

**EMIRATES NBD Q4 2021 RESULTS ANALYSTS & INVESTOR CONFERENCE  
CALL & WEBCAST  
26 January 2022**

**CORPORATE PARTICIPANTS**

**Shayne Nelson** – Emirates NBD – Group CEO

**Patrick Sullivan** – Emirates NBD – Group CFO

**Patrick Clerkin** – Emirates NBD – Head of Investor Relations

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**Operator**

Ladies and Gentlemen, welcome to the Emirates NBD 2021 Full Year 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.

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**Shayne Nelson**

Welcome to this briefing call for Emirates NBD's results. Joining me, as per usual, are Patrick, our Group CFO, and Paddy, our Head of Investor Relations. I'll run through the main highlights for 2021 and Patrick will discuss the results in detail and talk about the guidance for 2022.

In January, we aligned with the new Monday to Friday workweek, adopted throughout the UAE. I don't think there is any country in the world who could so seamlessly change the workweek with less than four weeks' notice. This is reflecting of the can do attitude of the UAE. We proudly celebrated the UAE's 50th National Day in December, and we look forward to the next 50 years of opportunity with excitement. The Expo is proving a great success, and as the official banking partner, we're using it to showcase our pioneering vision for the future of global banking.

Turning to economic sentiment, the outlook for the economies in which we operate is positive, although the emergence of future COVID variants increases uncertainty in economic activity. The UAE economy enjoyed a strong finish to 2021 with Expo 2020 and increased tourism boosting domestic demand. Key sectors, such as tourism, transport, logistics, manufacturing, and retail are expected to perform well in 2022.

The non-oil economy is predicted to grow by 3.5% in 2021 and faster growth of 4% is forecast for 2022. Increased oil production will push headline GDP growth to 4.6% for 2022. The Kingdom of Saudi Arabia's economy is also expected to grow from increased oil output, with GDP forecast to grow by

5.7% in 2022. High oil revenues will also help the budget move into surplus in 2022 for the first time since 2013. The Egyptian economy is expected to grow 5% this year as tourism recovers and supply chain dislocations improve.

Turkish GDP came back strongly from the pandemic with growth estimated at 9.3% in 2021. GDP is expected to moderate at 3.7% this year. The Turkish lira weakened considerably in 2021. The lira strengthened from mid-December's high on news from the Turkish Central Bank that is wrapping up the cycle of interest rate cuts, as well as the Finance Ministry's introduction of a deposit protection scheme for retail deposits, and just like last week, for corporate deposits. We will surely give you more detail on how the lira's depreciation affects both the bank, as a Group, and DenizBank.

Now turning to the results. Today we have announced a 34% growth in profits to AED 9.3 billion for 2021. These strong results demonstrate the resilience of the Group's diversified business model, and the strong rebound in economic growth in 2021. Despite interest rates remaining at record lows, the underlying business momentum continues to strengthen throughout the year with record demand for retail financing.

The Group's balance sheet strengthened with further improvements in deposit mix, core capital, and liquidity, as credit quality remained stable. We continue to use this strength to final the real economy, support customers, and empower them during last year's economic recovery. Considering the Group's strong performance, the Board of Directors is proposing a 25% increase in the cash dividend to 50 fils per share.

I'll leave it to Patrick to walk you through the main drive lines of the progress we've made on strategic initiatives. During 2021, Moody's, Fitch, and Capital Intelligence all affirmed the Group's credit ratings with a stable outlook, with DenizBank securing an upgrade from Moody's. For IT and advanced analytics, we successfully closed the upgrade and consolidation of our core technology platforms, featuring a modern architecture, which allows greater agility.

We moved to 95% Cloud native infrastructure with the largest private Cloud in the region, and we will soon be 100%. We have a fully operational big data platform, which capture 21 million customer datapoints each day. On the back of this, we launched our vast analytics centre of expertise. We are already working on some use cases to significantly enhance our understanding of customer behaviour and detect untapped future revenue streams.

In terms of international, 38% of 2021's income came from international operations. Despite the volatility mentioned earlier, DenizBank's experienced management team delivered a 20% increase in

profit to AED 1.6 billion. We successfully expanded our branch presence in both KSA and Egypt, and received approval to expand our presence in India. There are other initiatives ongoing within the Group. ESG gained increasing in importance in 2021.

Emirates NBD Asset Management became the signatory of the United Nations-support of Principles for Responsible Investment. Branches in the UAE and KSA were the first in the region to secure leadership in energy and environmental design gold certification, and we received our first CSR Label from Dubai Chamber, recognising International Organisation for Standardisation, ISO, 26,000 guidelines on social responsibility.

In summary, Emirates NDB has delivered a strong operating performance in 2021, and continues to make good progress and transforming itself into an international data first bank. And now I'll hand over to Patrick to go through the results in more detail. Patrick.

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### **Patrick Sullivan**

Thank you, Shayne, and a very good afternoon to all of you. I'll start on page 4 with the overall full year 2021 results, before running through the component parts in more detail, including guidance for 2022. Just running down the results table, total income of AED 23.8 billion is up 3% year-on-year. Within that, non-funded income is more than offset in the obvious drag on net interest income from the ongoing low interest rate through 2021.

