EMIRATES NBD Q1 2021 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 2021 first quarter results call and webcast for analysts and investors. Today's call is being recorded. Please note that this call is open to analysts and investors only. Any media personnel should disconnect immediately. I will now pass the call over to our host, Mr Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Thank you operator and welcome to this briefing call for Emirates NBD's First Quarter results. Joining me as usual are Patrick, the Group CFO and Paddy, our Head of Investor Relations. This strong set of results reflect the improved economic sentiment for 2021. Economic growth is expected to improve this year in all the countries that we operate in. The pace and level of economic recovery will be a function of the successful roll out of vaccination programmes. The UAE is fortunate to have the second highest vaccination rate globally and this is important for an economy with a large service component coming from the tourism and hospitality sectors.

This year the UAE celebrates its 50th anniversary. The nation has developed a reputation for innovation and creativity and, as we celebrate the 'Year of the 50th', we look forward to empowering the next generation to develop their vision for continued success over the next fifty years.

Continuing with the optimistic theme, the Group's operating performance this quarter also had many positives. Non-funded income showed a marked recovery. Strong CASA growth improved the deposit mix, which benefited Net Interest Margin. Costs improved as earlier management actions took effect. Impairment allowances reduced 31% year on year. DenizBank contributed one-third of income and one-quarter of Group's profit. All segments delivered higher income compared to the previous quarter. Capital, liquidity and credit quality metrics all strengthened. There were further repayments from our customers receiving support, reflecting improved business conditions.

I am delighted to share with you a number of other achievements during this quarter. We were the first bank from the Gulf region to issue an ESG-linked syndicated loan. The cost of the USD 1.75 billion facility is based on the percentage of women in senior management and water efficiency. EmCap had its best ever quarter in debt capital markets, raising over USD 18 billion for 24 customers across 12 countries. DenizBank successfully issued its first Diversified Payment Rights transaction since 2014, raising 435 million dollars from a range of international investors. Momentum in contactless payments continued in Q1 2021 as payments using Apple Pay, Samsung Pay and Google Pay more than doubled in 2020. We successfully expanded our branch network in KSA to six and became the first foreign bank to open branches in Madinah and Makkah.

In summary, there are positive signs of economic recovery as vaccination programmes are rolled out. Emirates NBD has a strong operating performance in the first quarter and also made progress on many strategic fronts. We continue to support our customers where needed. And we will use our strong balance sheet to enable customers to grow their businesses in the coming holders.

I will now hand you over to Patrick to go through the results in more detail. Patrick

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Patrick Sullivan

Thank you Shayne and good afternoon to you all. I will walk through the first quarter of 2021's performance, which is set out on page 4 of the presentation.

Total income improved 25% quarter on quarter, as non-funded income recovered significantly due to improved market activity coupled with higher foreign exchange and derivative gains from hedging and swaps. Net interest income was up marginally over the previous quarter as NIMs widened 4 basis points on an improved deposit mix.

Year on year total income was down 10%. Within that, non-funded income improved 6% on higher client activity, but this was more than offset by a 17% decline in net interest income on back of the rate cut of last year. We also have the expected decrease in DenizBank's NIMs after these significant rate rises in Turkey in Q4 of 2020 and then also in Q1 this year.

Costs improved 9% quarter on quarter from the impact of earlier cost management initiatives and lower marketing expenses. The cost to income ratio for the first quarter was just over 30%, which is somewhat better than expected due to stronger non-funded income, particularly from DenizBank. Costs also improved 9% year on year due to cost management initiatives coupled with lower costs from DenizBank.

Credit impairment allowances were 31% lower year on year following proactive provisioning in Q1 2020 when there was more uncertainty. Provisions increased 12% compared to the last quarter to maintain stage 2 coverage following some credit migration which was not unexpected following the disruption of the last 12 months. And I'll put more detail on this shortly. So that all sums up to a net profit of AED 2.3 billion up 12% year on year and 76% quarter on quarter

Q1's cost of risk of 158 basis points is lower than the 163 basis point cost of risk for full year 2020. We see room for further improvement in the cost of risk in coming quarters but this will be a function of business sentiment continuing to improve.

