TRANSCRIPT

EMIRATESNBD.DU - Q4 & Full Year 2011 Emirates NBD Bank PJSC Earnings Presentation

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PRESENTATION

Ben Franz-Marwick *- **Emirates NBD Bank - Head of IR***

Hi, good afternoon. Everybody. and welcome to our full year 2011 results analysts meeting. We've got quite a full house here so thank you all for coming in person and also for those of you joining us via the webcast, thank you for joining us as well.

We're going to be following the similar format as we did for the last few quarters, we'll run through a presentation after which we'll open it up for Q&As from both the floor here and via the webcast. Before we get started I'll just quickly introduce the people up front here. To my immediate left obviously is Rick Pudner, our Chief Executive Officer, on my far left is Surya Subramanian, our CFO, and I'm Ben Franz-Marwick, I head Investor Relations for the group.

So we'll get started now and I'll let Rick kick off.

Rick Pudner *- **Emirates NBD Bank - CEO***

Thank you, Ben. I would also like to extend a warm welcome to all of you who've made time to join us here today and also on the webcast. Before we go through the details of the presentation I would like to highlight the key messages of these results.

Firstly I'm pleased that the bank has delivered a very robust set of financial results in 2011 with net profits for the year up 6% over 2010. The profit growth was achieved despite an extremely challenging and volatile external environment and after adopting a significantly more conservative approach to de-risking the balance sheet.

In terms of our operating performance, the bank has continued to deliver strong levels of operating profitability as we've adjusted rapidly to changing market dynamics through alignment of the various operating levers we have at our disposal. Importantly, this has resulted in the return to top-line revenue growth with margin improvement driving 7% growth in net interest income and core fee income growing 7% as well.

Encouragingly, we're also starting to see loan growth coming through during the second half of the year in both our corporate and retail businesses, with annualized organic growth of 4% during that period.

In relation to our more conservative approach to balance sheet de-risking, which I mentioned earlier, this has materialized -- this has manifested itself in three main areas during the year. First, during the year to date we significantly boosted our general provisions adding another AED1.6b in total and taking the stock of general provisions to AED3.8b or 2.54% of credit risk-weighted assets.

Second, and importantly, we have taken a much more conservative stance on credit provisioning led by our desire to target a higher overall impaired loan coverage ratio. We talked about this in some detail during the Q3 results but you can see from the Q4 numbers that the message remains the same.

Lastly, we have assessed the book value of our investment in Union Properties in both Q1 and Q4 of 2011 and have in total written-down the value of our investment by AED750m.

Next, it is worth noting that the acquisition of Dubai Bank was successfully closed in the fourth quarter 2011 and their financial results were consolidated as from the October 11, 2011 without any impact to the Group's net profit or non-performing and loans ratio on the date of the takeover.

Finally, we have made significant progress towards our strategic imperatives during the year and there are many exciting initiatives we have worked on in 2011 and are planning to achieve next year as well. I will detail some of these later on in the presentation.

With that I'll hand you over to Surya to go through the details of the financials.

Surya Subramanian - ***Emirates NBD Bank - CFO***

Thank you, Rick. I'll talk us through slide three which is in front of you on the screen, as well as on the monitors for those who are watching through the webcast. It would be fair to say that 2011 has been a year of consolidation for the bank with some directional stakes planted in the ground for key performance metrics going forward.

Our net profit for the quarter at AED152m, though low, is a function of the various de-risking decisions we have taken to date. On a positive note net interest margins and asset growth continue to hold ground and support our conviction that we have a strong franchise that will endure the crisis.

We will talk about individual components of the P&L in subsequent slides but I wish to highlight a few areas. We are pleased with our liquidity management efforts during the year and headline loans-to-deposit ratio has come down in Q4 2011 with a continued rise in retail deposits.

Union Properties now has a carrying value that is consistent with market valuation.

Dubai Bank net operating loss for Q4 2011 of AED35m is in included in our results and we expect this to come down as they now have access to Emirates NBD cost of funds.

Cost/income ratio, while appearing to be high at 41.1% for the quarter, would have been much lower without the impact of Dubai Bank.

In summary, it has been a challenging year but we have dealt with the problems that faced us and we are going into 2012 with a strong revenue momentum.

I'll move on now to slide four on net interest income. This slide reflects the trends and drivers for net interest income for the bank. We continue to enjoy good spreads as a result of a better and more stable funding pool. Challenges of spread compression on the loan book remain and we expect full year 2012 margins to trend back to the 250 basis points range.

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

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Thank you, Surya. Looking at non-interest income on slide five, you can see that on a headline basis non-interest income declined 13% year on year and 14% quarter on quarter. As always, and this is similar to what we did in the previous quarters, there are a number of, what I call, non-recurring or non-core fee lines which have results in that decline in headline non-interest income. I'll talk a little bit about those next.

First of all, looking at the investment securities income that came in at a relatively low number, a low positive number of AED38m for the fourth quarter of 2011 versus AED110m in the fourth quarter of 2010 and AED54m the previous quarter, and this was clearly as a result of continued volatility as well are relatively weak financial markets regionally and locally and therefore had slightly lower positive income on that.

