EMIRATES NBD Q1 2020 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 Q1 2020 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, Morgan, and welcome to this briefing call for Emirates NBD's first quarter results. Joining me are Patrick, the Group's CFO, and Paddy, our Head of Investor Relations.

Before we go through the results I would like to say how proud I am with the selfless efforts that my colleagues have made to keep Emirates NBD running seamlessly during these challenging times. Support functions don't normally get a mention but they have done a truly remarkable job to ensure the Bank remains open and fully operational with most staff now working-from-home. Usually IT support only have one site to look after, but now they are also responsible for making sure that thousands of home-sites run smoothly and securely.

The safety and well-being of our staff, families, customers and community is of paramount importance. As part of the precautionary measures introduced by the Government of Dubai to limit movement and interaction, we have temporarily closed the majority of our branches. To ensure the continued provision of important services to customers, a small number of branches remain open. We have implemented strict sterilisation protocols at these branches, installed thermal scanners at entrances and trained staff on safety guidelines and social distancing practises.

Three years ago we embarked on a significant initiative to enhance the Bank's digital capabilities and provide customers with a seamless and secure online banking solution. In these times of restricted movement, the value of this transformation is now more apparent than ever. Retail customers can use Emirates NBD's state-of-the-art digital banking platform to do everything from opening an account, applying for a loan or credit card, paying bills, remittances, saving or investing, all from the safety and convenience of their own home. Corporate customers benefit from these features and other solutions such as smartTRADE, a new service that provides business solutions such as completely contactless processing and real time tracking of trade finance transactions.

The Government of Dubai have been proactive in promoting working from home and social distancing for the safety of all. Emirates NBD and Emirates Islamic, in coordination with the Government of Dubai and other Dubai based banks, announced on 22nd March a series of relief measures to support our Retail, Corporate and Islamic customers. This includes: Retail loan customers who have been placed on unpaid leave or reduce pay, can request a repayment holiday of up to three months without any interest and fees. Customers with personal or auto loans or mortgages can apply for a one-month repayment holiday without fees. We will refund fees when a customer withdraws cash at the ATM of another bank. Credit card customers can have an interest-free instalment plan for school fees and grocery purchases. Small business customers with merchant, equipment or business vehicle loans who are impacted can apply for a 3-month repayment holiday. We are working with Business Banking customers who have working capital facilities to develop an optimal financial solution. We offer Wholesale Banking Clients reduced bank charges on digital transactions through SmartTrade and enhanced credit and trade lines to manage ongoing operational costs.

Emirates NBD is providing support to our customers and helping keep businesses operating during these challenging times.

It is humbling for me to see the support and kindness which staff, families and customers have shown to one another and it makes me immensely proud to be part of Emirates NBD. Emirates NBD and Emirates Islamic made a 4 million dirham donation to the Ministry of Finance's drive to ensure that all school children have access to lap-tops and internet to continue with their education through distance learning. The Group also made a 10 million dirham donation to the 'Community Solidarity Fund against COVID-19' to provide medical, economic and social assistance to disadvantaged members of our community.

Looking at performance, the Bank has delivered a 2.1 billion dirham net profit in the first quarter. This is despite simultaneously facing three headwinds from low interest rates, a low oil price and an economic slowdown due to COVID-19. I will let Patrick walk you through the main drivers of profitability in the first quarter, but before he does I will outline the potential impact and timing of these headwinds.

The Bank's liquidity remained strong in Q1 thanks to Emirates NBD's stable deposit base. When oil last fell below $30 a barrel in 2016 there was some pressure on liquidity within the UAE banking sector. Emirates NBD has a diverse retail and corporate deposit base which limited the impact from a low oil price. The Bank's domestic deposit base was stable in Q1. Towards the end of March we did see deposit costs rise as reflected in higher EIBOR rates. This is normal behaviour at quarter end and in April we have seen EIBOR rates declining again.

Next, looking at the low interest rate environment, we have previously stated that a 200bp downward move in interest rates would adversely impact net interest income by 3.2 billion dirhams. The UAE Central Bank cut rates by 125bps in Q1, 100 basis points more than we anticipated. If we pro-rata this extra change for 10 months of 2020 this has led to NIMs guidance being revised lower by 20 basis points.

Finally, COVID-19 is expected to have a significant impact on the global economy, leading to lower GDP growth. Tourism, hospitality, transportation, logistics, trade, construction and real estate are all anticipated to be adversely affected. The OPEC agreement reached in April is expected to result in a sharp contraction in oil production this year. We have not seen credit quality immediately affected, but we anticipate a deterioration in credit quality in subsequent quarters as customers not eligible for relief experience difficulties, in addition to an impact when relief measures expire. It is still too early to predict the level that Non Performing Loans will rise to but the Group is well placed having established strong impairment coverage ratios prior to the emergence of COVID-19, and in Q1 we have taken additional provisions to cover this risk. Patrick will provide more colour on this shortly.

Our strong capital base and quality of earnings give the Bank a sizeable cushion to absorb lower income and higher provisions.

Finally, we have made further progress on a number of strategic initiatives. At the General Assembly last month, shareholders approved the increase in Foreign Ownership Level to 40%. This is subject to regulatory approval, both from SCA, the Department of Economic Development and the UAE Central Bank. If, and when, there is any further development we will inform the market via a DFM announcement. Liv. continued to grow its customer base and has over 370,000 customers. Liv. launched an instant digital credit card which customers can get within minutes via their app. The credit card allows customers to select and change loyalty and rewards, giving them a truly customized card.Liv. has also commenced a pilot launch in the Kingdom of Saudi Arabia, a large market with a young and dynamic population.

With that, I will hand over to Patrick to goes through the results in more detail.

Patrick Sullivan

Thank you, Shayne. I will talk through the performance for the first three months of 2020. As Shayne mentioned, the UAE and global economy is facing multiple headwinds from low oil prices, low interest rates and economic disruption from Covid-19. I know your focus will probably be more on the impact of these headwinds so I will spend time explaining, where possible, the impact and how this flows through to guidance.

Let me start with Q1 performance, set out on page 4 of the presentation. Total income improved 46% year on year, principally from the addition of DenizBank income in Q1, adding 2.3 billion Dirhams, with no pre-acquisition comparative in Q1 2019. Income excluding DenizBank was down 2 %.

Quarter on quarter total income was flat, with both quarters including DenizBank, so is like for like. Net interest income declined by 3% as lower interest rates fed through to the loan book but this was fully offset by an 8% improvement in non-interest income. Costs increased 47% year on year on the inclusion of DenizBank. However, excluding DenizBank, costs increased by only 2%. We have also seen an 18% improvement in costs quarter on quarter following on from the actions taken in Q4 2019 to lower staff costs, as well as lower marketing expenses, coupled with an improvement in the DenizBank cost base.

These combine to deliver an improvement in pre-provision operating profit of 46% year on year, and up 10% quarter on quarter. Whilst credit quality was stable in Q1 with an NPL ratio of 5.5%, we have significantly increased impairment allowances in anticipation of a deterioration in credit quality in subsequent quarters. The credit impairment charge of just over 2.5 billion dirhams represent a 349% year on year increase, and a 24% increase quarter on quarter. This has significantly boosted coverage ratios, and I will elaborate on this shortly.