In NFI, we have seen strong underlying business momentum across all businesses. Costs continue to be firmly under control with a cost income ratio of 33.5% for the full year, well within the 35% guidance. And costs are up by 2% year-on-year, aligned to business recoveries and as we invest to drive growth in our core businesses and develop international and digital strategy. Impairments of 5.9 billion is down 26% year-on-year, due to improving economic conditions and proactive provisioning in 2020. Cost of risk for the full year was 124 basis points, which is within the pre-pandemic range. We expect to maintain the cost of risk within the range of 100 to 125 basis points for 2022. So, overall, the full year net profit is 9.3 billion, a strong 34% increase over last year.

So, touching on a few of the balances sheet metrics. Loans are down 5%, predominantly due to the FX translation impact from DenizBank and corporate and other repayments in the UAE, more than offsetting the strong demand for retail and Islamic financing. ENBD loans, excluding DenizBank, are broadly stable year-on-year. Deposits were down 2% during the year, again, mainly from the impact of Turkish lira translation to AED.

However, we have a strong deposit mix, which keeps the cost of funding optimised in this low rate environment, and positions us very well for future interest rate rises. Capital remains very strong with a CET1 ratio of 15.1% on the back of a strong set of results for the year that is after the proposed dividend of 50 fils per share, a 25% increase from last year. Liquidity remains strong with the LCR at 177.6%. And despite the economic impact of the pandemic, the NPL ratio increased only 0.1% in 2021, illustrating the success of the bank's deferral support and risk management.

A few overall comments on the quarterly results page set out on page 5. Q4 total income increased 32% year-on-year and 13% over Q3. We have seen ongoing strong underlying business momentum and a step up in FX and derivative gains in Q4. We also have a 300 million gain relating to the disposal of Dubai Bank in December.

Expenses for the final quarter increased on higher staff cost, due to retail incentives, and investment for future growth, while other costs were up, due to seasonality, campaigns, and IT investment. Despite the Q4 increase, the cost to income ratio remains within the 35% guidance. The cost of risk at 172 basis points in the final quarter reflects the increase in provisioning to 2.2 billion, including DenizBank, which has been building coverage in Turkey since acquisition. Nonetheless, DenizBank's total impairment is down almost 20% year on year.

Let's look at the component parts in a bit more detail. Turning to page 6, we have closed out the year with a margin of 2.59% for Q4 and 2.53% for the full year. Q4 margin is down slightly on Q3, which itself has stepped up from the low points of Q1 and Q2. The bottom right chart shows the composition of the six basis decrease in Q4.

Loan yields are down six basis points, reflecting some competitors' term light loan repricing, as we look to grow assets in advance of interest rates increasing. This is a small decrease relative to the four year drop of 55 basis points from the rate cuts through 2020. Funding costs improved two basis points on record CASA balances, and the efficient deployment of liquidity, and DenizBank margins contracted by two basis points, due to higher funding costs.

On the bottom left chart, we see that year-on-year, 2020 interest rate cuts impacted loan spreads by 55 basis points. This, combined with lower margins from DenizBank, more than offsets the 47 basis point improvement in despite and funding costs. We have increased 2022 NIM guidance by 10 basis points to 2.55% to 2.65%. We are mindful of the changing interest rate environment in Turkey and increasing market expectations for rate rises in the US. And even in the last few weeks, the number and timing of rate rises has been changing as inflation data becomes available. Our entry point NIM into 2022 is 2.59 and the guidance range fits around this at this point. We do disclose our interest rate

sensitivity in the account, so you will be able to take a view on upside of NIM from that. We will update in Q1, once we see how both the Turkey and US rates are panning out.

Slide 7 shows that the Group continues to operate with strong liquidity. We have nearly 71 billion of liquid assets, which covers 12% of liabilities and 15% of deposits. The central bank test programme successfully measured subjective providing market liquidities for banks, and in turn, could provide customer loan repayment support. We have fully repaid the test zero cost funding and continue to see healthy liquidity within the banking sector. Last year, we took advantage of historically low rates to raise 27.5 billion in term funding, and then the charts on the bottom of the page show that we've grown debt and sukuk term funding to 11%. The AED 12.6 billion, maturing this year, is comfortably within the Group's refinancing capability.

Turning to slide 8, we see that gross lending declined 3%, compared to Q3, and is down 4% during the year. This was due to AED 4.2 billion of customer deferral support repayments and FX translation impact from DenizBank. DenizBank's Turkish lira gross lending and deposits grew by 31% and 19% respectively. It declined in dirham terms due to currency depreciation. Retail loans and Islamic lending, however, are up a very strong AED 10 billion in 2021. The deposit mix has improved during 2021 with the 38 billion addition of CASA, raising overall CASA percentage to 61%, more than replacing the AED 33 billion of fixed deposits. And the bottom right-hand chart shows the progress we're making in improving the diversification of the loan book across product and geography.

Slide 9 shows, as mentioned earlier, the NPL ratio increased 0.1% to 6.3% during the year, as well as during the quarter. Cost of risk of 124 basis points is within the pre-pandemic range, improving from 163 basis points in 2020, while coverage has risen by a shade over 10% to 127.5%. The chart on the bottom left shows that impairment allowances grew by AED 2.2 billion during the year to 37.2 billion. Within that, stage 1 ECL allowances and coverage declined modestly in 2021, due to stage migration. And stage 2 ECL allowances and coverage increased as the stage 2 allowances increased by 1% to 7% of gross loans, as shown in the centre circle chart. Stage 3 ECL allowances increased by AED 1.7 billion, increasing the stage 3 coverage to a very strong 91.1%. The bottom right-hand chart shows that we have provided deferral support on AED 10.7 billion of repayment to over 131,000 capitalists, 8.2 billion of the support has now been repaid, and further information of staging and grouping is contained in note 46 of the financial.