The second factor I want to point out is the property loss that we reported in the fourth quarter of 2011, this was mainly driven by the fact that we perform an annual valuation of our investment properties and in the fourth quarter we wrote-down our investment properties by about AED258m. And this was similar to a AED260m write-down in 2010, except in 2010 it was more weighted towards the first and the second quarters and this year it's weighted more towards the fourth quarter. So similar levels of write-downs in investment properties but the spread quarter-on-quarter is slightly different between the two years.

And then finally, we had a non-recurring gain on a treasury position in the fourth quarter of AED158m and that clearly helped the headline, or helped offset some of the weaknesses of those other two factors.

Stripping all of those factors out and looking purely at the core fee generating capability of the business, you can actually see that it's increased quite substantially, in fact, year-on-year basis it was up 26%, on a quarter-on-quarter basis more moderately up at 2%.

On the bottom right-hand side of this graph you can see the components that are driving that growth in core fee income. Clearly the most important one there, or the one that's contributing most to the growth, is the increase in trade finance income and that's really in line with the increased trade flows that we're seeing coming in and out of Dubai.

Secondly, core banking fee income also grew 5% year on year so we're continuing to see growth in core banking fee income very much in line with a pickup in general underwriting that we've been seeing during 2011, particularly in the second half.

Moving on to operating costs on slide six. For those of you who follow us on a quarterly basis you will recall that we've been trying to manage our cost base towards a target range of 32%, 33% and have been pretty successful at doing that in both Q2 and Q3. However in Q4 we have seen a tick up in costs and that's taken our year-to-date cost/income ratio to above 35% again, but there's a number of specific factors that have led to that increase in costs and I'd like to highlight those to you.

First of all, we consolidated Dubai Bank from October 11, 2011 and therefore we added their cost base into our cost base and that added AED93m to our costs in Q4.

Secondly, there were also three properties that we commissioned during the year and the additional depreciation on that was charged in the fourth quarter adding AED29m to our cost base.

And finally, we also incurred additional staff costs of about AED50m in the fourth quarter. Again this is us investing in our distribution, in our sales, particularly in our private bank, in our SME operations, in our expansion in Abu Dhabi as well as in the Kingdom of Saudi Arabia.

So looking forward to 2012 some of these factors I've mentioned clearly result in a higher cost base going into 2012 but we will still be managing a reasonably efficient cost base towards a 33%, 34% range going into 2012.

Moving on to credit quality on slide seven. This is usually a slide I spend at least 10 minutes on; this time around it's going to be a lot quicker. You'll recall last quarter we gave quite a lot of detailed guidance around provisioning outlook, around the outlook for NPLS, for target coverage ratios and the like and essentially Q4 numbers have really just seen us deliver by and large against those expectations, so there shouldn't be any major surprises in this.

In terms of the NPL ratio it's increased from 12.9% in Q3 to 13.8% in Q4, very much in line with the guidance and the target that we've outlined we were, as we said in Q3 we were expecting it to go to 13% -- 14% and that's exactly where it ended up. In terms of absolute numbers that increase in the NPL ratio resulted in a AED2.8b increase in NPLs during the fourth quarter. The vast majority of that did come from our wholesale corporate bank, almost AED2.7b of that, again this was flagged in advance in Q3, about AED100m coming from our Emirates Islamic Bank franchise. Clearly Dubai Bank didn't add any NPLs as we've already discussed and explained and the Retail NPL formation was negligible during the quarter. So it's really just the corporate NPLs that are driving that.

In terms of coverage you see a slight drop, underlying covering from 80% to 72%, overall coverage from 45% to 43%, and this really is a function of that fact that the provisions we made in Q4 only covered new NPL formation in that quarter by about 40%. And this is mainly due to the strong security position we have on these accounts and the fact that some of these accounts have only recently been downgraded and therefore resulting in relatively low provision charges in accordance with the Central Bank requirement. Including the value of collaterals that we hold against NPLs the underlying coverage remains comfortably above 100%.

Moving on to slide eight and talking about our capital adequacy, you can see a 60 basis points decline quarter on quarter in our total capital ratio, a 40 basis points quarter-on-quarter decline in our Tier 1 capital ratio, but remaining as still very, very comfortable levels at 20.5% and 13% respectively.

The main impact -- or the main factor that resulted in that small decline quarter on quarter has really been the consolidation of the good book RWAs or risk-weighted assets from Dubai Bank, which impacted it by 99 basis points and 62 basis points respectively. This is, again, very much in line with the guidance we provided at the time of the Dubai Bank, when we announced the Dubai Bank takeover.

And with that I'll hand it back to Surya to discuss funding and liquidity on the next slide.

Surya Subramanian - ***Emirates NBD Bank - CFO***

Thank you, Ben. You will recall in Q3 we spoke about letting go of high-cost, price-sensitive wholesale deposits. This trend continued in Q4 as you will see from the segmental liability charts that are on slide 13 of the presentation in your handouts.

The good news is that our retail liability raising efforts has been a positive story supported by continued investment in the sales and distribution network. Some of that, as you have seen, translated into the higher costs that Ben talked about. As a result headline loans-to-deposit ratio has come down to 105% from 107% a quarter earlier as at the end of December 2011 compared to September 2011.

In terms of debt maturities that are at the bottom right-hand side of the chart we are comfortable that these are within our capacity to repay or roll over. You would already be aware of the Emirates Islamic Bank's sukuk that was launched earlier this year for $500m. That more than takes care and offsets the maturities that are due in Q1 of this year. The bulk of the maturities that you see in the chart in Q4 of 2012 are bilateral funding arrangements with core relationship banks with whom we have longstanding relationships.