Turning to the balance sheet, net loans declined by 2% due to 3 main factors: repayments of deferral support, currency translations on Denizbank lending and impairment provisioning. Deposit balances declined 1% as DenizBank's deposits grew 6% in local currency terms but contracted 5% when translated into dirhams.

During the first quarter of 2021, the NPL ratio improved slightly by 0.1% to 6.1% due to corporate recoveries, some write-offs and the effect of FX translation, so we haven't seen any significant NPL downgrades during the quarter. The Group's continued proactive provisioning has further strengthened the coverage ratio by just under the 8% to 128%. As Shayne mentioned, system wide liquidity remains healthy as reflected through the Group's Liquidity Coverage Ratio of 165% and the Advance to Deposit Ratio of 95%.

We do have a strong diverse funding base which we have used to support customers and clients. So let's look at that all in a bit more detail on the following pages. On slide 5, at bottom right hand chart shows that margins improved in Q1 and high CASA lowered the overall funding cost, more than offsetting lower margins that we had been expecting from DenizBank after the Q4 2020 rate rise. Loan yields were stable reflecting that interest rates have now largely fed through to the loan book outside of Turkey that is.

On the bottom left chart we see that, year on year, loan spreads were adversely impacted by 145 basis points due to lower interest rates. This combined with lower margins from DenizBank more than offset the 96 basis point improvement in deposit and funding costs.

As I mentioned last quarter, we expect some short-term pressure on NIMs as DenizBank liabilities re-price higher following the rise in interest rates in Q4 2020. We expect this affect to be further exacerbated by the 200 basis point increase in rates in March and the full effect has yet to come through. We have maintained our full-year guidance of 2.35 to2.45% as the favourable deposit mix helps offset the additional pressure on DenizBank's NIMs.

On slide 6, we see that the Group continues to operate with strong liquidity. We have 88 billion dirhams of liquid assets which cover 14% of liabilities and 19% of deposits. And again, here we see the LCR ratio remains healthy at 165% while the Advances to Deposits ratio strengthened to 95%.

The Targeted Economic Support Scheme, introduced by the UAE Central Bank, has helped ensure good liquidity within the banking system. Following the UAE Central Bank's decision to extend the Zero Cost Facility until the end of December 2021, we will continue to actively support our customers. We have been busy raising term funding, taking advantage of favourable conditions. In the first quarter, the Group issued 15.4 billion dirhams of term funding which covers 90% of this year's maturities.

There were a couple of noteworthy transactions which Shayne noted. Emirates NBD became the first bank from the Gulf to issue an ESG-linked syndicated loan, raising $1.75 billion of 3-year funding with interest cost linked to the performance of several ESG measures.

DenizBank also issued a $435 million dollar equivalent 'Diversified Payment Rights' transaction with 3, 5 & 7-year tranches, significantly increasing and extending its term liability profile.

On the bottom right of slide 7, we see that whilst deposits are down 1% during the quarter, this is largely due to movements in the Turkish Lira. DenizBank grew its deposits by 6% in local currency terms, but when translated into dirhams this represents a 5% decline.

Deposit mix continued to improve in the first quarter, with CASA growing by a further 16 billion dirhams, enabling the Group to replace 18 billion dirhams of more expensive fixed deposits which in turn lowers our funding costs. CASA across the Group represents 56% of total deposits with domestic CASA up at 65%, the highest ever level.

Continued CASA growth is a function of some specific factors, including successful marketing campaigns and strong digital adoption; and other external factors such as low interest rates, abundant liquidity and less spending. As I mentioned last quarter, as the economy recovers future CASA growth may moderate if we see increased spending and more investment in inventory.

Gross lending, on the top right chart, declined 1% during the quarter. Within that, retail lending grew 3% due to higher demand for personal loans, auto loans and mortgages. Islamic Financing was stable and Corporate lending declined 1% due to repayments. DenizBank's gross loans grew by 6% in local currency but declined by 5% in dirham terms. The pie chart on bottom left shows the loan book's sector profile, highlighting the Group's success in further diversification in recent years.

On slide 8, as mentioned earlier, the NPL ratio improved slightly by 0.1% to 6.1%. As with year-end, it is still too early to predict the high tide level that NPLs will rise to, but in anticipation of some further migration in credit quality, we continue to maintain strong coverage levels. Coverage has risen by 7.8% to 125% as the Group took 1.8 billion dirhams of impairment allowances in Q1-21.