Loans grew by 1%, and deposit balances declined by 1%, so both broadly flat. Liquidity remains strong as demonstrated by the Advances to Deposits ratio just under 95% and a Liquidity Coverage Ratio close to 150%. We have a strong funding base which we will use to support clients through the crisis. This may see a rise in the AD ratio and a decrease in the LCR, as we also expect to see across the industry.

On slide 5 we see that year on year, lower interest rates adversely impacted loan spreads by 70 basis points and this was partially offset by 43 basis point lower deposit and funding costs. Excluding DenizBank, margins would have finished Q1 at 256 basis points but the 46 basis point contribution from DenizBank lifted margins to 302 basis points in Q1.

The chart on the bottom right shows that margins in the Group contracted in Q1 as lower interest rates impacted loan spreads by 22 basis points, which is partially offset by a 16 basis point improvement in funding costs. DenizBank contributed a further 3 basis points to margin contraction. As I indicated last quarter, DenizBank's margins initially benefitted from lower interest rates as funding costs declined faster than assets repricing. We are now starting to see asset downward re-pricing catch up and feed through to margins.

There are two key things affecting the FY margins, one the Q1 interest rate cuts and secondly the customer support programme the Bank launched in conjunction with the Dubai government that Shayne mentioned.

In respect of the impact from the interest rate cuts, which was 150 bps by the Federal Reserve in Q1, and 125 basis point cut in interest rates by the UAE Central Bank in March, I am revising 2020 guidance on NIMs lower by 20 basis points to 2.55%-2.65% as range. These base-rate cuts are 100 basis points more than we had originally been anticipating and will impact the Bank for 10 months of 2020, albeit the full impact takes time to flow through as assets and deposits reprice over the next few months. We have assumed no further cuts in the US, UAE and Turkey for the time being.

It is also worth bearing in mind that banks have operated in low interest rate environments before in 2016 and 2017, when interest rates were low, Emirates NBD was still able to deliver 250 basis point margins, but obviously this is now at new lows.

In respect of the repayments relief offered to customers and clients that are dealing with liquidity issues during the COVID-19 crisis, where payments are deferred without additional interest charges, the effective interest rate yield on those loans decreases. Given the scheme really launched at the end of March and clients are just now starting to extend terms, this has no impact on Q1, and for the rest of the year it will depend on how many customers avail themselves of this offer. Clearly this is a significant change in the interest rates and we will update you again when we release the H1 results.

On slide 6, we see that the Bank continues to operate with strong liquidity. We have 112 billion dirhams of liquid assets which covers 18% of total liabilities and 24% of total deposits. The Liquidity Coverage Ratio remains healthy at close to 150% while the Advances to Deposits ratio was just under 95% at 31-March.

EIBOR and LIBOR rates declined in February and the first half of March reflecting the cut in global interest rates. However, during the second half of March we saw EIBOR and LIBOR rates climb as banks started to pay up for liquidity, particularly as the quarter end approached. Central Banks and Governments globally have been supportive of individuals and businesses affected by Covid-19. Significant amounts of liquidity have been injected into the banking system globally and in early April we have seen EIBOR and LIBOR rates falling again.

During January and February we raised 9.1 billion dirhams of term funding in 5 different currencies with maturities out to 20 years. This included two benchmark public transactions. In the first quarter we have funded 78%, or over three-quarters of term liabilities maturing in 2020.

The pie chart on the bottom left shows that customer deposits continue to make up 76% of liabilities. This leads nicely onto the profile of deposits on the next page. So, on the bottom right of slide 7 we see Emirates NBD's total deposits were stable during the first quarter, with CASA growing by 10 billion dirhams and fixed deposits reducing by 10 billion dirhams. In Q1 we continued with a successful campaign to attract and retain CASA. As interest rates fell in February and March we also saw some customers reluctant to renew fixed deposits at lower rates and leave the money in CASA.

DenizBank's deposit base in dirhams declined due to currency movements, they grow on local currency bases. CASA across the entire Group represents 46% of total deposits. The domestic CASA engine for Emirate NBD remains strong and represents 54% of domestic deposits. Gross lending increased 2% in the first quarter. Within that, Consumer lending declined by 5%, whilst Islamic Financing and Corporate lending both grew by 3%.

Moving to slide 8, we included this slide last quarter as it shows the improvement the Bank has made in diversification of the balance sheet, particularly with the addition of DenizBank. A year ago the loan book was heavily concentrated with the UAE making up 93% of total loans. Currently the UAE comprises three-quarters of loans with International and GCC making up 25% of the loan book. This improvement in diversification also extends to sector level where 34% of loans are sovereign, down from 42% a year ago. Retail lending has grown from 11% to 16% whilst corporate has also grown from 32% to 37%. The pie charts on the right hand side shows the loan profile by sector.

On slide 9, as I mentioned earlier, we see that the NPL ratio, on top right chart, was steady at 5.5%. It is still too early to predict the level that NPLs will rise to, but in anticipation of a weakening in credit quality, we have started boosting the Bank's coverage level. Coverage has risen by 8.2% to 120.5% of NPL as the Bank took over 2.5 billion dirhams in impairment allowances including just under AED900 million to COVID-19 related expected credit loss overlays.

This equates to an annualised cost of risk of 210 basis points, with DenizBank continuing to boost coverage by having an annualised cost of risk of 430 bps in the first three months, and Emirates NBD's comparable cost of risk excluding DenizBank were 161 basis points up from 91 bps in 2019, substantially due to the COVID-19 overlay.

Provisions will be reviewed as the impact of Covid-19 becomes more apparent in subsequent quarters. We expect the credit consequences of Covid-19 to be felt for some time to come and this stresses the importance of the support offered by the Government of Dubai and the UAE Central Bank to affected customers. Stage 1 & 2 Expected Credit Loss allowances amount to AED 10 billion or 2.6% of Credit risk weighted assets.

Turning to page 10, I have included a new slide to provide more detail on our strong levels of impairment coverage by ECL stage under IFRS 9, and to set out how the Bank has approached provisioning of the potential impact of Covid-19. Given the severity of the impact on the global markets was mostly felt from March, there is limited updated and reliable forward-looking information available for ECL calculation. That is to update the macro economic variables that determine the probabilities of default and the loss in default and in turn the staging between Stage 1 and 2 and 3.

And as noted on the prior page, we have yet to see the formation of significant new Covid-19 related NPLs. The chart on the top right shows that Stage 1, 2 and 3 impairment allowances have grown in total by a net AED 2.3bn since the end of 2019 up to 31.5bn, and that is further broken up into allowances by Stage. The chart also shows the respective Stage coverage ratios on the right side.

We have taken just over 2.5bn dirhams of credit impairment charges, of which 1 billion was on stage 3 on the existing NPLs net of recoveries and just over 1.5bn on Stages 1 and 2 to cover Covid-19 and other credit risks. This compares to 1.4 billion taken to Stage 1 and 2 for the whole of 2019. With the additional charges, Stage 1 coverage has strengthened to 1.2% from 1.1% at the start of the year and Stage 1 loans at 89% of total gross outstanding loans. Stage 2 coverage has risen to 19.3% from 15% at the beginning of the year, for 5% of gross L&As. Stage 3, which is 6% of the total book, maintains its high cover level of just under 90%.

In making the Stage 1 and 2 assessment we adopted both a modelle and Overlay approach, further details of which are set out in Note 26 of the quarterly financial statements, but quickly in summary: We were able to update our ECL models up to February that also gave the model significant increase in credit risk, otherwise known as Sukuk, and staging of that point and then apply an overlay for COVID-19. In terms of staging at the end of Q1, we have considered the substantial government support given to customers including the CBUAE's TESS scheme and our customer relief measures.