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

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## Patrick Clerkin

Thanks very much, Patrick. Slide ten shows the fee and commission income for the year was up 15% on higher transaction volumes, coupled with higher brokerage and asset management fees. Foreign exchange and derivative income for Q4 is up quarter-on-quarter and year-on-year, partly due to a healthy increase in foreign exchange client business by Emirates NBD and partly due to hedging and swaps relating to DenizBank.

Other operating income includes a AED 0.3 billion gain relating to Dubai Bank, and investment securities income improved year-on-year due to gains on the sale of securities, mainly in the first quarter. On slide 11, we see that costs for the final quarter increased 16% over the previous quarter and 11% year-on-year. This increase includes higher retail incentives and investment for future growth. It also reflects higher operating expenses as activity increased, along with additional marketing campaigns to keep driving business momentum and IT investment. Even so, Q4 costs are around 10% lower than Q4 19, which also included a full quarter of DenizBank. The cost to income ratio for Q4 increased to 34.8%, due to seasonality. This brought the year-to-date cost income ratio to 33.5%, a 0.3% improvement from last year, in line with our guidance to finish the year within 35%. We've maintained this guidance level for 2022.

Moving on to CASA on slide 12 shows that the common equity tier one ratio improved by 0.1% in 2021 as AED 9.3 billion of retained earnings more than offset the impact from currency translation and proposed dividend for 2021. Risk rated assets were little changed on the year. The Group's tier 1 and capital adequacy ratios declined modestly, following the additional tier 1 management exercise in 2021. However, all capital ratios remained comfortably above the UAE Central Bank minimum requirements. Reported capital ratio was included, a total ECL add-back of AED 2.5 billion for incremental stage 1 and 2 ECL allowances. Ratios would be 0.5% lower if we exclude the ECL add-back.

Turning to divisional performance on slide 13. We see that RBWM income improved 4% year-on-year, helped by record growth in retail financing, CASA growth, and higher fee income. The increase in expenses is partly related to staff incentives and campaigns to help drive growth. This success is evident, as can be seen from the strong 17% increase in retail lending and deposits up by 8%.

CIB income declined 4% year-on-year, due to the impact from last year's fall in interest rates and lower lending balances. This offset the growth in non-funded income with EmCap being very prominent in a number of high profile debt, equity, and ESG transactions. Expenses improved by 11% year-on-year as CIB tightly managed its cost base. Loans declined by 4%, partly due to deferral support repayments, but CIB has identified a healthy pipeline of lending opportunities across the UAE and

internationally. Deposits were 4% lower as CIB grew its CASA base, whilst retiring some more expensive fixed deposits.

Emirates Islamic income grew by 15% year-on-year on higher fee income, financing and investing receivables, and deposits grew by 4% and 1% respectively during the year, as EI maintained a healthy ADR of 90%, whilst further growing their CASA base. EI also successfully issued a benchmark sukuk during the last quarter.

Global markets and treasury income improved year-on-year on increased income from hedging and banking big investments, as the ALM desk efficiently managed the excess liquidity. The funding desk took advantage of the low rate environment to issue a significant amount of senior debt, and undertook an additional tier one management exercise, as I mentioned earlier, to improve the efficiency and cost of tier 1 notes.

DenizBank is covered on slide 13 with further detail on slide 14. We see the 3% drop in income in dirham terms is a result of the depreciation in Turkish lira during 2021. Turkish lira net loans and deposits grew by 26% and 19% respectively in 2021. And on slide 14, it shows a 20% increase in DenizBank's full year profit. The 2021 cost of risk of 343 basis points improved compared to 383 last year. DenizBank contributed nearly AED 7 billion in income and over AED 1.6 billion in profit to the Group during 2021, which is a significant 18% contribution of group total profit.

With that, I'll pass you back to Shayne for his closing remarks.

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### **Shayne Nelson**

Thanks, Paddy. So, to summarise, the 34% increase in profit is driven by improved loan mix with record demand for retail financing, a more efficient funding base, and a substantially lower cost to risk. Total income was up 3% year-on-year, and the Group is well positioned to benefit from increasing rates, as reflected in the increased NIM guidance. Corporate lending has identified a strong UAE international pipeline, following a year of significant repayments of deferral support. Emirates Islamic delivered a big improvement in profitability. We've launched our advanced analytics centre of excellence and we're already working on some use cases to analyse our 21 million daily customer datapoints.

This will significantly enhance our understanding of customer behaviour and detect untapped future revenue streams. International locations contribute over a third of the Group income, and we continue to expand our international footprint. These results demonstrate the Group's financial resiliency and the success of our diversified business model. And with that, I'd like to open up the call for questions. Elliot, please go ahead.



## QUESTIONS AND ANSWERS

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### Operator

Our question comes from Waleed Mohsin from Goldman Sachs.

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### Waleed Mohsin - Goldman Sachs

Good afternoon and thank you for the presentation. I have 3 questions. First, just on the macro, I wanted to ask how you are thinking about a rising rate cycle and the impact on economic activity? There is a lot of debate that if you look at the previous cycle, rates were rising within a period where oil prices were falling and economic sentiments were a little bit weak.

And this time, we have more of a positive backdrop with higher oil prices and then rates are increasing. So, I'm curious to hear your thoughts in terms of prospects of economic activity within this backdrop. That's the first question.

