will give you guidance in January.

But it's fair to say that as, and it's not a short-term statement, it's more of a medium-term statement. It's fair to say that as the risk position normalizes in Turkey, there is definitely upside to the earnings.

Operator

Our next question comes from Hootan Yazhari of Bank of America. Please go ahead

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Hootan Yazhari - Bank of America

Hi there, gentlemen. With a few months at least of Denizbank now behind you, I really wanted to just get some comments on what are the opportunities that you see in optimizing this bank. Where are the areas where you think you can really add value both on the asset side and on the liability side? And anything that surprised you that they have done particularly well or areas that have surprised you negatively? I really want to understand if there are significant opportunities for you as a new parent company to add significant value to what you've acquired? Thank you.

Shayne Nelson

I think the first thing let's just talk about when we looked at the opportunity of Deniz. And I'd say the first thing when we built the financial model for Deniz, to obtain what we thought was a fair value and you remember we got a significant discount from the initial price to what we end up paying for Deniz. Our financial model always assumed we would get an increase of bad debts in Turkey. Our financial model always assumed we would have a reduction in the value of the Turkish lira. So the first thing I would say is we built our model for this acquisition quite conservatively when we came to the value that we were prepared to pay for this organization.

On where we can add value? I think the first thing we've been able to demonstrate value just about immediately is on their funding and liquidity. They were us as a new parent versus i.e. sanctioned Sberbank means that their capacity just to go into the syndicated loan market as all Turkish banks do to raise money was zero. So we went from zero to now they're out in the market like gaining bids and they're getting an opening while they're in the bank limits from a lot of banks that would not historically as an open limits because of the sanctions of Russia.

Having said that, I would reiterate Deniz itself was never sanctioned, but because of the Russian parent, some banks just would not do business with them. So I think those are two thing. So I think from the liquidity, we will be restructuring some of their capital. There is a bunch of Tier 2 that we took over from the Russians and that we'll restructure to make that more efficient.

On the business side, I think on technology, they sell to about over 30 banks their technology, they've got a technology company called Intertech, so that provides -- Denizbank itself with technology and also a lot of other banks with technology including HSBC offices. Now whilst I do not foresee in the foreseeable future that we'd do a massive merger of systems other than what we have already done like in great things like risk management systems etc.

As we've been building our technology in the UAE, we had been building, getting a lot of Turks over to the UAE to actually do a lot of our software work over here. So we now have the capacity internally to do that and source people on a lot cheaper basis within Turkey. So I think from a technology leveraging, the two organizations will provide synergies over time.

When it comes to loans, actually, if you look at the trade and capital flows between Turkey-Egypt, Egypt-Saudi, Turkey-UAE, it's considerable. There's very large trade between those three countries. And guess what we're in all three and as you know we're growing in Saudi as well we've got another 20 branches opened in Saudi.

So capturing those trade and capital flows for us are also going to be important. And one of the reasons we wanted to go into Turkey was our customers are investing there, and also the customer buying assets there. So also think we can add customers to their base.

Someone is going to ask me is Brexit going to happen or not? If Brexit happens, we now also have with the Austrian German operations an easy solution for our European business with that. So I think there is this quite a lot of business that we can do between the network. And I think one of the things we need to leverage very much around is the network effect of the international locations.

But having said that, Deniz is a well-run bank in its own right. It's got over 700 branches. It's been in existence for over 20 years. It's been through lots of crisis. It's gotten strong management, strong technology, and they're good at what they do. So sometimes trying to teach them to do your way is the wrong thing to do it. And because the markets are different, and certainly Turkey is a different market to the UAE where we are predominantly strong.

Patrick Clerkin

Before we go to the last two questions on the phones, there's one final question on the web, and I'll give that to Shayne. The question is from Vijay of Al Tayer, asking any M&A opportunities under consideration in the Kingdom of Saudi Arabia?

Shayne Nelson

We've looked in Saudi many, many, many times. And to be honest, it's one of our preferred locations. But we haven't been able to find anything suitable to date. One of the key criteria we have when we do an acquisition is we have to have control. We have to be able to consolidate. It doesn't make a lot of sense, otherwise in your numbers, unless you can't consolidate.

There are opportunities in Saudi, but actually, to have management control and board control to enable consolidation, there's very few opportunities. So we will continue to build on the organic side. But if something comes up, obviously, Saudi is a market, we would love to be much bigger in them we currently are.

Operator

Our next question comes from Jagdish Bathija from Lazard. Please go ahead.

Jagdish Bathija - Lazard

Hi. With regards to the strategy in Saudi, I believe you are licensed to open about 20 branches. Where do we stand there? And do you think with 20 branches, you could make a serious dent, I mean or do we see another acquisition on the cards a mid-sized bank in your term?