The relief offered to customers may indicate a Significant Increase in Credit Risk, however, the Group believes that the extension of such payment relief does not automatically trigger a stage migration for the purposes of calculating ECLs at Q1 as the relief is being made available to assist borrowers' affected by the Covid-19 outbreak to resume regular payments.

For the end of Q1, sufficient information was not available to enable the Group to individually differentiate between a borrowers' short term liquidity constraints and a change in its lifetime credit facility. But customers continue to be assessed closely for stage migrations on a case by case basis basis in view of the COVID-19 disruption. In terms of the ECL overlay calculation, we started with the February calculations and assessed the range of possible stress outcomes and increased the down-side weighting through to 100%. In addition, the Group has applied further adjustments to Retail exposures to industries whose employees are expected to be most impacted due to Covid-19, such as airlines, hospitality, retail and tourism.

As I noted earlier, its overlay approach added just under AED900 million to total ECL for Q1. Inevitably, this approach is judgemental and will change as information becomes available through the year. I do hope this provides greater clarity on the approach we have used, which has led to higher impairment allowances that I think should not have been unexpected in these circumstances.

I will now hand you over to Paddy to take you through the remaining slides.

Patrick Clerkin

Thank you, Patrick. Slide 11 shows that core fee income improved 46% year on year due to the inclusion of DenizBank. Property losses are lower this year due to lower levels of write downs on the remaining property inventory compared to the comparable quarter last year. If we exclude the contribution of DenizBank, non-interest income declined by 4% due to lower fee and income related to investment securities.

On slide 12 we see that, with the inclusion of DenizBank, costs increased by 47%. Looking at Emirates NBD only, costs increased 2% in Q1 compared to the first quarter of 2019, due to higher depreciation and IT costs. Following the cost rationalisation exercise last year, Costs improved by 18% over the previous quarter on lower staff and marketing expenses coupled with improved cost management by DenizBank.

The cost to income ratio at 29.8% is within 2020 guidance but we expect this to increase during the year on lower expected income in subsequent quarters, which will be partially offset by further cost management. As the shape of total income becomes clearer during the rest of year, following rate cuts and reduced yields from support provided to customers, this ratio may rise further.

Slide 13 shows that the Common Equity Tier 1 ratio at 14.8%, is lower than the 2019 year end of 15.3% due mainly to the 2.5 billion dirham dividend payment in March. Profit for the quarter was partly offset by foreign currency translation losses recorded in reserves. As with previous years, we anticipate that retained earnings in subsequent quarters will strengthen the capital base, particularly given the modest loan growth expectation for the remainder of 2020.

TESS offers Banks relief on Capital Buffers until 31-Dec-2021 without supervisory consequences. The Capital Conservation Buffer stays at 2.5% but banks can tap into 60%, or 1.5%. Emirates NBD is a D-SIB and can use 100% of its 1.5% D-SIB buffer. Hence until 31-Dec-2021, minimum capital ratios for D-SIBs are 8% for the Common Equity Tier 1 ratio, 9.5% for the Tier 1 ratio and 11.5% for the Capital Adequacy ratio. Emirates NBD's actual capital ratios are over 6% higher than these new minima. Patrick has provided some extra information this quarter on Expected Credit Losses so, in the interest of time, I won't spend too much time on divisional performance.

On slide 14, we see that, RBWM was able to grow year on year revenue by 6%. They were also able to grow deposits in Q1 due to a successful marketing campaign. As a precaution a large number of branches have been temporarily closed. However the Bank's strong digital credentials mean that we are able to offer customers virtually a full uninterrupted banking service. Liv. continues to grow with a customer base in excess of 370,000. Liv. has recently launched an innovative digital credit card that allows customers to tailor the card to their preferred reward scheme. Liv. had a pilot launch in Saudi Arabia last quarter, a large market with a young and dynamic population.

Emirates Islamic was able to deliver loan growth which helped offset a decline in non-funded and investment income year on year.

On slide 15 we see that the Corporate and Institutional Banking grew revenue by 2% year on year. Loans grew 3% and deposits advanced 11%. Global Markets &Treasury revenue declined 95% year on year as Net Interest Income was adversely impacted by lower interest rates which were at their peak in Q1 2019. Non-interest income declined 11% year on year due to tougher market conditions for trading and sales. As Patrick already mentioned, the Global Funding Desk have covered 78% of term liabilities maturing this year.

DenizBank had a strong first quarter, delivering a 23% quarter on quarter improvement in net profit as a 25% improvement in costs more than offset higher impairment allowances. Margins contracted 14 basis points during the quarter and, as we guided at the beginning of the year, margins are expected to show further contraction as asset pricing catches up with earlier rate cuts.

With that I will pass you to Shayne for his closing remarks.

Shayne Nelson

Thanks Paddy. So to summarise most of the Bank's staff are working from home with a small number of branches remaining open. And interestingly, Patrick was mentioning to me that even the quarter's financials were closed at home, which is pretty remarkable. Maybe we don't need so many buildings in the future. Despite this we have continued to offer a full, uninterrupted banking service to our customers.

In coordination with the Government of Dubai we announced a series of relief measures to support our Retail, Corporate and Islamic customers affected by COVID-19. Despite taking additional provisions in anticipation of a deterioration in credit quality in subsequent quarters, the Bank still delivered a healthy profit while maintaining a strong balance sheet. We have issued revised guidance as lower interest rates, coupled with the economic impact of COVID-19, will affect both income and credit quality.

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 Waleed Mohsin from Goldman Sachs. Please go ahead.

Waleed Mohsin - Goldman Sachs

Thank you. My first question is on the cost optimisation. So, very impressive cost rationalisation on a quarter-to-quarter basis. Just wanted to get a sense of how much more can we expect on the cost line, given that you've already delivered 18% sequential cost optimisation? So, that's the first question.

Then second in terms of asset quality. You provided a lot of details on incremental ECL and the macro overlays. Just curious to hear that if you look at your net provisions on the UAE business, it was AED1.1 billion. And when we think about some of the exposures which have been recently reported, have they all been taken care of, because the ECL overlay looks like a high number, but when you look at the net number for UAE relative to some of the exposures which have been quoted, it looks like a reasonable number, but still want to get your thoughts about how much of this is reflective of existing loans and how much of this is forward-looking action that management has taken.

And a final question linked to asset quality. When we think about migration of exposures, how much of an impact do you expect on capital from the increase in risk weights on movement between exposures going from Stage 1 to 2 and Stage 3? Thank you.

Patrick Sullivan

I'll take those questions. Just your first point on cost optimisation. So, yes, we have had an improvement in the first quarter. You will have seen in Q4 last year, we actually went to about 36% with the cost-to-income ratio and then bought it back down under that for the full year.

The difference for this year will be more a factor of the level of income outturn for the full year, given this is a cost-to-income ratio. So, with the reduced guidance on margins, clearly that's going to take some aspects of the income out of that. It does relate to be seen how much would come out of non-funded income through the year. We are optimising costs and having another look at those as we do in any case out of cost discipline, but the current target remains at 53%. And we will update you at the half year when we get to that close.