The annualised cost of risk for Q1 of 158 basis points is lower than the 163 basis points cost of risk for 2020 and the 210 basis points recorded in Q1-20. We see further room for improvement in the cost of risk should economic sentiment continue to improve. DenizBank's 285 basis point cost of risk for Q1-21 improved significantly from 430 bps in Q1 last year. Emirates NBD's comparable cost of risk of 131 basis points was also significantly lower than 161 bps for Q1 last year.

Just to have some more colour, slide 9 provides more detail on our Stage 1, 2 and 3 coverage. The chart on the top right shows that impairment allowances have grown by 1.1 billion dirhams during the first quarter to 36.1 billion dirhams. And within that Stage 1 coverage remained flat at 1.1% on 87% of total gross outstanding loans. Stage 2 ECL allowances increased by 1.2 billion dirhams to 6.9 billion and that increased increasing stage 2 coverage to 21.5% while Stage 2 loans increased by 1% to 7% of total gross outstanding loans. Stage 3 ECL allowances remained stable during the first quarter, increasing the stage 3 coverage to 88% as the amounts of impaired loans declined slightly, including FX impact.

On the bottom left of the page I have included some additional information on existing support provided to customers benefiting from repayment deferrals. It shows the level of support provided by the Group to UAE customers and clients, and the significant amount of repayments during the quarters.

In summary, we have 10.3 billion of support for over 110,000 customers declines with 5.5 billion already repaid. And of that, 1.5 billion was repaid in Q1. That's leaving 4.8 billion of ongoing support. At the end of Q1 2021, we held AED 4.1 billion dirhams of zero cost funding from the central bank support. and to date we have provided deferrals on 10.3 billion of payments to over 113,000 customers and received 5.5 billion dirhams of repayments. So we have set out further details of staging and grouping is contained in note 25 of the financial statements.

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

Patrick Clerkin

Thanks Patrick, Slide 10 shows that core gross income improved 77% over the previous quarter with large contributions from fee income, foreign exchange and rates. Fee income improved due to investment banking activity and retail volumes recovering to pre-Covid levels. Foreign exchange and rates contributed more on increased income from hedging and swaps and higher foreign exchange relating to DenizBank. Income from Trade Finance, Brokerage and asset management also increased over the quarter. Total non-funded income grew 6% year on year as lower trade finance income was more than offset by growth in transaction volumes and higher investment securities income.

On slide 11, we see that costs for the first quarter improved 9% over the previous quarter from the impact of earlier cost management initiatives combined with lower marketing expenses. Costs also improved 9% year on year due to lower staff and operating expenses coupled with an FX element from DenizBank's cost base.

As Patrick mentioned earlier, the cost to income ratio for Q1 at 30.3%, is lower than guidance on stronger non-funded income, particularly from DenizBank, which may moderate in subsequent quarters. The cost to Income guidance remains at 35%.

Slide 12 shows that the common equity tier-1 ratio improved 0.5% in the first quarter, driven by 2.3 billion dirhams of retained earnings combined with a modest decline in risk weighted assets. The reported capital ratios include an accumulated total ECL add-back of 3.1 billion dirhams, for incremental Stage 1 and 2 ECL allowances, as permitted by the UAE Central Bank. This improves the capital ratios by 0.7%.

TESS offers banks relief on capital buffers until 31-Dec-2021 without supervisory consequences. Hence Emirates NBD's minimum Common Equity Tier 1 ratio is 8% and minimum CAR is 11.5%. Even excluding the add-back, Emirates NBD's actual capital ratios are around 7% higher than these new minima.

Moving to slide 13 divisional performance. For all business units you will see a consistent theme of improved income over the preceding quarter. On slide 13, we see that, RBWM quarter on quarter revenue improved 4% on account of higher transaction volumes. Revenue was down 6% year on year mainly due to lower net interest income. Loans grew marginally as credit card volumes and spend recovered to pre-pandemic levels, Deposits grew 3% helped by successful domestic usage campaigns with CASA growing by 5% while customer advances maintained 2020 levels.