Moving on to slide 10, this is a new chart that we share on loan and deposit trends and we are particularly pleased with the efforts of our consumer and wealth management colleagues, some of whom are in this room with us today, for ensuring a robust growth and the stable current and saving account balances.

I will flip now to slide 11 which is on associates and joint ventures. Three comments on this slide. Union Properties first. With the latest markdown of the value of our investment in Union Properties we do not expect any further adverse impact to the financial results in future years. Indeed, as at today the market valuation of Union Properties is higher than the carrying value that we have as at December 31, 2011.

The Network International position remains unchanged from earlier quarters and we continue to work with Abraaj Capital to drive value from this strategic partnership.

Lastly, a new addition to the list is a minor stake in BankIslami Pakistan that we acquired as part of the Dubai Bank transaction, which takes us on to the next page where we share with you details of the Dubai Bank transaction.

When we announced to the market in Q4 that we were taking over Dubai Bank pursuant to the order of His Highness Ruler of Dubai, both Rick and I made a statement that this transaction would have no impact to the P&L or the non-performing loan ratio of the bank as on the date of takeover and that we would provide support to the residual good book in terms of capital allocation for that portion of the good book in Dubai Bank, and at that time our estimate was 101 basis points capital support. I'm now pleased to inform you that the extent of capital support has affected us 98 basis points, which is quite close, and the details are there in one of the earlier charts on capital adequacy that Ben shared with you.

We have completed the acquisition in Q4 and the results that you see in front of you show a consolidated view for the Group including the operating results of Dubai Bank post October 11, which was the date of the order. The transaction, I will reiterate, was conducted at arm's length and has come onto our books at fair value on the date of acquisition, post a detailed financial and legal due diligence conducted by leading industry experts.

The chart that you see on the screen in front of you on the right hand side shows the breakdown of the loss-absorption mechanics of the deal and we are pleased to state that it has the support of both the Dubai and the UAE federal governments in achieving this outcome.

If you look at the two bars that show the credit losses in to the bank up to September, which is AED2.698b, and the other orange bar which shows the fair value adjustments of AED1.201b, that is the cumulative total of fair value adjustments that have been made to the net asset position of the bank, with the original shareholders taking the first loss against that and the balance being made up with the fair value gain on a liquidity injection of AED2.8b that we received from the UAE Federal Government Ministry of Finance, and the residual being covered by a guarantee from the Government of Dubai.

With that I'll hand you over to our CEO Rick Pudner to take you through the rest of the presentation.

Rick Pudner *- Emirates NBD Bank - CEO*

Thank you, Surya. Pages 13 and 14 I'm not going to spend a lot of time on, these give a breakdown of our segmental results per business line. Just one or two key comments in terms revenue trends are robust and also, as Surya mentioned, certainly the liability garnering capabilities of our Consumer and Wealth Management teams have been very positive over the last year.

If we move on to slide 15. We've shown this slide on a number of occasions at past presentations and I think it gives a very good storyline as to the journey that the bank has taken over the last three or four years. And we've said over the last year that we've moved from strengthening the bank where we were looking at balance sheet, capital liquidity ratios much more into growth acceleration as we move through the second half of 2011.

The key imperatives that we've been following on the right-hand side now, we've moved from the crisis management and the strengthening into the growth, so we're looking at continuing the optimization of our balance sheet and capital allocations, driving profitability through now through a number of initiatives, enhancing the support functions and strengthening our platforms, and measured investment in growth areas.

I won't go through all the items on slide 16 but I'm going to focus on the 2012 objectives and looking at the balance sheet and capital allocation. We've mentioned in our presentation keeping a headline loan-to-deposit ratio between 95% and 100%, that's the plan for 2012. Continue to focus on the liability gathering, certainly CASA the efficient cost deposits. Targeting raising more medium- and long-term financing at acceptable pricing. Increasing our lending activity, we've seen a growth in the lending activity over the last two quarters focusing on consumer finance, mid-corporate and SME, and selective large sector corporates in Dubai and Abu Dhabi. And continuing to streamline and consolidate subsidiaries and looking at possible further divestment opportunities as we did in terms of part sale of Network International beginning of last year.

In terms of driving profitability, the key focus for every bank in the world I think at the moment is on revenue growth and we've got the benefit of a fantastic customer franchise in the UAE, probably the best corporate franchise of any bank. So we're looking at focusing on our cross-selling, increasing our fee-based businesses, both in the Consumer and Wealth Management segments, but also through key account planning, driving Treasury sales, Investment Banking services through our corporate clients as well.

We're looking to roll out a sales effect in this program across the branches in our direct sales force and, at the same time obviously, looking at, a key focus is in cost management. We've mentioned that our target cost/income ratio is in the range of 33% to 34% as we go through 2012, and I'll talk a bit more about efficiency gains in terms of our subsidiary, new subsidiary Tanfeeth in terms of Outsourcing.

Enhancing the support functions and strengthening platforms, a number of objectives. We've been very active in 2011, we will continue to upgrade and enhance our IT platforms. We're conducting a lean transformation program at the moment with IT which is very exciting which will certainly show some very positive benefits as we go through this year.