On the second point, just on asset quality, we have to distinguish between Stage 3, Stage 1 and 2. So, for Stage 3, you were talking about the AED1 billion or AED1.1 billion provisions that we have made and whether or not that is sufficient. Remember, that our strong coverage levels, is at 90%, and `

And just on the capital side of that, you will see that capital ratio, our CET1 is at 14.8%. So, that puts us in a very strong position as far as being able to absorb any increase in NPLs. And as Shayne mentioned as well, it's too early to tell exactly what the NPLs will be for the rest of the year.

Shayne Nelson

If I could just add, Patrick, there's a related question on NMC, which I think the Goldman Sachs guy was really trying to get at without saying the name. But then we have the one on the web that’s mentioning. So, I'll just cover that. Firstly, I have to say we never comment specifically on any client. But in this case, we have declared what our exposure is. It's just over $200 million. For us, that's relatively small based on capital, based on profitability, based on cost absorption capacity. So, for us, that's not a big number. Don't get me wrong. I don't like losing money to any client. But for us, it's not a material issue. That's what I really want to add.

Waleed Mohsin - Goldman Sachs

That was going to be my follow-up question because I was going to ask specifically about NMC, so you've answered that. So just a follow-up on that. I don't know if you can comment on it. But is it now officially part of the NPL ratio or shall we just take comfort from the existing coverage levels which can take care of it once it migrates?

Shayne Nelson

We won't make a comment on that on a specific basis. Sorry I can't.

Patrick Clerkin

Okay. I think we've got a few questions coming in on the webcast. So, we'll just take a pause from the phone call questions and we'll cover a few of these, and then we'll switch back to further questions. Shayne has already covered – so the first question is from Janany at Arqaam. Shayne has already covered the NMC point. I'll let Patrick cover some of these questions. I'll quickly just cover the – some of her latter questions.

Regarding the 2020 payout, that's a management – or sorry, it's a shareholder decision, which will be taken at the next AGM, so we can't comment on potential 2020 dividend. Janany also asked why did we pay the 2019 dividend when NMC and indeed COVID-19 have started. Again, the shareholders had approved the 2019 dividend at the March General Assembly. And I’ll just make reference that it was – if you look at the percentage of the pay-out ratio, excluding the one-off from Network International, it was in its low 20s, and that does represent a pay-out in respect of 2019 performance.

And finally, before I pass over to Patrick, Janany asked are we comfortable with our capital ratios given the potential increase. Again, as I mentioned, the capital ratio minimum have dropped by 3%. So, we effectively currently have a 6% – over a 6% buffer above the minimum capital requirements. And as I mentioned, we anticipate that any future profitability for the remainder of the year would enhance our capital position. I'll pass over to Patrick for –

Shayne Nelson

If I can just add on the capital. Often, we get criticised from the analysts that we're holding too much capital. And now we're getting questions do we have enough. I think we've been very conservative with how we've managed our capital over the years. Having nearly 15% core Tier 1, to me, is a very high number globally and regionally.

I think on top of that, the other thing I would add is, from an analyst perspective, I think if you did some comparisons around our staging covers, Stage 1, 2 and 3, you'll see how robust our coverage is. We are, by far, in this region well-covered compared to the competitors. We've been very conservative how we build out our coverage historically, and this is putting us in great shape as we hit this situation at the moment. So, we are comfortable with our capital. We're comfortable where we are on our provisioning levels. I'm not saying that it won't cost us to have more as we go through this crisis. But we are in a – we come into this crisis in a very strong position from a capital and coverage position.

Patrick Sullivan

Janany had a couple of other questions, quite a few questions indeed which I'll pick out a number of those, which won't be according to the financial statement. ECL model has been updated for retail segment of the affected sectors. Does this mean that there has been no adjustment to the corporate segment and this will exert significant pressure on provisioning in the coming quarters?

I made a specific reference to retail because that is when we were looking at the scenarios. These were specific sectors where they're using the expert judgment and looking at the outcome. It looked like we could add similar provisions there, whereas the stressing on the model and our weighting through to 100% more than covered the risks that we were seeing changed through the corporate model. So, it's not that the corporate model has not been stressed. It is in that, and it has been reviewed. It is just in the retail sector, specifically on a portfolio basis, where the individual parts that looked like they're particularly under stress. We've made specific expert overlays for those as well.

And just another question there. Has the Central Bank communicated with banks on provisioning for COVID-19? Any colour you could add there would be helpful. Does the accounting treatment in terms of accrued interest change the staging depending on whether the payment deferrals are part of the TESS or outside of the TESS?

Just on that latter part, the accounting for that is something I referenced where if you are given relief, that is, the bank's relief measures, whether it's inside the TESS or outside the TESS, that essentially means for those that you have a lower yield on the interest rate for that. So, that's the accounting for that. So, you can continue to accrue but you are essentially on a lower yield. So, it's accounting as opposed to the TESS programme being about cash or liquidity relief for our customers. So, they are deferring when they build cash. They just pay that amount later on.

And on the first part, has there been communication with the Central Bank? We are following IFRS 9, so there is no regulatory change to IFRS 9, particularly in the first quarter. And so, the overlay approach that we have taken is in line with convention and including statements made by the IASB as well. Paddy, are there any other of those questions you would like me to answer now or should we move on to another question?

Patrick Clerkin

Great. You answered Elena's from Al Ramz. She had a similar question on the Central Bank and IFRS 9. So, that's been answered. Vijay from Al Tayer Group just asked about DenizBank and funding costs. Yes, Vijay, they have seen an improvement both on availability and pricing of funding of money market and wholesale funding. And, in fact, that was reflected in the syndicated loan that they did in the second half of last year with a lot of demand. In fact, they were, I think, probably the only bank in Turkey who did a two-year tranche as well.

Patrick, I'll just cover a couple more questions here. Vijay also asked about the ECL model. I think Patrick has explained that very comprehensively. So, we'll just take a pause with these questions and then pass back to the operator for any further voice questions, please.

Operator

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

Hootan Yazhari - Bank of America

Hi there, gentlemen. I just wanted to revert back to the dividend. You made it very clear that the decision is down to the shareholders down the line. But are there any pressures coming from the Central Bank like we've seen in the European countries forcing banks to preserve capital or take a more conservative approach to dividends? And would you consider paying out bonus shares rather than doing – paying out capital, or is this something that's sacrosanct for your shareholders and as a result you prioritise dividends above all else?

Another question I wanted to ask was regarding fee income trends. Obviously, there's a lot of stress that’s developing in the system. Are you having conversations with your client base to migrate more of the revenues into the fee income bucket given margins are coming down, or is that something that's not happening? You have to give away on the fee income because everything is stretched right now? Just anything that you can give us in terms of trends that you expect on fee income would be hugely helpful. Thank you.

Shayne Nelson

Okay. Let's answer the dividend one. I think, as Patrick said, the dividend pay-out ratio for 2019, ex-Deniz, was low 20s. So, it's not as if we've had a very generous dividend pay-out policy historically. We have been preserving capital. We did that significantly around the – building up muscle for an acquisition which we did with Deniz, and then continue to pay out at about the same rate in '19. So, it was still a pretty low pay-out ratio. On future dividends, that will be a decision at the end of the year. We've got a long way to go with the economic effects of this virus, and it's really too early to call what we would do on dividends and what we would do on any bonus issues, etc. It's just far too early for us to talk about that at this stage.

On fee income, obviously, every bank wants to maximise its fee income. But there's no doubt, we are going to see impact on fee income. If you just think about things like trade volumes obviously dropping across the world and a lot of foreign exchange comes off the back of trade, so it feeds through to everything from issuing a letter of credit, feeds right through to the FX margins that you would make on the transaction. So, we are seeing a reduction in fee income coming through now.