Emirates Islamic total income improved 12% quarter on quarter as non-funded income improved 51% on higher volumes in first quarter. Total income declined 10% year on year due to lower profit rates. Financing and investing receivables grew 1% whilst customer accounts declined 1%. EI has a healthy 79% of customer deposits coming from CASA accounts.

On slide 14, we see that the Corporate and Institutional Banking income improved by 8% quarter on quarter due to higher business volumes. Income was down 11% year on year due to lower interest rates which was partially offset by improved non funded income. Loans declined 1% and deposits declined 3% having reached a record level at the end of 2020.

Global Markets & Treasury revenue increased by 103% quarter on quarter due to a significant improvement in non-funded income. The credit trading desk delivered a strong performance and the Sales desk have worked closely with customers to explore beneficial opportunities in this low interest rate environment. Net interest income improved from the previous quarter following some hedging restructuring last quarter.

Slide 15 shows that DenizBank contributed over 2 billion dirhams in revenue and 642 million dirhams of net profit to the Group's performance. This represents a third of income and 28% of total profits. Total income improved 51% quarter on quarter driven by higher fee and investment securities income and mark to market gains from hedging and swaps. Total income was down 10% year on year as lower net interest income more than offset higher non funded income.

DenizBank continues to take provisions as needed to boost its coverage levels, with a 285 basis point cost of risk in the first quarter compared to 430 basis points in Q1 of last year and 327 basis points in Q4 last year. Margins declined by 14 basis points during the first quarter to 4.13% as we guided earlier, due to the increase in Turkish interest rates in Q4 last year, and we expect NIMs to be further affected by the 200 basis point rise in March.

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

Shayne Nelson

Thanks Paddy. So to summarise, the Group has had a successful first quarter, delivering a strong set of financial results and achieving a number of strategic and operational milestones. Net profit of 2.3 billion dirhams was 12% higher year on year, improving economic conditions with DenizBank adding significant diversification to the Group.

Total income grew by 25% over the previous quarter, on a marked recovery in non-funded income. Impairment allowances were 31% lower than a year ago with cost of risk substantially lower following proactive provisioning in 2020. Capital, liquidity and credit quality metrics all strengthened. Domestic CASA is now at an all-time high of 65% of total deposits. We have supported over 110,000 customers with 10.3 billion dirhams of deferral relief.

EmCap had its most successful ever quarter in debt capital markets. Emirates NBD was the first bank from the region to issue an ESG-linked syndicated loan. International expansion continued with two new branches added to the KSA network

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 Rahul Bajaj of Citi. Please go ahead.

Rahul Bajaj - Citi Bank

Thank you, gentlemen. I have three quick questions if I may, please. So the first one is around corporate lending recovery. You talked about repayments on the corporate side kind of hampering credit good in the domestic economy. Just trying to understand one; do you think these repayments would continue and for how long? And when should we expect like a potential recovery on the corporate side? What will drive recovery in your view on the corporate side? That's my first question.

The second question is on the coverage ratio. So 88% is your stage three coverage as I understand. What would be the number including collaterals? I assume 88% excludes collaterals. And is this the optimal kind of stage three coverage level where you want to stay in the current environment, or you want to grow it further as we move ahead in 2021?

And my final question would be on your group one, group two disclosure in the financial report. If I noticed correctly and please correct me if I'm wrong, the group two exposures have increased substantially during the quarter. So it was around AED 3.5 billion end of 2020, it is close to 7.5 billion now. So just wanted to understand, I mean, are there accounts which you earlier thought had temporary issues because of COVID-19, but now you think that they have kind of permanent issues or permanent sort of impairments coming out of COVID-19? So can they be more such sort of movements, so to say, for accounts who initially thought had temporary issues but ultimately it turned out that they had more serious issues? I'll stop there. Thank you.

Patrick Sullivan

Yeah, Rahul, it's Patrick. Those three, maybe we can work through those backwards. And I'll start with question three, just on your point on group 1 and 2. So, in the first quarter you will also have seen that overall we had seen credit migration from stage 1 to stage 2. So that's gone up by 1% of our loans. So that was around 5 billion going through. An element of that is in the deferrals as well. And I think the note that you're looking at, if you look on page 36 of the accounts, there's about 1 billion of that relates to corporate. That's essentially also gone therefore into group 2 from group 1.