Secondly, I also wanted to get a sense of how many rate hikes are you incorporating in your 2022 guidance? Because when we see your CASA balances and the largely floating rate loan book, the NIM expansion guidance seems to be quite modest and the cost income ratio guidance seems to be quite conservative.

And finally, the third question. I just wanted to get your thoughts on the steps that you've taken in terms of risk management in turkey. It seems that you are one of the only banks, or one of the few banks, which has actually brought down the loan to deposit ratio to below 100% in this particular quarter. So, I wanted to get a sense on what you are seeing in terms of funding, especially given that in Turkey, they have introduced this new deposit product. And if you currently see dollarisation or are you seeing any other trends on the funding side? Thank you.

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### Shayne Nelson

I'll have a shot at the economic. I think, from our perspective, how we're seeing the economy, certainly, in retail, demand is massively strong. I have seen some of the competitors' results that are coming out and talked to some of the other guys, I don't think they're seeing the same growth in retail that we are. We are up to now about 25% payments for either the debit or credit card are now coming through our retail base, and certainly, we've started off strongly in the year on the retail side.

So, I think from a retail perspective at the moment, there seems to be a lot of confidence out there, and streaming patterns are pretty high. In the corporate space, I have to say, we're not seeing a lot of loan demand. I have been out and talked to a lot of clients, some of them, we're not seeing loan



demand, because say, for example, developers that I've talked to, they've been launching projects and the presales they're getting are so strong that they're not needing any cash to complete the projects because of performance bond for the escrow accounts, that they can draw the escrow, but that's about it. So, we're not seeing a lot of corporate loan demand out there, and I'd be very surprised if, when the Central Bank produces the statistics, that there is any growth in corporate in 2021. I'd be very surprised. So, in the retail side, I think we're confident that we'll continue with the momentum that we've been building and we are gaining market share, both in payments and in loans. And in corporate, I think it's a bit more difficult in the UAE, until we see some build there.

Saudi, there are opportunities. There are certainly opportunities for us to grow in Saudi and we have been growing that business quite recently. I think there's more growth opportunity there. There's more growth opportunity in Egypt. A lot of our clients from the UAE are looking to expand in Egypt, so we can certainly help there. I'd say in Turkey, on growth, we're not seeing a lot of corporate growth at all. Retail, yes, but not corporate. So, I think from a macro perspective, oil prices obviously drive a lot of the GDP growth, 4% non-oil versus 4.6% overall growth is our forecast for the UAE, and obviously, reflecting in a better fiscal position for Saudi. So, the countries are well positioned at the moment for growth. We'll see where our clients expand to in 2022.

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### **Patrick Sullivan**

Shayne, I'll take the second question on the rate hikes and the assumptions within the guidance. As you'll see, our Q4 margin is pretty much at that mid-point of the guidance. Back in November, when we were looking forward into 2023, at that point in time, we thought we were being quite bullish, assuming an early rate rise at the end of 2022.

And it's obviously become more apparent as inflation data becomes available that the number and timing of expected rate rises has been increasing. Even by the week, if not by the day, in some cases. So, the way we've approached this for this year is to really say here's the base. We provide the sensitivity in the accounts, and I think that's note R46 at page 114 in the accounts. And that sensitivity is showing that there's about a 3 billion uplift for 200 basis points. If we take out DenizBank, which goes the other way, typically, with global interest rates, it would be about 3.2 billion upside for 200 basis points, but I broke that down to, say, 25 basis points. So, it works out at 370 million, including Deniz, and about 400 million if I strip that out. And that's up 33 million a month. So, whatever your view is of when rates rise, you can do the pretty simple arithmetic on that. Just a few points of caution on that. Obviously, that's a fairly formulaic approach to it. As rates rise, it can take time for the repricing to go through assets. Also, as rates rise, there may be some move from CASA accounts into term deposits, so sometimes, your funding mix also changes. So, there is an upside from that.

And if you took a 400 million upside, that would be an equivalent of about six basis points, which would then take us to the top end, if not slightly over, the guidance range we have got there. We have to remember also with the environment in Turkey and the interest rates, the interest rates have been cut, typically, our margins there would increase. That's been happening through Q4. We haven't seen that benefit really come through. Commercial rates remain more elevated.

So, there are two different key moving parts in the NIM guidance there, but that's really the approach that we've taken. Of course, we'll come back in Q1 and update that and see whether the interest rate actually has gone up.

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### **Shayne Nelson**

On the last question was on risk management, Turkey and liquidity. You're right, we do manage our liquidity quite robustly in Turkey and we do like to have any country ADR ratio under 100%. We try to manage the AD ration at around the mid-90s. And I think we have purposely pushed them hard on deposits there. On the risk management side, you will notice when you break out the accounts for Turkey, which are to be published, that we did top up provisioning in the fourth quarter.

That was purposely done, given our earnings. Our view was it was better to be conservative there. And we've lifted the stage 3 coverage ratios there from low 50s to mid-70s in a pretty short period of time. So, I think we've got a very good handle on the risk there and we manage it very closely, both on liquidity and on credit risk, and also on a country risk basis

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### **Operator**

Our question comes from Shabbir Malek from EFG Hermes.

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### **Shabbir Malek - EFG Hermes**

Thank you very much. I just wanted a clarification on the earlier question. You said you closed 2021's NIMs at the mid-point of the 2022 guidance. So, effectively, you have not really based in much rate hike impact for 2022, am I correct? That's my first question.