And we are – obviously, the amount of new loans that are coming through, normal credit card applications, auto loans, etc., they do have – quite a lot of them are fee-based, are obviously being impacted by a reduction in volumes. So, we do anticipate fee income to drop this year just as an effect of the uncertainty, so both confidence and also the effect on the economics of the countries that we operate in.

How much that's going to be is a very interesting point because how long is a piece of string, I think, is when does – when do we get out of this situation and when does the world get to some sort of normalisation economically is going to be a challenge for us all.

Operator

Our next question comes from Mahmoud El Safty from Ghobash Trading. Please go ahead.

Mahmoud El Safty - Ghobash Trading

Thank you. My first question about the costs and the costs in absolute terms rather than cost-to-income ratio. Can you please quantify the impact of the initiatives you touched based on? And for provisioning, is it a fair assumption to use Q1 as an indication for the remaining of the year? Are you in a position to comment on this? Thank you.

Patrick Sullivan

Just on the costs, I think I set out an approach to that just in one of the early questions, and our approach in the guidance that we give is around the cost-to-income ratio. And I broke up slightly, so I think you said costs were out rather than cost of risk? Yeah, costs. Good. And then for the provisioning, so the approach we're taking for Q1 is not necessarily an indicator of what the rest of the year looks like. IFRS 9 requires you to have a forward look at what the lifetime losses might be on, say, Stage 2 or 12-month losses might be on Stage 1 through the year. The macroeconomic variables will be updated. It will take time for those to settle down. They are not just spot rates within 2020. They are looking out 1, 2 and 5 years ahead, including oil prices, GDP, employment, etc. So, there'll be variability around that.

I think that IFRS 9 is implemented, there was always this question mark around volatility that you might see with that. However, given we have taken an overlay approach, that is making the best estimate we can at this point of time. As we've said before, it will take time through the year to see the formation of NPL and then through into next year as well. Number of customers this year obviously will benefit from relief for liquidity purposes, but we will, of course, make sure we are keeping an eye on a regular basis, on any actual downgrades in credit risk within the portfolio.

Shayne Nelson:

Just looking to add on costs to try to give you a sort of an idea of what we're doing. We're looking at every cost line that we have item-by-item. Anything that we can defer on capital expenditure, we are. Obviously, we've frozen all headcount costs. We will get a reduction in some of the sales force costs because they're not – a lot of them are on an incentive basis for selling. Obviously, volumes are down on selling. But be assured that every line of cost that we can reduce, we are reducing, including existing contracts. So, for us, it's obviously – one of the levers we have to pull hard on is costs and we're certainly right into that to pull it as hard as we can.

Mahmoud El Safty - Ghobash Trading

But one last question about the SME being some of them in vulnerable position given the situation. How much exposure out of your loan book is to SME? And what are the measures that you're taking to float these companies or help them out?

Shayne Nelson

We actually – I can't remember the exact numbers. Have you got the exact numbers on this in the exposure? It's actually not a very big proportion of our book.

Patrick Clerkin

Yeah. It's about 2-3%, and that includes Emirates Islamic and Emirates NBD.

Shayne Nelson:

Yeah. It's not a huge proportion of our book, SME exposure. On measures, the micro SME segment, we have offered three months' interest-free and repayment-free as part of the initiatives that we launched with the Dubai government for individuals and for SMEs that are impacted by COVID-19. That's not a very big P&L effect, both from the consumer and from the SME portion of our business.

I just wanted to touch on TESS, because I think some people get a bit confused about TESS and what it allows. What it allows is actually is to claim on the TESS the deferred payments. So, the example I'll give you is, if you had a AED1 million mortgage and you deferred payments for three months, the only amount – and if say the repayments were AED50,000 a month, the only amount that you can claim under TESS is AED150,000, not the AED1 million.

So, what TESS provides you is basically the cash flow mismatch at free of charge from the Central Bank. So, it's the AED150,000, not the AED1 million. It does not provide you capacity to claim, for example, for a new SME loan. So, if I have – if a client has – needs more working capital, for example, that's an SME, I can't claim that under TESS. I need to make my own credit decision on that, and I don't get any rebate back from the Central Bank via TESS.

Hopefully, that clears up some of the noise around what does and what doesn't qualify. To qualify in there, also customers need to prove that they have been affected, right? So, obviously, some industries, like airlines is a no-brainer. But people who are still being paid and have a good credit history, it doesn't mean we won't defer payments if they do have some difficulties, but they will not qualify under TESS as a claim.

Patrick Clerkin

Thank you. We'll just answer a few more questions that have come in on the web. Okay.

Patrick Sullivan

We have one from Naresh at JP Morgan, 1, 2, 3 questions. The first one, what is the size of modification loss that you will take due to forbearance, if the forbearance period increases to 6 million – sorry, six months? And how much further would that affect the P&L? Just in broad terms of where we are estimating just the existing estimates, we have included that in our margins. So, roughly 3 basis points to 5 basis points within the margin, if there is, say, a 30-50% forbearance within the portfolio.

The second one, can you explain – sorry, that was basis points on the net interest margin, by the way. That's where the cost will go. Can you explain how the interest accrued but not received in forbearance period, how is that adjusted? How is this recognised in the P&L? And how much your provisions include the suspended interest?

So, when there is forbearance and there is a delay in the payment from an accounting purposes, you continue to look at the overall yield of the extended tenor. So, if you were planning to get 20-year interest over 12 months, and then you were getting 20-year interest over 15 months, you essentially have a lower yield, but we continue to recognise that. There is the potential that you have accrued interest and later becomes part of any credit impairments.

And then, two, what is the level of Stage 2 and Stage 3 loans you expect to see in course of this year? Do you believe that 2020 is likely to be more asset quality pressure than – sorry, '21 will be likely to see more asset pressure than 2020? Well, I think we can't – we don't know at this stage what the migration will be through to the NPLs. A lot of the impact and the economic consequences during lockdowns and stifling of economic activity that's happening through March. So, we will know a bit more when we get to the half year. And then the NPL emergence may be delayed slightly if we have forbearance. And then we will have to look to see what is emerging in 2021, but we can't provide specific guidance on that. But we have updated our guidance saying that, look, NPLs will be increasing, we just don't know by how much at this stage.

Patrick Clerkin

Okay. Patrick, do you want to take the first 2 points of the next question, and then I'll answer part 3 and 4 and a couple of others? And a couple of follow-up questions, excellent, from that one?

Patrick Sullivan

Yes. Okay. When would you expect to update the macroeconomic variables and the ECL model? We will look to see what our independent provider of the macroeconomic variables that are able to provide through the second quarter. There will – or there have been indicative macroeconomic variables coming out. Just given things can and will change through the quarter, we will assess those and how we apply that into the model and then how we factor that against the overlay that we have already taken. It's important that the macroeconomic variables are reasonable and supportable. On the next one, is ENBD going to be part of the recapitalisation of Emirates Airlines?

Shayne Nelson

We would never comment on a particular client, so, sorry.

Patrick Clerkin

I'll take the next couple of questions. Janany was also asking about Emirates NBD's role in funding certain GRE, such as DP World and Maras. Again, exactly as Shayne says, we do not comment on relationship with actual or potential customers. Note 23 of our financial statements does give our related party exposures. And there, we disclosed that 5% of our loan book is to GREs.