To further enhance the scope of Tanfeeth, I'll talk a little bit more about that in a couple of slides. Further enhancing our customer service proposition, this is very key for the Group, focusing on customer service. And implementing our core banking system in Saudi Arabia and Private banking platforms in Singapore and also Saudi.

Looking at the fourth imperative, undertaking measured investment in growth areas, we will continue to exploit domestic opportunities through enhanced domestic distribution network. We have invested in further network distribution capabilities during the last year. We are continuing to push for regional leadership in Private banking, this is a key initiative we've been building up our Private bank over the last couple of years, we have a great team in place and good prospects for the future. We're going to focus on building our SME asset book which is under-leveraged at the moment so that's a key focus point for us, and to continue to grow our market share in Abu Dhabi where historically we have not had representation that our market share for the UAE should reflect.

We're going to continue to exploit our international opportunities as well, looking at organic expansion continuing in Saudi Arabia where we're looking to enhance our SME proposition, further our corporate lending programs and also retail banking. And continue our small-scale international expansion in selected markets looking at representative offices, particularly in Asia as opportunities going forward. And, as we've said in a number of presentations, continuing to identify potential international acquisitions in key areas like Saudi Arabia, Turkey and the GCC as a whole.

As a said, I'll give a few comments on Tanfeeth. Tanfeeth was established as the GCC's first shared services company to deliver the most cost effective efficient operations at significantly improved service levels. That was the objective, that has been done.

It was established as a 100%-owned subsidiary of Emirates NBD during the year. The head count as at the end of December currently stands at 731 staff. Currently the scope includes the Retail Credit Center and the Call Center processes for Emirates NBD which have been on-boarded.

Going forward, and that is a very positive seven-year strategic partnership with IBM giving us a whole host of value-added services in there. I won't go through those in detail but I'd like to just focus on what we continue to plan for 2012 with Tanfeeth.

Basically it's to further improve the efficiency and customer satisfaction for Emirates NBD. We're going to continue to migrate operations into Tanfeeth's Operations Processing Center, the OPC, which is going in HR services, Finance and accounting services, Emirates Islamic Bank services, Network International Card Processing and Collections. So there's a lot to do but this is a key program, as I said, to enhance the further efficiency of the overall Group operations.

On slide 22 we just want to give our outlook for the UAE for 2012. The UAE economy has proved relatively resilient to global and regional developments in 2011, and there have been certainly a whole host of those. Estimated GDP growth for 2011 for the UAE is around about 4.6% on the back of higher oil production and improving trends in non-oil trade and tourism.

2012, as we all know, the external environment remains challenging in the context of weaker expected global growth, Eurozone, possible downgrades to US growth estimates, and expected slowdown in Asia. So there are certainly challenges continuing.

But we feel the UAE remains well-positioned to enjoy modest GDP growth of 2.5% in 2012 underpinned by supportive fiscal policy.

Despite a more cautious and uncertain outlook, Emirates NBD is resilient and well placed to take advantage of growth opportunities in the selected areas. Capitalization and liquidity, as we've heard, continues to be extremely strong, offering us the flexibility for the future. We have significantly de-risked and strengthened the balance sheet and this offers a strong platform for capturing future growth opportunities. We have a clear strategy in place and we are focused on relentless execution of this strategy.

So, in summary, we feel we've delivered a robust operating performance with stable year-on-year trend in pre-impairment operating profit at AED1.5b.

Top-line trends for the fourth quarter are encouraging with 19% year-on-year growth in net interest income and growth in core fee income of 22% year on year and 2% quarter on quarter, so this is very positive news for going forward.

We have continued the balance sheet de-risking and conservative on provisioning resulted in impairment allowances of AED1.1b for the fourth quarter 2011 and an additional AED250m write-down of our UP investment.

The Dubai Bank acquisition has been completed successfully without any impact on NPLs or the P&L on the date of acquisition.

As I've said and as Surya has said, capitalization and liquidity continues to be extremely strong, we are resilient and we have the flexibility for the future growth opportunities.

It's a challenging outlook for 2012 but we feel Emirates NBD has a clear strategy in place to take advantage of the growth opportunities, which will definitely come along.

So with that I would like to open the session to any questions from the floor or from our friends on the webcast. Thank you.

QUESTION AND ANSWER

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Before we start, if I may, if you do have a question if you wouldn't mind standing up and just introducing yourself and the company you represent. Thank you very much.

Jaap Meijer - ***Al Futtaim HC Securities - Analyst***

Jaap Meijer, (inaudible). A couple of questions on, you stick to the NPL guidance and the coverage range 55% to 60% for the next two years. You can work out the loan loss provisioning needs for the next two year, but actually this highly depends on the growth that you anticipate in terms of loan growth. And you elaborated on growth acceleration particularly in particular areas of lending so perhaps you could give us some guidance on the loan growth that is actually underpinning these forecasts.

Secondly, the investment properties, are they now close to market value, or your perceived market value? And does this comprise any land banks that have not been fully impaired?

Thirdly, on liquidity, net interest margin continues to be very high, in fact, deposit remuneration has come down again which is, of course, very good, but the net interest margin is seen going down to 2.5% from 2.86% in the final quarter, and my guess is this is because of deposit remuneration having to go up. I think you have -- you are a bit too low on the deposit remuneration, but tell me if I'm wrong there.