The second question is on credit quality and provisioning. The 4<sup>th</sup> quarter, we saw a sizeable provision in Turkey. Shayne, you've made some comments on that. I just want to get more detail on what was the driver for this. Were there any specific provisions that were taken or were these more precautionary, given the macroeconomic environment?

And maybe if you can also comment on your guidance for cost of risk for 2022, which is broadly similar to what we have for 2021. Why do you see that considering the favourable backdrop, at least in the GCC? And finally, do you have any dates for the AGM for your full year results? Thank you.

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**Shayne Nelson**

The AGM's the 23rd. I think, on the Turkish risk side, it was a stage 2 increase, so yes, you would say that that was prudent provisioning, rather than specific provisioning. On cost of risk, we're always pretty conservative of how we manage our risk. If you look at our stage 3 and 2 coverage against everyone in the market, we're leading by a country mile. And our view on that is that we like the remain conservative. We like to maintain strong coverage ratios.

But also remember that we continue to grow our retail base and that cost to risk, as you switch your retail base from corporate base, is substantially higher in percentage terms. So, I think we have a very big credit card book and that has been growing at record levels by the way of new card acquisitions, new personal loan acquisitions. I think we'd beat new car loan acquisitions if people could actually buy cars. There are stock shortages still.

So, the retail space is pretty hot for us, so we'll continue to grow market share there and that does have a cost to risk, just as a BAU, more so than the corporate space. If I look at the early alert meetings that we've been having, am I worried that we've got something that is going to blow up this year? At this stage, I would say no, otherwise, we would have covered it. That's the way we operate.

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**Patrick Sullivan**

And, Shabbir, I'll just wrap up that first question you had on the margins. The guidance includes relatively little assumption about rate rises because the mid-point is broadly where we are now. And in a way, it's presumptive, given the ever changing assumptions about how many and when. I think I would be almost guessing on that basis, other than to give you some good idea of what any upside actually means for us. 2 points I would add to that, though. One is Turkey may go the other way as the margins compress, they compressed slightly in the 4<sup>th</sup> quarter. Rates going down usually means it goes up some more. That environment is a bit more dynamic at the moment, so we'll have to see how that pans out. A final point is around volume. So, if you're looking at margins and trying to calculate net and gross income, we also have the guidance on the volumes to factor that in. So, with strong repayment of the pipeline for growth, net net, that could be fairly moderate. We've guided low single digit through the year.

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**Operator**

Our next question comes from Naresh Bilandani from JP Morgan. Naresh, your line is now

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**Naresh Bilandani - JP Morgan**

Hi, just four questions, please. Could you please throw some light on the strong derivative gains that you have delivered in the 4<sup>th</sup> quarter? If I refer you to note 29 of the financial statement, I'm also comparing this to a similar trend that we saw in the 1<sup>st</sup> quarter when the Turkish lira saw weakness against the dollar. It may sound simplistic, but should we assume this line to stay strong going forward into 2022, we see a weakness again in TRY as compared to the dollar or is that not necessarily the case? that's the 1<sup>st</sup> question.

My 2<sup>nd</sup> question is could you please share the reasoning behind the retention of 10% interest in Dubai Bank as you are highlighting in note number 49? I'm curious to understand why not dispose of all 100% or, alternatively, since the Dubai Bank licence has been used for the creation of Zand, is there anything strategic that we should read into this 10% retention of the stake? That's the second question.

The 3<sup>rd</sup> question is I'm looking at your cost of risk guidance that you have shared in the presentation. Your conservative cost of risk for 2022, is this largely being led by Turkey or do you see asset quality deterioration in the UAE in any form of on the back of high interest rates in 2022 as a risk in any manner? Or should we not be worried about UAE asset quality at this stage? That's the 3<sup>rd</sup> one.

And my 4<sup>th</sup> one is if you could quickly please also share with us the capital position of your Turkish business and how comfortable you are on that position right now. Thank you.

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**Patrick Sullivan**

Let me see if I can get through those. Just on the foreign exchange and derivative gains in Q4. You did point to note 29 and if you look at the year-on-year of the net number of those, it's basically 1.7 billion versus 1.7 billion. So, year-on-year, there's relatively little movement in that. Obviously, by quarter and business, there are some movements within that. And I think you referenced also Q1.

So, in Q1 when interest rates went up 200 basis points, and then the governor at the central bank was dismissed, there was volatility and we saw mark to market gains through hedging of interest rates on the liability side in Turkish lira. And I think, as we indicated at that point in time, some of that would reverse, as the markets settled down, and then we could see, through Q2 and Q3, somewhat moderated overall for FX and derivative income.

So, it was the reversals netted against real underlying forex growth that we did see through both ENBD in the UAE and in Turkey as well. And then the increase through the 4<sup>th</sup> quarter, about two thirds of that relates to DenizBank, of that 900 or so, two thirds of that is DenizBank, and another third of that income is actually underlying ENBD income as well. Hopefully, that gives a little bit of colour. I thought the 2<sup>nd</sup> question was on Turkish lira, what the expectation is for that going through next year?

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**Naresh Bilandani - JP Morgan**

No. I was just trying to understand the trend, how should we look at these gains? Is there any quarter where we see a significant volatility in the Turkish lira? And should we expect these gains to be strong? Is there a natural position that your treasury takes in Turkey and how should we forecast it?