Also, there is the portion of our stage 2 loans that are in deferral where there has been some credit deterioration, and therefore it's gone from group 1 to group 2 within that additional central bank disclosure type. So it sort of fits in with that profile of the overall credit migration that we have seen in Q1. And I don't think that really particularly comes as a surprise given the last 12 months and the credit pressure around that.

Shayne Nelson

Let me just add to that, Patrick, is when I read a lot of the analyst's reports, they often talk about the cliff effects when TESS runs out and the effect on that. You're not going to see a cliff effect for us. We're grading clients according to the risk profile now, and we will migrate them if they deteriorate. So from our perspective TESS is not holding back our stage migration, that is not happening whatsoever. We are moving them in accordance with the risk profile they're currently evidencing.

Patrick Sullivan

And then to your second question, you were talking about 88% of stage three coverage at the moment and how we feel about that. The first part of your question was what's that if I include collateral. It's just over 200% if you include collateral. Do we want that coverage to grow higher? We don't have a specific target around that. It is what it is and what we feel comfortable in terms of recovery.

And then on your first question, just about corporate lending, timing for the recovery, just with – I mean, the UAE itself is open. I guess the economy is due to pick up through the year. The GDP for non-oil sector growth in UAE is around 3.5%, albeit overall GDP is expected to be around 1.4 with some contraction in the within the oil sector. So, as we go through the second half and the economy picks up, with that, corporate may be more willing to borrow and invest. Now, the flip side of that is in the meantime they do have surplus cash. And so we have seen our CID CASA balances grow significantly over the last couple of quarters as well

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Operator

And we can take our next question from Waleed Mohsin from Goldman Sachs. Please go ahead.

Waleed Mohsin - Goldman Sachs

Thank you. A couple of questions from my side. The first one is on Turkey. Just wanted to get your base case or house view on how do you expect the situation to pan out in Turkey, and what steps are you taking to deal with the uncertainty. In particular, I'm interested in the access to swap market, access to local currency funding, especially given that you know, the poster change in the central bank governor which has somewhat derailed the orthodox monetary policy that he was following for the last six months or so. So, curious to hear your thoughts on how the changes and the spike in the swap rates, which have somewhat normalized, but how has that impacted your – the performance of

DenizBank. And if you've seen anything so far in April and May which either worries you or gives you comfort post that event. So that will be my first question.

The second question is on costs. And I'm conscious that you've reiterated your guidance of 35% cost to income ratio. However, if I look at the first quarter numbers that you've reported, operating expense number of round 1.9 billion, revenue around 6.2 billion. So if I were to work out a 35% cost to income ratio for the full year, this either means that your cost number for the next three quarters will increase from 1.9 billion to 2.2 billion per quarter, or alternately it means that your revenue per quarter will shrink from 6.2 billion to 5.2 billion per quarter. So just curious to hear your thoughts on why maintain that 35% cost income ratio, which implies either significant downside to the revenue line or big pickup in the cost trends. Thank you.

Patrick Sullivan

Thanks for that. Maybe I'll take that cost question first. And Shayne, do you want to take some of the macro aspects on Turkey? So just on that cost. So, the cost income ratio at 30% is a function significantly of the strong income particularly that we saw in Turkey. To some of the drivers that means that may moderate in the second quarter. You can do the math on our net interest income, just you can deduce our average assets and the margin guidance that we have given and take your choice where in the range of that margin guidance you like. But some of the non-funded income given an element of it was a mark to market may reverse in Q2. We are seeing some of that already in April, but that also a positive then it is a sign of improving stability in Turkey and the volatility in the market there as well.

And then on the cost side, we do have the capacity to continue our investments and in digital and the completion of our transformation programme, and also invest international. So if you had to ask me whether it's the nominator or numerator, it's a bit of both really.

Shayne Nelson

I think on the macro side Turkey for us, it has been a good market so far. How do we, what are we doing to protect us? Obviously, what we've done is ramp up – the same, how much we've ramped up the provisioning levels in Turkey since we acquired it. We've been very aggressive in that provisioning build up and they're getting close to our sort of group levels now. So we've done a good job, I think, of providing quite a bit of performance there.