And then on -- finally on capital, I see a Tier 1 of 13.0% and we know that 2.1% is from Tier 1 bonus, and also we know that 0.6% is actually not subtracted for the cash dividend, so actually underlying is 10.3%. Are you comfortable with that, or you prefer to, let's say, bolster this going forward? Thanks.

Rick Pudner - ***Emirates NBD Bank - CEO***

Okay, if I take the first one on loan growth, we've seen loan growth in the last two quarters of about 4%. We are expecting that degree of loan growth, for 2012, in the region of 3%, 4%, 5% to continue. The pipeline is a positive one and we think that is achievable.

On the investment properties, Surya, do you want to take that?

Surya Subramanian - ***Emirates NBD Bank - CFO***

I'll take that over. The bulk of what you see as investment properties in our subsidiary the Emirates Islamic Bank, and they have a model where most of these properties are let out and are income generating.

What you see in the financial statements is clearly the result of valuation. Nonetheless, these are income generating and we are quite comfortable that as and when the market [relates] itself, these properties should come back over time but, in the meantime, they are not a drag in terms of a cost of carry, because these are assets that are performing.

On liquidity, to some extent it's something we do on a day-to-day basis in our treasury, and something we do on a longer-term basis in our Asset Liability Committee. At quarter three we saw the spike in the margins and that was more because IBOR fell and the loan rates hadn't re-set themselves just as fast.

You have seen some of that loan re-setting happening in quarter four. That will continue into Q1 of this year, so the so-called super profit, if you want to call it, will disappear over the few quarters. But we have been good at managing the liabilities side of the equation and if you look, year over year the overall balance sheet for loans and deposits came down 2011 over 2010.

Nonetheless, net interest income has gone significantly higher than 2010, and that's really bringing down the price of deposits. There are two components to this. We do not wish to be bidding for deposits in the wholesale market, because that's self-defeating across the banking sector. And if somebody else, if any of our competitors want to pay more for it, I'd say good luck to them.

And we have shied away from these deposits, specifically in Q3 and Q4 of this year. That's been more than made up with the growth in Retail deposits and year over year we have grown stable deposits by over AED10b, and that's a strategy that will continue into 2012.

Having said that, we haven't stopped just with Retail deposits; we did renew the Sukuk. Let's also not forget that the AED2.8b funds we got from the UAE Ministry of Finance, as part of the Dubai Bank acquisition, sits on our balance sheet at relatively cheap rates.

So you will see some movement, but we do expect to see that high number contracting to a more sustainable level, and we think 250 bps is sustainable in this market. Whether we get to it in one quarter or four quarters is something that the market will determine, and we will have to manage through our daily and periodic processes.

On capital I'll just make one comment before I hand over to Ben for a more detailed explanation. We do pay dividends every year, and that hasn't stopped our capital from growing or remaining at this level. So the fact that we have to pay dividends after the AGM this year will get more than offset by any profits we make during the course of the year.

And that's a cycle that plays itself out every year.

On the other part, Ben, you can pick it up?

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Not too much to add to that, to be honest. Yes, we have some Tier 1 perpetual notes from ICD that do take about a percent off that. If you were to exclude that from Tier 1, clearly it is eligible for Tier 1, so we include it. But, as Surya was saying, the dividend will be replenished through retained earnings generation, so we are pretty comfortable with these levels of capitalization.

Before we go to the next question on the floor I have two questions from the webcast as well. I'll read those out. The first one is from Naresh Bilandani from JPMorgan, and the question is given that you mentioned you are targeting acquisitions in Turkey and KSA, and given that DenizBank in Turkey is already in the news for sale by Dexia, are you potential bidders for this asset, by any chance?

And the second part is can you guide if Egypt would be of acquisition interest for you as well?

Rick Pudner - ***Emirates NBD Bank - CEO***

Yes, I think, Naresh, just to answer that, we are not -- there is nothing specific on our horizons at the moment (technical difficulty) and the bits in between. And that's always been the focus in terms of inorganic opportunities. We understand, obviously, the European banks and a lot of others are selling assets and opportunities will arise. There's nothing specific on the horizon at the moment. That -- and includes, sorry, the Egypt?

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Any acquisitions in the (multiple speakers).

Rick Pudner - ***Emirates NBD Bank - CEO***

And that includes -- Egypt's obviously within the geography that we are looking at, of interest. This is our area of expertise, GCC, Middle East, but no specific items are on our desk, but we continue to see if there is anything that is out there and continues to -- opportunities will continue to be out there over the next few months, we are sure, that would fit in our business model. But there's nothing at the moment.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

The second question from the webcast, from [Emi al Riahobia], Sorry Emi if I've pronounced that wrong, from UBS. Do you expect to issue any Eurobonds in the next 12 months?

Rick Pudner - ***Emirates NBD Bank - CEO***

I think, yes, the answer to that is yes. Obviously Surya has already outlined in terms of our appetite for more medium-term debt, so that will be a focus. We've done a successful sukuk issue already. That will be a continuing program, both using our EMTN program in other areas to raise medium-term debt at effective, efficient pricing that we consider to be efficient.

We are looking at a target of about $2.5b, or so, this year. So -- but again, looking at the cash flows that we've got, as Surya said, those cash flows in terms of repayments are manageable, but we are looking at the medium-term part of our balance sheet where we need to grow our term funding.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Any more questions from the floor?