Shayne Nelson

Yeah, since we brought Neeraj along as the Head of International this time, how about we let him answer that question. Neeraj, you get one.

Neeraj Makin

So in terms of the branches, we got the approval to kind of open the branches back in April. And as you would know it takes time for us to kind of scout for locations, get the real estate organize, and get the infrastructure ready. We envisage to have all these 20 branches up and running in the next 24 to 36 months period depending upon how soon we are able to get these locations finalized.

And for every location, we have to go back to SAMA and get that location approved, so that obviously takes its own piece of time. So that will be a gradual kind of uplift from what we have from currently four branches or 24 branches.

With regards to an acquisition, I think so Shayne answered very clearly, that until and unless something changes in Saudi in terms of what is allowed because right now, we have a limit that we cannot own more than 40% of a bank out there, which doesn't allow us to consolidate or control the bank. So until and unless some of that, those regulations change, and there have been lots of changes in Saudi, which have been coming.

So we are not saying that, that cannot happen. That probably could happen. If that happens then if there are right kind of opportunities, we will certainly look at it.

Shayne Nelson

I think it's fair to say that with Saudi, their market is extremely well. We had only one branch for many, many years. We are so small they gave us in all three. And when we successfully opened that, they gave us another 20. Now when you say, I think you asked the question, is that enough? Frankly, I think probably 24 branches around 24, 25 is enough for a while.

As you know branches are becoming less and less relevant in a network, and the digital side is becoming more and more important. We believe you still need some bricks and mortar. Both Saudi and the UAE are very heavy cash economies, and if Deniz meet these outlets. So I think we will continue to see bricks and mortar for the foreseeable future.

The size, I think of the footprint will change. They will become smaller as we have a less transactional volume over the counters, and it would be more advisory wealth management. So I think in Saudi, we will have some purely digital branches with teller-less as we roll out that network. But I think the bricks and mortar and the branding is also very important when you build into a market as we go forward. But it's fair to say that our first avenue to push in Saudi as we go forward is really around our digital strategy.

Operator

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

Naresh Bilandani - JP Morgan

Thank you very much. Just one question and on Network International please. So your sale of the second tranche NI, just trying to understand the strategic thought behind this. Was this purely being opportunistic to take advantage of the valuations while supporting the capital, and what could be the plan for the balance 11.9% stake?

If this was just being strategic to build up the capital base, my understanding is that if you wanted to record a capital mark-to-market support from NI on your capital ratios that could have been done at doing a sale of much lower than I think just about 10% or over that you did recently. On the other hand, if NI I still remains a strategic investment then what is the plan for working together since it seems like ENBD has strong ambitions to grow in Saudi and Network also has similar ambition. So do you foresee any synergies from this perspective in your view? Thank you.

Surya Subramanian

I will start with the answer and then I'll ask Shayne if he wants to add on to that. First of all, you'll have to excuse both Shayne and myself from talking about future plans because we are both Directors of Network International, which is a London listed company. And if we say anything now that we should not be saying in this forum, we will both be in trouble, and I'm sure you wouldn't want that to happen to us at least not before my semi-retirement.

But just going back to the broader question as you know, we have incubated and developed this business over the past 20 years. And even almost 10 years back, when we first sold 49% to a private equity partner, it was quite evident that there would be an exit moment. And as Neeraj mentioned, we do not remain in businesses that we do not control whether it would be a bank or a non-bank.

The IPO master seminal moment to bring a UAE champion to the international markets and we were very proud of that. We are very strong in our cards business as you know, and we continue to have a very strong customer client relationship with Network International for our credit card business. As we continue to grow in other markets whether it would be Saudi or Egypt, we continue to partner with Network International in many of those markets.

And NI, frankly, is better able to execute its growth and development strategy without being viewed as associated with one banking partner. So the IPO also gives them a certain level of management and corporate independence that helps them gather future business. As I said, just have keep Shayne and myself out of jail. Shayne, do you want to add on to that?

Shayne Nelson

No, I don't want to go to jail. Well no further questions in the line, thank you very much for joining us today and I'd like to thank you for your participation. Apologies, if you found the acquisition accounting of Deniz's confusing as I do.

Surya Subramanian

You can blame me for that

Shayne Nelson

Yeah, I had to blame Surya, and I had to sit down with you say, hey, explain this to me. So I think it's good to see some good questions, but there were similar to the ones I had that were not so of the consolidated numbers, so thank you very much for your participation. I think we've delivered a strong set of numbers. Look forward to talking to you at the end of the quarter early next year. Cheers.

Operator

Thank you. 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 for your participation.

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