And then Janany has also asked about the – any update on the FOL. As Shayne mentioned, at the General Assembly, the shareholders approved. They increased to 40%. That is subject to regulatory approval. There's three regulators that we need to get approval from, which includes Central Bank of the UAE, the Department of Economic Development and ESCA: Securities and Commodities Authority. And again, because it is price-sensitive information, we are unable to comment on the actual state of those approvals.

I'll answer one more question, and then I'll pass back to Patrick with a few questions on NIMs and cost of risk. Sarah asked about Turkey and increase of capital. So, we have mentioned previously that we have $1.2 billion equivalent of Tier 2 notes in DenizBank and that is being restructured to make it more capital efficient. Approximately $400 million of that will be converted into common equity Tier 1 and the remaining $800 equivalent will be restructured, again, to make it more capital efficient from a Tier 2 perspective. Okay. I'll just pass over to Patrick for some questions on NIMs and cost of risk.

Patrick Sullivan

Okay. We have a question from Shabbir at EFG Hermes. First of all, what are the factors shaping your NIM guidance, especially what factor other than the rates drive your NIM forecast? And the second part of that, how does the loan repayment deferral impact your revenue? I think I've now answered that second point. So, I will just come back to the first one.

In a way, the main impact is the – rather obvious one I'm afraid, is the rate cuts, both the Fed and the Central bank of the UAE cutting their rates that then feeds through to EIBOR and LIBOR, respectively. Given the rates in EIBOR have not dropped by exactly those benchmark rates, it means margins take time to go lower. Basically, as EIBOR and LIBOR catch up to those, but given the uncertainty in markets in the last month, those rates have stayed quite elevated and certainly have not come down by the benchmark cuts.

And then, of course, there's the timing of the repricing of the assets. And the other main variable too is the volume. So, you can actually deduce from the Q1 numbers what the average interest bearing assets are become because we have NII disclosed there and the margin. And then, quite frankly, if you simply apply 20 basis points that we're guiding to depending where you are in the range, really gets you the overall impact to our margins. There are a number of other variables other than the timing of that, and that is the impact on the forbearance that the customer relief that we are providing. So, it's probably the other variable impact.

Okay. Paddy, I can answer the next question. Can you please comment on the credit quality of DenizBank, 450 basis points cost of risk, have you seen a material deterioration? No. I think as we were guiding at the yearend when we presented results that had 5 months of DenizBank and now we have about 390 basis points in cost of risk. We've been going through the portfolios. We said at that point in time we haven't found anything that we have not expected during the due diligence and the acquisition. We continue with our robust approach to provisioning and actually of the Stage 3 impairment of AED1.1 billion, a substantial amount of that was in Deniz, and there was nothing unexpected from where we were thinking the impairment would be for DenizBank. So, high levels of – from a high cost of risk, that's in line with our overall expectations

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Patrick Clerkin

Okay. And Jagadish from Franklin Templeton asked about how many percent – how many of our Liv. customers are new to the bank? That remains very healthy, around an 80% new to bank customer level, Jagadish. Okay. We'll – operator, we'll go back to the call for any more questions.

Operator

We have a question from Lemer Salah from Barings. Please go ahead

Lemer Salah - Barings

Thank you. 2 questions from my side. So, the 1 one is on the Turkish exposure. What do you expect in 2020 in terms of any potential capital injection in DenizBank continuing with capitalisation levels? And also like I mean, over the weekend, the Turkish Central Bank has advised the banks to continue lending; plus at the same time today, there was a headline on injecting capital in state banks which might potentially also require injections in private banks. So that's question number one.

And question number 2 is on your own capitalisation level. Obviously, you said like you've got excess spread of 600 bps over minimum levels. You do have a Tier 1 coming up in 5 months. What do you envision to do with that? And what are your expectations on that front? Thank you.

Patrick Clerkin

Thank you very much for the questions. I'll just take your second question first. Regarding the additional Tier 1, it is callable in September. Again, no decision has been made on that. There's – the bank if it decides to call, is required to give between 20 and 30 days' notice period. So, a decision will be made based on economic considerations, much closer to the time.

Shayne Nelson

So Turkey – I couldn't really hear what you were saying on Turkey, but I'll – what I picked up, I'll try to address. I mean some of the measures in Turkey, for example, they've locked the FX rate for bank capital calculation purposes at 593. Was it 593? I think it was 593. So, that means that, from a capital perspective in Turkey, albeit, on consolidation, it doesn't work. But from the solo level, their capital is in a decent position. And as Paddy mentioned, we are reconfiguring some of the Tier 2 because actually it become capital inefficient given its length. So, we had to … around and restructure it. So, we're doing some work there.

On lending there, I would say, at the moment, their liquidity position is sound. They're in a good position from a liquidity position, both on foreign exchange and in Turkish Lira, with an AD ratio below 100. So, they're in a decent position there. Do we expect some effects of what's happening in Turkey? Obviously, we do. And two, if you think about how big tourism is in Turkey and how many people it employs as an industry, there's obviously going to be an impact through – just in that channel quite significantly, as we've been expecting and living in Dubai.

In some regards, there was quite a correlation between the tourism industries in both the UAE and in Turkey. From a provisioning perspective, we said to you last year that we'll be aggressive on our provisioning in 2019, and we have again in 2020. So, what we expected. We looked at this book up and down, back to front so many times. We are on track there.

On government pressure, I'm not a politician. I'm not going to comment on government pressure. But the bank is continuing to lend, helping its customers through this crisis. And I think they're in a good position. We have excellent management in Turkey. For those who have met Hakan, he's a very robust battle-hardened veteran. We put Jonathan Morris, who used to be our – head of the wholesale bank in there – on the Board there and to help manage what's happening. And I think the addition of him there, he's very strong on operational, very strong on risk and very strong on liquidity. So, I think we're in a good position all over the globe with the quality of our staff.

And the one thing I would say to you is if you look at us as an organisation, we're full of battle-hardened veterans that have been through a lot of crisis. I worked in Asia through the Asian financial crisis and ran risk for Northeast Asia. I was in Singapore for SARS and managed through that, and I was the Chief Executive Officer globally for Standard Chartered in those days at the wholesale bank. We went into this crisis very well-prepared from a capital – very well prepared operationally. We were very quick to trigger our operational aspects of split operations, heat guns, scanners, etc., etc., well and truly before most people were thinking about even ordering. We had the gear on the ground.

So, we – I think we have the experience and the management team to handle. Do I think it's going to be easy? Of course, I don't think it's going to be easy. This is a pretty hard economic impact globally that will impact every organisation probably unless you're a supermarket.

Lemer Salah - Barings

Just one follow-up question because then I mean you managed to answer a large portion of my questions. But there’s just one more question. I mean, in terms of FX level for Turkey, most of your GCC peers have given a rough guidance of, I mean, 7 on the Lira currency as across to Dollar for potential capital injections. What would that level be for Emirates NBD?

Shayne Nelson

Well, at the moment, there is no requirement from the Central Bank because they've locked the exchange rate, because most of the impact you see on capital in Turkey for banks is the mismatch between their loans, which are – a lot of the corporate loans are in Euro or Dollars and the capital which is in Turkish Lira. So, what the Central bank did as one of its initiatives, was lock the conversion rate for capital at 593. So, at this stage, there's no requirement to put additional capital into Turkey.