Unidentified Company Representative

Sorry.

Waleed Mohsin - ***Goldman Sachs - Analyst***

Waleed Mohsin from Goldman Sachs. I have three questions from my side (inaudible - microphone inaccessible). Firstly, in terms of asset quality, you've kept the guidance pretty much the same [as the] third-quarter targets. How comfortable are you terms of visibility, overall, in terms of asset quality, given that we've seen (inaudible) government-related entities, as well as whether it's Dubai or Abu Dhabi real estate entities in terms of restructuring.

So I was wondering how much visibility do you have to be comfortable with the targets you provided at third quarter, which you've maintained in fourth quarter?

And the second, sorry, so second part of that question would be that we saw a slight decline in provisioning, also nothing major, but if you look at the underlying coverage, as well as the overall coverage on impaired loans, that has gone down to a certain extent. Any particular reasons, given that ultimately you're targeting to increase the coverage ratio to 80% on the underlying? That's number one.

Second, in terms of funding, you have talked about your medium-term target of 3% to 5% loan growth. So how much of this is dependent on the fact that you have maturities coming through in 2012? And secondly, you've guided for 2.5% NIM. Is that more a function of seeing deposit cost raise or is it dependent on the fact that you get funding at relatively acceptable cost? And if funding in the wholesale market is difficult, what is the alternate to that?

That's the second, and last question from my end would be on non-interest income. So we've seen a regulatory impact, especially on the Retail side, during 2011. I was wondering if fourth quarter is a more normalized level that we should take for future guidance?

And secondly, any initiatives that would actually mitigate some of the impact that we've seen during the fourth quarter? Thank you.

Rick Pudner *- Emirates NBD Bank - CEO*

Do you want to take the first two?

Surya Subramanian *- Emirates NBD Bank - CFO*

Yes, I'll take the question on funding first. We have a whole range of liabilities that we have on our books. We have the retail deposits, we have the corporate deposits and we have access to medium-term funds from the wholesale markets. Plus, as I said, now we also have access to AED2.8b from the UAE Ministry of Finance.

We factor all that into account when we give you the NIMs guidance. Clearly I think the whole market knows that the medium-term funding that we had on our books five years back was quite cheap at 20, 25 basis points over. And the whole market knows that the EIB sukuk was done at 350 basis points over mid swaps. So that will have an impact, obviously, in terms of the margin and we factored that into account in our guidance as well.

We do have opportunity on a day-to-day basis to change this mix. We can always run a retail campaign to get some more and effectively the 10 billion of current and savings accounts that drew the interest cost on that is zero, but you do have a servicing cost and you have a sales cost and distribution cost associated with it that shows up more on the cost line, rather in the NIM line.

But overall that's cheaper and more stable than trying to get money at mid-swaps over 350 basis points. So we have a choice through our ALCO strategic, ALCO process, to shift that in the direction we want. I think in summary it is fair to say that the funding mix of the Bank has grown stronger over the last two years, despite the fact that there were maturing medium-term deposits.

As Rick mentioned, strategically we would always want a proportion of our book to be in those medium-term deposits, and we are getting into the market now to address that situation, over time, in chunks and benchmark sizes that makes sense to us at the prices that make sense to us at that point in time.

I think none of us are living in a fool's world where we imagine we will get money back at 20, 25 basis points spread. The new norm is over that and we'll adjust to that new norm as we give you the guidance.

In terms of the regulatory impact on the non-interest income, we did say last year this hasn't had any material impact on our results and, in fact, as we compare with the banking industry, there is not much of an impact on the fee cap itself.

There are other structural impacts that would follow more because of the capping of the loans, but that's something that will play itself out in future years as the top-ups come due and the renewals come due. But it's not a 2011 big impact, we haven't seen it in our results, we haven't seen it in the others.

On credit we are no crystal ball gazers, so we can't say what's happening in the outside world. We all have a view; the house economist has a view. We obviously know what's on our book, what we have in terms of documentation collateral, so we do give you a view.

At this moment we stick to the guidance we gave in Q3. Clearly, as the year goes by, we will reassess that, both in terms of what we learn about our Corporate book and, indeed, the continuing effect of the European crisis in terms of the effect it has on the general business sentiment, UAE growth oil prices, all of which factor into that.

So it's a bit early to say whether the number is going to be any better or any worse at this moment. We did deliver on the guidance for quarter four. Give us the chance to continue to deliver on the guidance as the year goes by.

Ben, do you want to add onto that?

Ben Franz-Marwick *- Emirates NBD Bank - Head of IR*

In terms of the -- I think there were many questions on the coverage. Yes, it has gone down a little bit, from 80% to 72%. I think that's really -- in a way it's a function of the type of loans that are coming into the new NPL formation. So as we treat something as impaired, or non-performing, we make an assessment of what the incurred losses on that particular account.

And in some cases you will have strong security, or other good reasons why we take a lower provision than the 80% target. And that's some of the factors that have happened in Q4, so effectively we will provide almost 40% of our new NPL formation, which is clearly below our 80% target.

And that's really what's brought that down. As I said earlier though, if you take collaterals into account, it's comfortably above 100%. So, as with all targets, these are medium-term targets. Sometimes you'll overshoot on the one end, sometimes slightly on the other end. And these are meant more as general guidance, as we move into 2012 and 2013, rather than any particular quarter that has to be at that particular level, if that makes sense.