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**Patrick Sullivan**

OK, It's not just a low market to market gains. Within there, you've got the swap funding cost as well. So, some of those gains could reverse through to Q2 as well. So, you could, essentially, see some of that trend. I'm not saying next year will look exactly the same in terms of reversals, but one would hope, when the market does settle down, those gains reverse. So, in essence, that is a good thing if they do reverse.

The 2<sup>nd</sup> question then is on the 10% stake on Dubai Bank. That was just part of the deal. That keeps a bit of skin in the game there as well and comes with a board seat as well. So, that was just a normal part of the transaction. When you use the word strategic, does that mean anything for later? I think that's what you're referring. No, that's just the residual stake we are holding. But from an accounting point of view, we're fair valuing that through OCI, in that sense. And then you have the cost of risk.

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**Naresh Bilandani - JP Morgan**

What I actually meant was if you still retain a 10% stake in Dubai Bank, does it imply your interest in, ultimately, the new entity that has been created in any form, or am I reading too much into it?

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**Shayne Nelson**

You're reading too much into it.

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**Naresh Bilandani - JP Morgan**

OK, that's fair. Alright.

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**Patrick Sullivan**

Cost of risk for 2022, as Shayne mentioned early, we've been building up Turkey coverage from 50% to the mid-70s on a local basis there. We're happy with building that. And the guidance of 100 to 125 really reflects what we were seeing pre-pandemic, with some element of building coverage as well. So, it's not signalling any increase in risk, it's signalling that we're coming back to the normal level.

Now, of course, the impairment amount itself isn't all CIB corporate stage 3 impairment. You naturally get an annualised flow from the retail businesses as well, which can be a substantial amount of that. Having said that, actually, delinquency rates and the risk profile on the retail side has come down in some parts of the book to at or better than pre-pandemic and some may be slightly elevated, but really in good shape. So, we're getting back to what we see is normal flow. Having said that, obviously, the world has been through something of a shock in the last 2 years now, and some things will take time to work out as well. So, previously, we didn't really give a cost of risk guidance post the acquisition of DenizBank. We thought that would just be more helpful to give at least some parameters of what we have in mind as well.

Locally, Turkey has a good capital position. It absolutely meets all of its regulatory minima etc. Obviously, we have to keep an eye on things. Turkish lira has settled somewhat with the introduction of the FX protected deposit scheme. But we also have a strong management team there that are very adept at navigating the local market volatility, and that includes managing the capital base as well. They have numerous actions they can take to manage key metrics as they have been doing, before we would have to consider any further need for capital. And at a Group level, there has been no adverse impact on the Group CET1 capital position. In fact, it was basically a nil impact on CET1. So, we get the negative side from the OCI FX revaluation, but that's been offset by strong earnings and the translation reduction in the risk rated assets and the calculation of the CET1 as well.

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**Naresh Bilandani - JP Morgan**

That sounds good, but could you please share the CET1 number for DenizBank?

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**Patrick Sullivan**

We don't disclose that separately, I'm afraid, Naresh.

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**Naresh Bilandani - JP Morgan**

I would take this opportunity to ask one more question. Shayne, if you could please highlight the progress that Liv. has made in the 4<sup>th</sup> quarter, as you regularly do in your conference calls, if you could

please throw some light on the growth in the number of subscribers in UAE and KSA. Any thoughts on the profitability on how the trends have been, that would be extremely helpful. Thank you.

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### **Shayne Nelson**

Sure. Saudi, we have been moved out of the sandbox, which is a good thing. They're up to about 80,000 clients in Saudi now, and that's on top about 525,000 clients here in the UAE, so it's got over 600,000 total clients now. If you look at how many clients most banks have got, that's a pretty good number in retail. We also launched Liv. Young. So, that's targeting the 8 to 17 year olds. Opened up to some US dollar accounts as well, so now you can save in US dollars there. Also, an overdraft facility in Liv. And I think the important thing, before we really get started on expanding the capability and investment in Liv., moving the whole platform to our Cloud-based infrastructure, so that's underway at the moment. And that's an important milestone for Liv., because we need to get it onto the Cloud-based system, both here and in KSA, which will enable us to really ramp it up for future expansion.

So, profitability? It's profitable. Unlike most digital banks around the world, it is profitable. But one of the reasons, to be honest, why is it profitable? Because it leverages the infrastructure that we've built and therefore, doesn't have the cost allocations and capital allocations that a lot of digital banks do around the world. And we looked at this strategically on day 1, because we had a spare licence to buy a bank, and should we launch a separate digital under Dubai, and strategically, we decided that we wouldn't, that we want it as a brand. Because we could then leverage that infrastructure and we wouldn't need to put additional capital into the entity. So, I think strategically, we're happy with that decision. And as I said, it is profitable. We don't break it out as it is, but I think it's one of the few banks on its core operations that's digital only that's profitable.

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### **Operator**

We now have Hootan Yazhari from Bank of America. Hootan, your line is now open.

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### **Hootan Yazhari - Bank of America**

Hi, gentlemen. A quick question, maybe a follow-up on Naresh's question just now. Looking towards Liv., the big prize has always been when you're going to start to deploy more balance sheet against this and start to use it as a platform for acquiring more assets selling loans, etc. I just wanted to understand where you are with that. How much more investment needs to go into getting the platform ready to start maybe lending more or getting into that side of the business? And has the start-up of a number of these online banks, like Zand, started to accelerate or expedite your thinking on how you're going to monetise the customer base that you've developed on Liv., maybe on a more expedited basis? Thank you.