I think on the corporate again, I'll just reiterate, I think I said the same thing last time, that we're not finding new problems there. What we're finding is probably a bigger deterioration in some of the problems that we already had. That's largely because a lot of it was in the tourism sector, which has been quite severely affected in Turkey and continues to be affected given where they are at the COVID stage. So, we are I think in a good position by – a strong first quarter in Turkey, but there were some one-offs where we were protecting out positions around FX and interest rights. And we need to get some mark of market gains out of those.

Funding access you asked on Turkey. So far, we haven't had any problems getting funding access for them. They've been able to raise money on the markets that we talked about. They did very successful with their initial syndication around the year in the last year. So I think so far we had no problems with liquidity there.

Waleed Mohsin - Goldman Sachs

And, and if I could ask a follow-up, so on the funding side, no issues on the Turkish Lira funding as well? I mean, I appreciate that you have good access to dollar market, but local currency funding, which is a little bit of problem with the swap market having dried up a little bit?

Shayne Nelson

Nothing significant at all, to be honest. There I mean most banks in Turkey obviously have heavier foreign currency than they do local currency, but we haven't had a problem funding itself at all.

Operator

We'll take our next question from Vijay Harpalani from Al Tayer Group. Please go ahead.

Vijay Harpalani - Al Tayer Group

Good afternoon, gentlemen. I've got few questions. First one is related to the staff cost. Staff cost reduction, is it sustainable? I mean, the level that we've done. And given that Deniz volume is increased and – but that it'll grow further, do you see at some point we need to grow capacity as well in terms of staff? That's first.

Second is with regards to about AED 150 million reported from sale of bonds. Is it a major shift asset location when it comes to your investment book, given that bonds evaluations are also at peak; is it a shift in asset allocation between bonds and equity? Is that a reason for sales? Thanks.

Patrick Sullivan

Just on your first question on the staff costs. Yes, you will see that we've made staff costs actually year on year down around 12%. So you we took a specific actions in Q4 2019 and then Q2

2020. so that effect is coming through. But also with the pandemic that has obviously also accelerated digitalisation. So some of the benefits of that come through and would benefit us in the future. There are certain good costs that can come back with volume. So as certain sales growth re-emerges, there can be variable costs, incentives, etc, that may come back through there. But I would consider that good costs that's supporting good revenue growth in the future as well.

Just on your second point on any bond gain in the P&L there. Look, that's more a function of liquidity management. Sometimes if you reposition the portfolio as we have done through the core as we do in other periods as well, then you will have some elements of gains coming through from that as well.

Shayne Nelson

I think on the staff cost, the comment I would make on that is certainly our core costs were as tight as we possibly can. As Patrick pointed out there's good costs if we have selling my products and having to pay commissions on those. That's good. So I have no problem with that cost.

I think the other thing that would – we're going to continue to invest in advanced analytics program. So that will actually add some costs – data scientists unfortunately aren't cheap. And so we'll be actually wrapping up our investment as we come into the second half of 2021 into that space.

Operator

We can now take our next question from Kate Carpenter from Morgan Stanley. Please go ahead.

Kate Carpenter - Morgan Stanley

Hi everyone. Just a few follow-up questions on asset quality. On the stage 2 migrations, could you provide any additional colour around which segments or industries in particular were driving the migration from stage 1 to stage 2? And then on TESS, I mean, the repayment trends are quite encouraging, but I'm wondering if you can give any additional colour around sector exposures and how much of the customers currently benefiting from TESS support measures are directly exposed to say versus those exposed to like real estate and other kind of more domestically focused industries. Thanks.

Patrick Sullivan

Right. Thank you for that. Just on the stage 2 migration, which sectors – look, I think that across the board it wasn't any particular sector I would say. But in that migration, that really is a function of modelled calculations where if there are downgrades and probabilities of default and loss given default when you hit certain triggers, it does step down into stage 2 and then you have to provide the lifetime expected loss on that. But it's probably more across the board on that one.

And the repayment. Look, I think that across quite a number of those that have benefited specifically about corporates. I don't think there's a particular sector that stands out. I know in the year end disclosures we have in our accounts – I think we break down – there's an element of a breakdown by sector. That doesn't come through in the quarterly reporting.

Patrick Clerkin

Yeah, we've a couple of questions just come in on the web. In terms of Forex and derivative income was Q4 an anomaly, how do you see the income stream going forward, and what have been the drivers for the strong increase in CASA over the past couple of quarters?