Shabbir Malik *- EFG Hermes - Analyst*

Shabbir Malik from EFG Hermes. I have a couple of questions. I think you mentioned in the presentation that the share value of the assets of Dubai Bank is about AED10. I was wondering what's the book value of Dubai Bank?

And I am also interested in knowing more about the loan book. What's the size of Dubai Bank's loan book that was consolidated into the statements in the fourth quarter?

Also if you can give me some information on your cards portfolio; what's the size of your credit card financing in the part of your total loan book?

And one more question about the recent -- there was reports in the media that a few key personnel from ENBD's top management departed from the Company. I was wondering if you can shed some light on that and tell us if that is going to affect your strategy going forward, or is that going to affect your business in any way?

Surya Subramanian *- Emirates NBD Bank - CFO*

I think we will answer it in the order you have asked. I'll take the question on Dubai Bank, pass on to Ben for the Credit Cards and then finally Rick will comment on the management personnel.

Can we have the Dubai Bank slide back on the screen, please? That's slide 12.

The consideration that we have paid, as you rightly pointed out, was AED10, which is more of a nominal value. In effect we have taken over the entity at zero net book value on that date. But if you look at the chart, what you see as AED2.698b, which is the credit and loss result that Dubai Bank had as on the date prior to the takeover, and the AED1.201b fair value adjustments, the cumulative impact of that, which is AED3.9b, or close to AED4b, if you want to round it off, is really the shortfall that they had in their books.

That was made up, obviously, by the original shareholders, both Tier 1 and Tier 2, and the existing reserves on the book, taking the first loss. And the balance was made up in the structure by the guarantee and the deposit at less than commercial terms that we got from the UAE Central Ministry of Finance.

In terms of the residual good book that we took over, it is approximately AED10b. That has impacted our capital ratio by 98 basis points because we are providing capital support to that book. But it is immediately profit accretive, because this is a good book, continues to generate revenues.

So that's the analysis on Dubai Bank, to answer your question. I'll hand over to Ben for the Credit Card details.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Well, in terms of the credit card portfolio in our Retail Bank, it's about AED2.9b. Now, I assume you are asking this in the context of some of the reports that have come out around the UAE Central Bank, potentially capping some of the interest rates on that.

As far as I am aware, there has been no formal circulars on that, so I guess it's too early for us to comment on that. I think once we see a circular, once we see what it actually means and says, then I guess we can comment at that stage.

Rick Pudner - ***Emirates NBD Bank - CEO***

Yes, that's still very much under debate, I think, with the Central Bank. On the third one, I think from the management changes, this is a dynamic organization. It goes through changes from time to time and that's like any other organization. There have been a number of retirements in certain key areas; there have been a number of repositionings for -- to take advantage of the opportunities.

For example, Jamal Bin Ghalaita being appointed as CEO of the Islamic Bank, that's a key position. Suhail Bin Tarraf going in to run our Tanfeeth operations, another key position. So this is very much seen in the normal dynamics of an organization such as ourselves, and there have been, as I said, one or two retirements that have coincided with quite a bit of change.

Rahul Shah - ***Deutsche Bank - Analyst***

Yes, it's Rahul Shah from Deutsche Bank. A few more questions on Dubai Bank, if I may? It looks as if you've perhaps taken a 30% write-off of Dubai Bank's assets, roughly. I was wondering if you could give a bit more detail on exactly what types of assets have been written down, just to give us a bit more clarity there?

You helpfully gave us the cost base of Dubai Bank in Q4. I was wondering if you could do the same regarding revenues.

And, given the transaction structure, which you appear to be quite favorably disposed towards, I was wondering if you would be willing to, or consider other acquisitions within the Dubai Financial Services' space.

On related parties, it looks as if loans to related parties are on an upward trend and deposits from related parties are on a downward trend. Is that sequence likely to continue going forward, and is that baked into your growth projections?

And then finally, when I look at the goodwill disclosure, it looks as if the discount rate there has been increased versus last year, I think from 13.4% to 16.9%. I'd be interested in your thoughts on that change, thank you.

Surya Subramanian - ***Emirates NBD Bank - CFO***

Okay, I'll take those in the order you've asked them. In terms of what type of assets it would be fair to say that the broad majority of assets in Dubai Bank were what we would call Corporate assets. They do have a Retail loan portfolio, but the bulk of the fair value adjustments came from the Corporate portfolio.

As far as their cost and revenue base is concerned, it is disclosed in our detailed financials under the operating segment pages, and I don't have it in front of me, but offhand, from memory, I would quote you are looking roughly at I would say AED300m of revenue and AED300m of costs currently is more or less balance there.

To your question on whether we would acquire other institutions in the same structure, it would depend on the institution. This structure worked for Dubai Bank; we took it on this basis. Another organization, it's too difficult to say what structure we would apply, unless we know what the organization is. But, as Rick said, we are always on the lookout; we've been saying that for the last couple of years, but we haven't really done anything so far.

Related party transactions, there are two parts to it. You are probably focusing on the loans to the ultimate parent, but if you look overall, loans to government-related entities did come down quarter on quarter.

And on the goodwill disclosure, that's just what the accounting standards require in terms of using benchmark rates, and benchmark rates do vary from time to time and in terms of how you look at this in terms of market discount rates.