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**Shayne Nelson**

I think that's a very good question. Because if you look around the world, the easiest part to do on any platform is the deposit side on a digital platform. That's easiest. The account opening, the deposit products, that's a very easy piece to do. Now, we've already got credit cards on there, but you're right, the money, really, there for most digital banks is that they need to get the other side of the balance sheet on lend, because they'd normally pay a slightly higher price for their deposits and therefore, deploying that cash is pretty important.

But remember, because we had this as a brand, we can deploy the cash in the main bank, which is not the same strategic option that other digital banks have, they have to deploy it themselves. So, we can use that liquidity that's provided out of Liv. into our main engine. Having said that, we absolutely understand that we need to get that platform as also, a lending platform. And one of the things we've talked about previously here is our big drive on STP, straight through processing, for not only account opening, but credit cards, personal loans. And that's certainly, if you talk to any of our staff, the one area I'm pushing people is around STP. And not only critical for the bank as a whole, but absolutely critical for Liv. going forwards, to ensure that we get digital capabilities for loans on that platform. Part of that means moving it to the Cloud-based infrastructure, because we need it on that platform to do it. And then we've already started to do it on credit cards.

We've taken our first straight through credit cards in the main bank just recently. We're building personal loans. So, for us, we want to get a large proportion of our sales in retail on the straight through digital only. And certainly, Liv. is a critical part of that. We need to migrate it to the Cloud-based technology, then we need to actually push through the product. But if you build it for the main bank, Liv.'s easy to grow, that's already there because it's on the same architecture. I hope that helps.

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**Hootan Yazhari - Bank of America**

Yes, it does, indeed. One of the things I was keen to understand was how the start-up or the start of new online only digital banks, who are, quite clearly, looking to muscle in on your turf, how you're taking that threat. Because often, these guys go with predatory pricing or they incentivise customers to get them on the platform and buy market share. Does the start-up of these banks change the way or the speed at which you're looking to do these STP initiatives? Or are you just continuing along the path that you had before?

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**Shayne Nelson**

I think, from our perspective, whether it's Liv. or whether it's the main bank itself, absolutely, the launch of competition in digital only space increases our investment and our focus to improve STP processes right across the organisation, whether it be here, whether it be in Egypt, whether it be in Saudi, absolutely. The pace of our investment, the pace of our prioritisation, the greater thinking not just about banking, but about ecosystems around the price doctrine, absolutely change. And I think we're probably leading in that space at the moment and we don't want to lose that lead. And the competition coming at us, not just here, there are other markets that have digital only banks being launched, it means that we really need to speed up. I totally agree with you, I see it as a competitive threat. And we have big market share and we don't want to lose market share, we want to grow market share.

And so, we're absolutely laser focused on getting these operations expanded and in the right fit for the future. But I would say that we do, in my opinion, have that advantage that a lot of these banks start up, if you look at around the world, but haven't made money for a long time. They get customers, but they don't make money. And part of that equation, which I don't know whether Zand's going to launch it, is getting both sides of the balance sheet actually firing. And as I said, the advantage we have is we can use that liquidity that Liv. provides us at the moment.

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**Patrick Clerkin**

Elliot, before we move on to any other questions either on the phones or over the webcast, we've had a question emailed in about the 13% stake in Bank Islami, Pakistan. Patrick, do you want to take that?

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**Patrick Sullivan**

That was just a transfer out of Dubai Bank as part of the sale transaction, so we have just retained that. It's a simple transfer.

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**Patrick Clerkin**

So, that was an intra group transfer. Thanks, Patrick. Elliot, we're happy to go back to any further voice questions.

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**Operator**

Thank you. We now go to Nadaya Siddiqi from Morgan Stanley. Nadaya, your line is now open.

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### **Nadaya Siddiqi - Morgan Stanley**

Hi. My 1<sup>st</sup> question is a follow-up on NIM sensitivity. I wanted to understand better on how loan yield spreads survive or change as interest rates are increasing. If I go back in history, the spreads were lower than they are right now during periods of high rates. So, should we expect some compression on the spreads? Also linked to this, is the loan yield pressure mentioned in 4Q as well? What is driving this? Is this more retail or corporate? So, that's the 1<sup>st</sup> question.

The 2<sup>nd</sup> question is on cost. The increase in cost this quarter, you mentioned partially driven by investments for future growth. Will this continue? And if we can get some colour on what these costs are. Also, on the other hand, what initiatives ENBD is taking to cut costs further, if any? And lastly, a question on the fee income. If I see slide 10, fee income, excluding brokerage and trade finance has been declining for the last two quarters. So, I just wanted to get an understanding of what's driving this. Thank you.

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### **Patrick Sullivan**

Let me work through those backwards. So, slide 10 on fee income declining for 4 quarters. First of all, the fee income level is a significant step up from last year. And there was a particularly strong Q1 and Q2, well, mainly Q1, actually, when there was a lot of capital market activity and EmCap was a significant participant in that. And also, DenizBank has particularly strong payment flows as well. There was a point in time when things were opening up there more and they had a particularly good quarter. So, I wouldn't say this is a trending pattern of reduction. In fact, the underlying businesses have been doing well, but just more fairly consistently from Q2 on to Q4. On your second one on cost. Yes, typically, we do have something of a step-up in Q4. And part of that is actually the recovery of the business.