Patrick Sullivan

Okay. So, so yeah, just on the Forex and derivative income for Q4. You may recall when we had the yearend presentation, we did note that there had been a significant rise in the Turkish interest rates which went up, sort of 9% in one quarter to 17%. And that meant we had a significant increase in our swap funding costs which flows through non-funded income rather than through the interest income line as well. So that's sort of depressed it. Probably had an element of repositioning some of hedging as well, which depressed that income in Q4 last year.

As we then move into Q1 this year, and if just getting it to Turkey and DenizBank, we still have that increased swap funding costs. In fact, probably gone up a little bit more given those another 200 basis points rise. But then that was substantially offset by our ability to hedge some of our Lira deposit funding costs. When there was – that wasn't just a function of the interest rate rises when there was the replacement of the central bank governor, that also added significant volatility in the market, which meant the – sort of the yield curve really rose and that added a marked market element to some of the gains that are in that. And those are the gains that hopefully with more stability will ease in Q2. But overall, you know, DenizBank has really come out well after that period of uncertainty and volatility.

The second part of the question Paddy, the drivers increase in CASA… Okay. So with CASA well, on the corporate side I think I did mention earlier perhaps that with corporate not investing as much as they might at the moment before all the global economy opened up before investment decisions are taken those with surplus cash are able to maintain that in cash. With term deposit rates relatively low, they do typically have been keeping it more in CASA. And on the retail side, that is actually very proactive actions by the team as well with the number of their initiatives and campaign to grow CASA.

Patrick Clerkin

There was one further question on the muted demand for a corporate credit. I'll maybe just answer that. And then if you want to add anything. In terms of the drivers for the 2% decline in gross lending, and that was really a function of three things. One was the depreciation in Turkish Lira. So although DenizBank in local currency terms, the loan book grew by 5% and Dirham terms it was doing 6%. We also had repayment of support funding. And thirdly there was repayments of corporate loans. We maintain or guidance from low to mid-single digit for the full year.

Operator

The next question comes from Hootan Yazhari from Bank of America.

Hootan Yazhari - Bank of America

Hello gentlemen. I have a question with regards to the changing landscape of the digital banking system in the UAE. We've seen the recent launch of banks from some high-profile businessmen in the region. We've got ADQ looking to launching online only digital bank with the license they got from the former FGB. Emirates NBD is obviously the leader with Liv,. At this stage, how much more capital intensive do you think Liv, will have to become in order to remain the leadership? Do you foresee significant investments required in order to maintain that lead or are you comfortable that your first mover advantage means that these guys can't really catch up?

And I really wanted to see what the progress of Liv, has been in the Saudi market, or if you have launched it and you had some time now to observe the results there. So I'd love to get your thoughts.

And my last question is really on the broader strategy around the Saudi business. We've obviously seen a big pickup in the outlook for investments. Seen some announcements coming through, momentum pick up there. What are you doing in order to benefit from those trends? And can you see Saudi growing a bit more aggressively than you thought in your previous plans? Thank you.

Shayne Nelson

On Liv, what I would say is that we over 450,000 customers on Liv at the moment. And it is a success story for us and makes money, which frankly, if you look around the world, how many digital banks actually make money? There's very few right, through a digital banks. One of the advantages that Liv has is it – because it's a brand rather than a separate bank license, so to speak. It feeds off our capital. So we don't need to put separate capital into Liv. It's a brand of the bank. Yes, it's purely digital.

It's, it's got a separate team that runs it, etc, etc, but is purely a brand of the bank, and we leverage all the technology investments that we've done, we're up to 83% cloud native now we leveraged for Liv.

So, I think we do have a strategic advantage. Am I complacent about that? Absolutely not. And I think for us, one of the big things that we need to push hard on is a lot of the digital banks in the world are very good at attracting deposits. They're not very good on the other side of the balance sheet, and not very good at lending. I think one of the things that we need to be a lot more aggressive on Liv is actually growing a lending product, growing loans products and equities products across the lifestyle advantages that it currently gives. On KSA, alluded to in sandbox, it's growing at about 7,000 customers a month. It's over 60,000 customers now, so it's making good progress from nothing.