Ben, you want to comment on the related party transactions; you have the details there I see?

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

No, I'm really going to talk about the Dubai Bank piece. I think the exact numbers are NII of AED17m, non-funded income of AED14m gives total income of AED31m, and then the costs coming off AED94m. There were some positive provisions, i.e. recoveries. The net loss during the period was AED35m.

Surya Subramanian - ***Emirates NBD Bank - CFO***

Sorry, Ben, that's what we booked for the year. Sorry, I was quoting the annualized numbers, as it were. I wasn't quite sure which one you were asking for.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

So that's what we've got in our P&L, essentially.

In terms of the discount rate, again, it's a factor. It's basically the cost of equity calculation, in a sense, so it depends on assumptions around betas, volatility and things like that, and those will change from one year to another.

Rahul Shah - ***Deutsche Bank - Analyst***

Thank you, and just regarding the write-offs, would you concur that it is around one third, that you've done, of the asset rates?

Surya Subramanian - ***Emirates NBD Bank - CFO***

Sorry?

Rahul Shah - ***Deutsche Bank - Analyst***

The size of the write-offs. You mentioned that it's based on the Corporate book but, in overall terms, if you could give some guidance on what level of haircuts you have taken?

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

A third sounds about right. I think the assets we took on, pre-fair-value adjustments were about AED13b, AED14b, and there were AED10b post-fair-value adjustments, of which AED8b is the loan book.

Rahul Shah - ***Deutsche Bank - Analyst***

Thank you.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

I have some more questions from the webcast, again Emi from UBS. Do you expect the $2.5b Eurobonds to be solely sukuk bonds?

Rick Pudner - ***Emirates NBD Bank - CEO***

I think that would be a combination, depending on where we obtain the most favorable pricing. I think sukuks obviously are very popular at the moment. That's why we went for a sukuk issue, at the pricing that was -- what we thought was a favorable -- efficient for us. So it will be a combination. We'll see as the market develops during the year as to where the best pockets of funding opportunities lie.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Another question from the webcast, Zafar Nazim from JPMorgan. How much of the 3% to 5% loan growth this year is expected to be in your sovereign loan book?

Rick Pudner - ***Emirates NBD Bank - CEO***

It's obviously difficult to be specific. We've got targets of loan growth in a wide range of sectors, including the Retail Consumer Finance I talked about. SME, middle market, non-sovereign, so it's going to be across the board, and that's the combined growth that we expect for 2012, 4% on the portfolio.

So it's very difficult to say what part of that will be the sovereign.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Another question from Antoine Yacoub, again related to the sovereign exposure, from -- he's from Barclays. He's asking whether in our calculation of capital ratios the AED55b exposure to the Dubai government are zero risk-weighted.

And the answer to that is yes, that's per Central Bank guidelines. This is pure sovereign exposure. Dubai Government Ministries and departments, and as such at zero percent risk weighted.

Here's another question from Aybek Islamov from HSBC. What are your expectations on deposit growth and funding costs in 2012, given large refinancing requirements amongst UAE corporates?

Surya Subramanian - ***Emirates NBD Bank - CFO***

Yes. I think it would be fair to say that this has to be read together with our guidance on loans-to-deposits ratios. So we do want to guide our book to a 95% to 100% loan-to-deposit ratio. Currently we are at 105%. If the loan book were to grow in the region of 4% to 5% we need to grow our deposit book by about 10% to get within that guidance. So that would be what we would be targeting during the course of the year.

Ben Franz-Marwick - ***Emirates NBD Bank - Head of IR***

Another question from Zafar at JPMorgan. Why are Islamic customer deposits fluctuating so much, being AED31b in second quarter, AED23.5b in third quarter and AED39.3b in the fourth quarter?

I guess I can answer that one. In the second quarter -- sorry, in the third quarter particularly, we were quite happy to let expense of Wholesale deposits go. I think that was a message that was -- well quite clearly spelled out at the Q3 stage. We weren't willing to pay up for time -- price-sensitive deposits. And that was particularly evident in Islamic deposit book in Emirates Islamic Bank. So that really caused the decline in Q3. In Q4 it increased, but more inorganically through the acquisition of Dubai Bank, which added AED11b of Islamic deposits.

Final question from the webcast, Sandip Bhatt, from DAMAC Investment Company. What are your views on new NPL formation? Where are we in the NPL formation cycle, as a UAE banking sector, in general, and ENBD in particular?

Okay, I guess I'll answer that one. I guess I would take you to the guidance on the slides that we gave at Q3, and now have reiterated at the Q4 stage. I think it seems that there's slightly more visibility now than there was 12 months ago, but the environment is still challenging and the environment is still uncertain.

And I guess we will still have to see how this year pans out, and we'll have to see how the economy develops in the context of global uncertainties during 2012. And we'll continue to monitor the situation in terms of monitor the assumptions underlying, certainly where we see our NPLs going over the course of 2012.

So I guess it seems that the worst is behind us, but we are not through the woods yet, is how I would characterize it.

Any more questions from the floor? Okay, thank you very much for attending, and thank you to all of those joining us on the webcast. We are serving some light refreshments and snacks outside, so we do invite you to join us for those. Thank you very much.

Rick Pudner - ***Emirates NBD Bank - CEO***

Thank you, thanks.

Surya Subramanian - ***Emirates NBD Bank - CFO***

Thank you.