We had a significant cost reduction through 2020, as income fell off, and our costs increased at a rate less than the income increase. And as Paddy mentioned in his presentation, the actual Q4 costs of about 2.2 to 2.3 billion is still almost 10% lower than the 2.5 billion than we had in Q4 2019. So, yes, cost increased on 2020, but there is return, there's business growth, whether it's incentives, etc. So, that should be a normal part of business. And I think that's bookended by the cost income ratio guidance that we give you. If we're operating between 33 and 35, that's a very efficient cost income ratio. So, do we have further initiatives, we're always mindful in looking for cost saves, but it's not going to stop us investing in growing in our international footprint and digital advanced analytics, and also, the business growth that comes and captures.

We'd rather grow cost to grow revenue, rather than shrinking costs, from that perspective. And then just on the NIMs and spreads, through 2020, when the rates were being cut, as the rates were coming down, it did take some time for benchmark rates to then flow through to the actual rates, whether EBOR or LIBOR, etc. So, the repricing of the assets is not because there are credit spreads coming down. We make sure that we price for risk, and if risk has gone up, we price up for that.

It took from March through to almost July to bottom out, before the 1 month and 3 month got down to close to where the central bank reference rates were. So, as it goes up, we'll have to see what happens to that dynamic. There's also, I think I mentioned earlier, the mix of the funding cost side of things. So, we've got the asset pricing. Not every client reprices the next day after a rate increase, so it can take 3 months, 6 months, in some cases, for corporate repricing to come through, etc., so we need to factor that into if you're making some assumptions out of interest income. Hopefully, that covers the 3 points that you had.

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#### **Operator**

Our next question comes from Chander Kumar from Alramz Capital.

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#### **Chander Kumar - Alramz Capital.**

Thanks for taking the questions. My first question is regarding what if you can remove the impact of lira devaluation? What would be the normalised overall loan growth? And my second question is I want to know the loan coverage ratio of DenizBank.

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#### **Patrick Sullivan**

Turkish lira assets in Turkey grew, on a net loan basis grew 26%. Does that help? It's a strong TL growth there, it's just when we translate back to AED, when there's been a 50% depreciation just in the 4<sup>th</sup> quarter, that's why it then becomes negative when it's presented on page 8 of our presentation.

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#### **Paddy Clerkin**

And for the loan coverage ratio for DenizBank. DenizBank only loan coverage ratio....

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#### **Shayne Nelson**

It's mid-70s.

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#### **Paddy Sullivan**

Yes. Mid-70s for the stage 3, so a little bit lower.

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**Shayne Nelson**

Stage two is over 20.

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**Operator**

Yes. For our final question, we go to Raj Burswahi from International Securities Abu Dhabi.

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**Raj Burswahi - International Securities Abu Dhabi.**

Hi. I have 3 questions. Firstly, on the introduction and the corporate loan book. I just wanted to understand is this coming from the private sector or the government related entities? My second question was regarding the 6 basis points pressure on NIMs in the fourth quarter. I was just trying to understand whether this reduction is because of some higher yielding loan, getting a prepayment or something of that sort, because of which, there has some been some pressure, or am I just reading too much into it? And on the third question, it was more like on your point where you mentioned that when you speak to the real estate developers, there's no actual loan demand over there at this point in time, because there are a lot of pre-bookings and the sale is good over there.

But when do you really think this sale growth on the development side is going to phase out and the developers will be needing more of capital to develop their projects? What is the timeframe, in which they general come up for loans to the banks?

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**Patrick Sullivan**

Raj, Patrick here. Maybe if I take the first 2, if that's all right, then maybe, Shayne, you can have a go at number 3 there. Just on the CIB we have shown on page 8. Private sector or public, both is the answer. On the private sector, we're seeing just over 4 billion of deferral repayments, along with other regular repayments and new originations. And then on the government side, we have also had a reduction of just under 10 billion for the year. So, that's within that number as well. So, that's your private, public number. And on the second part, just on 6 basis points pressure. We did have a good step up in Q3. Part of that was the really strong flow of retail assets, which does actually have a larger margin. And that's enabled us to then be more competitive on some of the pricing side, on the corporate side, to build the pipeline going into next year as well. And that perhaps connects to your first question, if we're seeing these repayments, we do have to be competitive to maintain the average asset balances, etc., and drive income as well.

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**Shayne Nelson**

On developers, I think the equation is fairly simple. And it's really linked to housing demand. If you've got super strong demand, the developers can obviously pre-sell early. The cost of development is basically in their prebooking deposits and the drawdowns that they have. So, the demand is normally only for the escrow account guarantees that they need to draw that down.

So, I think it's really linked to you start seeing a falling off in housing demand and sales. That means that the developers will have a longer lag time in their cashflows, and therefore, then you will see a return to needing funding for the development, versus having the funding basically come out of presales. So, I think that just depends on the real estate cycle as to where we are. At this stage, as you all know who live here in the UAE, it's been pretty strong.

I would say, in my opinion, it's come off a bit in the last month from where it was. It was super high earlier on. I think it's still quite robust, but I don't think it's as hot as it was in the previous quarter, in the last quarter of fiscal 21.

If there are no further questions, I'd like to thank you all for participating in today's call, and I'll hand you back to the operator, who will provide you further details for any other questions you have, after we conclude the call. Thank you very much for your time and I appreciate there's a lot of people on the call today, some good questions, and I look forward to speaking to you again after the first quarter results. Thank you, all.

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**END**