On Saudi itself, we always said to this audience many times frankly Saudi is a market that we want to grow and we – if there was something that makes sense for us to acquire, we would be interested. It's a core market for us. And certainly with the kingdom's aggressive growth plans we'd want to grow with that. We're a small apply but still, you know, there's substantial big pliers in Saudi already that top competition. But we are making inroads certainly on things like – we are selling the payments rates through ENBD capital in quite a few of the issuances there when it comes to sukuks. So we're making progress there. Do we want to do more? Absolutely. We still are nowhere near as big as our ambition in Saudi, we need to be much, much bigger, much bigger markets than an economy than the UAE. And we know we need to get bigger there – I think I'd say the same about Egypt. Egypt is a market that is it a big population.

Hootan Yazhari - Bank of America

What I was really also trying to understand is how the cost pressures of your digital investments are going to weigh on the outcome for your costs. You mentioned that you are going to incur some increased costs in the second half of this year, but are we now looking at a rebate cost outlook that's going to be increasingly focused on the digital channels and keeping the lead on those and continue to be the best in class…

Shayne Nelson

The answer to that question is absolutely. Are we going to be continually focused on building out the digital capability to the bank? Absolutely. From an investment perspective, it's our number one priority. There's so much more that we need to do. And the first thing we needed to do with the technology transformation – that we nearly completed that now. Has it been slowed a bit by COVID? Yes, it has. We've nearly completed that. As I said we're 83% cloud native now. That gave us the engine. Now that we've got the engine, we can really start to rapidly do a lot of different stuff. That stuff

I mentioned earlier, it's something that we'll be investing heavily in. And we've got a great data warehouse now that we've built, now we need to use it. We've now got a platform where we can build one app and roll across multiple markets.

So what we obviously re-skin it for an Egypt to re-skin it for Saudi, but we've now got the capabilities to really leverage the platform and take it forward. But there's lots more that I think we need to do on digital applications. And I think equities is one we need to build out. Wealth is another we need to build out. And I think a lot more through processing when it comes to lending on digital is where we need to get to.

Operator

Thank you. Last question comes from Shabbir Malik from EFG Hermes.

Shabbir Malik - EFG Hermes

Just a one question maybe from my side. A couple of weeks ago you made an announcement that you're potentially – you're selling the Dubai Bank. I just wanted you to understand if there is going to be any gain or loss recognised on that and when it is going to be recognised and what is the potential impact, if you can give a number that will be useful as well. Thank you.

Patrick Sullivan

Yeah. Hi, Patrick here. Yes, we, we have put out an announcement that with signed a sale and purchase agreement on Dubai Bank. The operations of Dubai Bank had substantially been subsumed into the rest of the bank. So we just wanted to put in that disclosure that sort of size the current balance sheet, just to show that actually it's not significant at all ongoing operations of ENBD as a group. It is still subject to regulatory approval and completion will be later in the year, possibly into the second half. And at that point in time, we'll be able to come back and say what the size of any gain if any there is on that.

Patrick Clerkin

There was a related question on the web about Dubai Bank being consolidated with Emirates Islamic and how is this being structured. Patrick, is it fair to say that Dubai Bank – although the assets from Dubai Bank which consolidated with Emirates Islamic, Dubai bank remains a separate entity from Emirates Islamic?

Patrick Sullivan

Yes, it's still a separate legal entity. Yeah.

Patrick Clerkin

There was two final questions on the web. Exposure to NMC and associates – sorry, coverage only exposure to NMC and any update on negotiations. We previously disclosed our exposures 204 million. And we don't disclose what the provisions against that are. And we're unable to give any further details on any ongoing negotiations with NMC.

And then the final question; could there be more sustainable, quarterly, or annual numbers for DenizBank non-funded income? As you know, we give guidance on various metrics such as net interest income to the group – sorry, net interest margin for the group, loan growth. We don't give specific guidance on non-interest income for Dennis Bank or for the wider group. So I can't give you any more information on that.

Shayne Nelson

Well, there's no further questions. I'd like to thank you all for your participation in today's call. And I'll hand you back to the operator to provide further details for any follow-up questions you may have, and let's conclude the call. Thank you for joining us. Cheers.

Operator

Thank you for, 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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