Now do we – when we consolidate the accounts, that's a completely different story. Obviously, we use IFRS 9, and we consolidate at the rate applicable at the time. But from a solo basis, their capital calculation is fine because of what the Central Bank has done

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Patrick Clerkin

And there's a couple more questions, I can just pass them over to you.

Shayne Nelson

Sorry, just going back to that last question. And remember, we are putting in more capital with the conversion of that Tier 2, right? So, we're converting some – it's not additional capital. It's conversion of existing Tier 2 to Tier 1 as part of the restructuring of that capital there, which we've planned well in advance of this coronavirus hitting. That was not part of the consideration. Then we had inefficient Tier 2 capital that not all of it was qualifying. It was leftover from when the Central Bank owned it, and now we're basically restructuring it positively for the Deniz.

Patrick Clerkin

Shayne, if – we've got a question from Jagadish, which is asking, have we access TESS or any other programs launched by the Central Bank? There's also a couple of other questions. What percentage of loans have availed payment moratorium so far? And if our corporates asking for interest or principal deferment?

Shayne Nelson

Well, on TESS, I'd – we have taken a large chunk of TESS already. I'm not sure if I'm allowed to say how much, probably not. I'm sure the Central Bank want to announce that. So, no, I won't go – but yes, we have taken a substantial amount of TESS already. We – that doesn't mean that – and remember, this is from April, not in March. And just remember, how this system works is we don't need to allocate the loans to them for 60 days. So, we're basically – it's not as if we're – yes, we've got – already got these loans to allocate against TESS. That's not true. We haven't got enough for we've actually been allocated so far of deferments. I can't give you the percentages, but we have taken a large chunk. We will use as much of that allowance as we possibly can.

Getting zero-cost money is a pretty good thing for us. So, obviously, we will take as much as we possibly can. But we also have to make sure that we have enough loans to allocate into it. At this stage, it's actually nowhere near enough that we could allocate into the pool. And if we – if we don't allocate the correct amount, and they will audit us on it, we will be fine. So, we're quite careful to make sure that what we draw, we will have enough deferments to actually qualify under TESS. Again, just reiterating, it's only deferred amount that you can claim not the full life.

Operator

We'll take our next question from Chiro Ghosh from SICO. Please go ahead.

Chiro Ghosh - SICO

Hi. I have just one question, that is, look, you have maintained your loan growth guidance at mid-single digits, right, since before the coronavirus time? So, how confident are you about being able to manage this kind of loan growth, considering your size and this economic condition? And even if you are, which are the sectors do you believe that would be lending to?

Patrick Sullivan

So, yes, we retain that guidance. You will see in the accounts, the gross lending is up 2% year-on-year or for the year already and 1.3% up on a net basis. But as we navigate the rest of the year, we will be supporting our clients. So, we do have an expectation that lending could be within that – still within that mid-single digits range.

Chiro Ghosh - SICO

Okay. And just one question, previous one. I think there were some disturbance in the lines, so I missed it. So, let's say the company is struggling, and you have given them a 3 month extension or something. So, would that qualify as a non-performing or it won't?

Patrick Sullivan

Yeah. Well, but in the – for any customer or client that is currently in Stage 1, just because they have availed themselves of customer relief measures that that does not automatically in the models, make them downgraded to Stage 2, for example. We do there need to look at the credit performance. And then when we're looking at whether any relief measures take you down from Stage 2 to Stage 3, that is more under IFRS 9, that function of whether there is actually a credit deterioration. The fact that someone has availed themselves of this in itself does not mean that it's downgraded.

Chiro Ghosh - SICO

No, let me reverse the question. So, if a company is struggling and most likely it will become a non-performing loan, will it get this 3 months of extension or it won't get? So, thinking from the other side

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Shayne Nelson

I mean, any substantial credit that we look at, that is relationship-managed, every decision on deferment is made individually. So, it's the micro SME and the retail is a programmed situation. For anything that's a relationship management in business banking or in wholesale banking, all those decisions on deferments are made as individual transactions. So, we would also look at the credit quality of that at that time.

So, just being in TESS does not obviate NPLs, right? So, just because you put something in TESS, it doesn't mean that you don't need to do the normal credit assessment that that's required and determining the staging or the coverage ratio if they should really be non-performing. So, it doesn't actually eliminate that at all. The ones that are programmed, yes, you will get a bit of a tail, but that's not a big number in the scheme of things.

Chiro Ghosh - SICO

So, effectively, they're independent of each other, right? The testing and – okay.

Patrick Clerkin

Thanks. I'll just answer a few more questions while we have the line. There was a question from Metehan on NMC and whether any provision included in Q1. As Shayne mentioned, we don't disclose any information on individual customer basis.

Vijay from Fiera asked about NIM guidance and then the absolute number of net interest income. We don't give guidance on absolute numbers. We provide information on expected loan growth, expected margins, etc., and allow people to make their own conclusions on that. So, we don't – we won't be giving guidance as we've never done on absolute amount of net interest income. I've already answered the question Ali asked about Tier 1 and the potential impact on the Tier 1. As I said, we've already answered that question about the decision to call or not call. There's also a question on – from Vishal on sovereign loan growth. As I said, we don't give individual parts on which parts of the book will grow. The overall loan guidance is maintained at mid-single digit for 2020, okay.

And Suleman from Tricap is asking whether the $400 million of Tier 2 whether that would lead to dilution for Emirates NBD. No, it won't. We already held those notes. At purchasing you will see that has not led to any dilution of Emirates NBD's capital position. Okay. And operator, I'll go back if there is any further questions on the line?

Operator

We'll take our next question from Alok Mawani from Ghobash. Please go ahead.

Alok Mawani - Ghobash Trading

Thanks. Just 2 questions from my side. You mentioned the interest rate sensitivity that you have is AED 3.2 billion for every 200-basis points movement. Should we be looking at this number with respect to your reported net interest income of 6.2 billion last year or should we be looking at it on a pro forma basis given the range was only consolidated for 4 months I believe? That's one.

And the second question I have is on the increase in foreign ownership to 40%. Do you have any sense of timeline on when you might expect to receive the regulatory approval that you spoke of? Thank you.

Patrick Sullivan

Maybe I'll take the first one and ask Paddy to answer the second one. Just on the interest rates and specifically that we published that was towards the full year account. Any sensitivity that is relevant to this year and the balance sheet as well. So, that has been part of what we have indicated before when we have said for every 25 basis points of approximately 400 million of net interest income. I think that's probably the right answer –

Shayne Nelson

Which is been translated into the NIM guidance down rate

Patrick Sullivan

Exactly. And so, overall, the 20 basis points that's coming down – and I think I indicated before you can actually - average interest bearing assets and run that calculation.

Patrick Clerkin

Okay. And in terms of the foreign ownership, again, I have nothing really to add to what I've already said. There is a regulatory approval needed from three bodies, the Department of Economic

Development, ESCA and the Central Bank. We do not comment on the status of those approvals, and so we cannot add anything further. As and when all the approval have – is forthcoming, we will make an announcement to the market and we have to do that in that fashion because it is market sensitive information.

And a couple of other questions I'll quickly take. Chiro from SICO asked that we have a big amount of debt maturing in 2020-2021 will be refinanced at lower rates. As we've already mentioned, we've covered 3 quarters of this year's maturities. A large part actually of what we have maturing next year is clubbed in – which we typically roll every three years and is with the relationship banks. The amount of debt – typically, we'll issue about 13 to 15 billion Dirhams in public issuance and private placements on a year-on-year basis. So, if I look at the amount of debt maturing next year, it's 8.5 billion of term debt, which is not the clubbed in. So, again, those parameters – we're comfortable with those parameters. And also bear in mind that for the last couple of years we've actually been financing well in advance of our maturities, and so we have actually been pre-funded.

Okay. Suleman, Patrick has already answered your question about the average margin for the year, so we'll move on to that. I already covered that. And I'll ask Patrick just to answer a question from Divye from Daman.

Patrick Sullivan

Okay. There's a question that's asking, is there any new regulation from the UAE Central Bank, the provision increase related to COVID-19 could be added to your capital or gradually phased over the 5 year period. That was an article in Gulf News a few days ago

Yes, there was a press release but there hasn't been a formal initial of a regulation on that at this point in time. So, the capital CET1 ratio that we have disclosed at 15.8% is fully loaded with the impact of the COVID-19 overlay that we have added in there, and that equates to approximately 20 basis points within that. In other words, if we had capital relief on that, the capital ratio would have been around 15%.

Patrick Clerkin

Okay, just a couple more questions. And again, Suleman reasked the question about average NIMs. Yeah, Suleman, if you look, the guidance of 255 to 260, given that we had 302 in the first quarter, would imply lower NIMs for the whole year and lower NIMs in Q2, Q3 and Q4. And that's a function of lower interest rates where three quarters of our loan book resets within six months. So, that will reset with lower rates. And also, Denizbank, where Denizbank benefited from recent rate cuts because its liability profile is shorter; and in 2020, assuming no further rates, we expect the assets to reprice and catch up and see a contraction in margins from there, okay. There's a question from Abdullah on EIBOR transition. Abdullah, if you don't mind, I think that's very technical. So, we can take that offline and we can respond offline on that particular question.

Patrick Sullivan

Albeit there is on impact for us in this quarter. It's just phase one on the disclosures that the bank adopted in the hedging policy for – under IFRS 9; and so, it is slightly different from other banks that is still using the IAS 39 across the hedging and the parameters. And disclosing that the ready to use or the amount of our hedging that will rely on LIBOR valuation after 2021 is not considered material.

Shayne Nelson

And you just answer the question actually that –.

Patrick Clerkin

Yeah. Thanks, I don't need to take it offline.

Operator

We'll take our next question from Jagadishwar Pasunoori from Franklin Templeton. Go ahead.

Jagadishwar Pasunoori - Franklin Templeton

Yeah, thanks. So, what percentage of loans are impacted by COVID-19, or what percentage of loans are under payment moratorium so far? Can you disclose that?

Shayne Nelson

We won't disclose that. But I have to say, it's pretty early days. So, the impact of the virus has been pretty minimal. It's not a huge number at this stage. Do I expect that to accelerate? Yes, I do. But at this stage where we are, we haven't had a massive number of even SMEs getting deferrals stage. And just remember, really the test programme, we only started implementing it from 1st April, so it hasn't been going a very long. So, the effect at the moment is not huge. Do I do expect it to grow? Yes, I do expect it to grow. As the economic impact affects more customers and their cash flow, we would expect to receive more deferrals as we go forward. But it's pretty hard to try to estimate what will that be. How long will the lockdown go for, when will tourist come back, all those things are pretty significant for the country.

Patrick Clerkin

Okay. I'll just tidy up. There’s a few more questions which I'll just tidy up with on the web. In terms of SMEs, interest rates waived or deferred. Again, it is done on a case-by-case basis. We work with customers to find the optimal solution. Similar question about corporate and principal deferment is done on a case-by-case basis. And yeah, I think we've covered them.

Operator

We'll take our next question from Vijay Raghavan from Al Moosa Group. Please go ahead.

Vijay Raghavan - Al Moosa Group

Just few questions, might not be listening to all – most of the others clarified already. One thing is on Denizbank where I see a significant reduction in the operating expenses as well as the taxation charge. I mean, can we assume that it is used to cost synchronisation, can we expect that to continue in the future quarters or is it just kind of a one-off in this quarter?

And my second question will be on the impairment. I know there have been lot of press reports on the specific outstanding that we have all seen in the last couple of weeks. So, your subsidiary Emirates Islamic, I presume maybe you can just confirm a yes or no; the figures the Emirates Islamic has consolidated, so your provisions will probably include any provision if at all they are made for that?

Shayne Nelson

Yeah, the results are that consolidated given that we are 99.99% of …. - Also, I would just say that the NMC exposure that we disclosed is also in Emirates Islamic not in the main entity, but both. The whole thing is consolidated in … - On the other question, Patrick, I don’t think you probably heard it, was on are the cost reduction in Deniz sustainable. I think that the question, yes? It was Deniz specific.

Patrick Sullivan

Well, there are two – There's the cost overall which there was a reduction in costs from this year. As last year those – we were taking actions redundancy reductions to get the cost base this year into the right shape. But as far as the Deniz goes, that includes an element of the FX depreciation. So, it's quite a high percentage in drop, so it is 5-30% low on cost in currency basis. That is another 20 basis points drop in the following year. So, I think that run rates of the cost is in the right shape. It isn't bad but it’s subject to FX.

Shayne Nelson

I think the other thing coming just on cost is just remember, we took at about 500 jobs in the last quarter of 2019. So, we did take lot of other costs out. So, it's some of the cost increases you saw on the last quarter came off the back of those redundancy costs of taking out that headcount. So, there is a big cost upfront as you take people out, and that's one of the reasons why you saw a cost drop in the first quarter versus the fourth quarter of 2019. .

Patrick Clerkin

Just a final question on the web from Caspar of Blakeney asking if loans would transition between stage and two, three, etc., through the stages. If you look, if you read the TESS paper, you will see that the preference is for TESS loans covered under TESS not to transition. Obviously, loans not covered by TESS, those are subject to our own credit assessments and we would apply our standard credit methedology. But for the effectively loans tagged under TESS, there is a preference that those loans do not transition.

Patrick Sullivan

Having said that, with our overlay, there is coverage that takes care of anything that’s not…

Shayne Nelson

And in many of the ECL calculations that I'm sure the analysts in the fund would do against other banks, we’ll see that we're at double the coverage rates of most in Tier 1, 2 – in stage 1, 2 and 3. So, we have plenty of muscle within those lines already.

And if there's no further questions, I'd like to thank you all for joining us. It's probably good to get out of the office, get out of our homes for a change and we manage to get into the office today to take this call. So, it was the first time for a while we are put on a suit and tie, and, frankly, it felt good. But I'd just like to leave you with a message that the bank is well-positioned for COVID-19. We have the liquidity. We are strong there. Capital ratios are strong as we've talked about today. We have a very strong franchise, and I think that's one of the great things about the organisation is we do have very big market shares and deposits that is keeping our liquidity very strong. We have the technology that’s enabling us to continue to operate on an amazing basis, I have to say. We've got all the technology sitting at a home now and we're managing the bank very well from home.

And I think lastly, I would leave with the message is, you do have the management here that's been through many crisis. We know how to handle it and we're well-positioned to get through this crisis and come out at the end even a stronger bank than we currently are. I thank you all for joining the call, and talk to you more at the half year. Cheers. Thank you, operator.

Operator

For any further questions, please contact our Investor Relations department whose contact details can be found on the Emirates NBD website and on the Results press release. A replay on this call and webcast will also be available on the Emirates NBD website next week. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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