EMIRATES NBD Q1 2015 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD First Quarter Results Announcement Analyst and Investor Call. If we are all ready begin, I will now pass the call over to our host, Mr. Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson Emirates NBD - Group CEO

Thank you, operator. I would like to welcome you all to the Emirates NBD results conference call for the first quarter of 2015. So supporting me as usual is Surya, our CFO and Paddy, our Head of Investor Relations. Together we'll review the operational and financial highlights for the first quarter of 2015. We will refer you to the results presentation, which was made available to you early today, after which, you'll have the opportunity to ask us some questions.

I am delighted to report that we have delivered another healthy set of results, with net profit up 60% in the first three months of 2015 to AED 1.7 billion. This is driven by a strong growth in both net interest income and non-interest income, stable expenses and lower provisions.

We continue to optimize the balance sheet and I am delighted that for the first time in the bank's history, total assets have surpassed the $100 billion mark. The asset profile that -- has helped it by growth in higher margin Islamic and retail products. Islamic financial receivables delivered a very impressive 6% growth in Q1 of 2015. The liability profile continue to improve as current and savings account balances grew by 4% in the start of the year. This changing profile is reflected in our ability to maintain NIMs despite our UAE bank-wide contraction in margins, underlying UAE's transition from a frontier economy to an emerging market economy.

We see good growth in non-interest income from a wide variety of sources. Emirates NBD asset management continues to grow and it's the largest UAE asset manager with AUM in excess of AED 11 billion. Our award-winning credit card business continues to grow, thanks to a range of innovate product offerings. We're also seeing a real impact from combining the global market and treasury business within wholesale banking. Increased cross-sells coupled with increase from maintenance volumes is helping drive core fee income.

We also saw a further strengthening to our liquidity position. The advance deposit ratio remains steady at 95.6%, CASA now accounts for 60% of our total deposit base, but only had a cheaper source of funding, but they are stickier than opportunistic time deposits. And in Q4, we also extended maturity profile of our term funding by issuing around $1 billion of seven years senior funding in both Aussie dollars and euros. We also issued over $430 million in private placements in six different currencies.

As expected, the capital ratio has dipped slightly in Q1 by about 0.5%, as the annual dividend payment more than offset the quarterly retained earnings. As with other years, we would expect the retained profits will grow the capital base through the remaining quarters. Our Tier 1 ratio now stands at 17.5% and our capital adequacy ratio is at very respectable 20.5%.

Credit quality saw a further modest improvement in Q1 as NPL ratio improved from 7.9% at the start of the year to 7.8% at the end of Q1, recognized that the bank's NPL ratio is still high relative to our UAE peers. The financial restructuring and remedial unit is tasked with actively managing the impaired loan stock and I expect them to continue to do it on the excellent results they delivered in 2014. We're also starting to see normalization of cost of risk with Q1 provisions lower in comparative quarters.

Overall, I am very pleased with the performance of bank in Q1. We have a strong balance sheet and continue to optimize its efficiency. We see positive growth of income and expenses, both net interest income and non-interest income have grown, expenses are firmly under control and provisions have reduced. We remain cautiously optimistic for the remainder of 2015 and are conscious of the headwinds of the strong dollar and lower oil price can present.

I'll now hand you over to Surya to start going through the details of the presentation. Surya?

Surya Subramanian Emirates NBD - Group CFO
Thank you, Shayne.

I would like to go off my normal script and probably say the results speak for themselves and end my speech today, but I'll probably be besieged a lot of calls and questions after this, so I'll go through the regular routine.

Speaking through the financial highlights on Slide 3, our first quarter revenues at AED 3.8 billion is a strong start to the New Year. The year-on-year growth in total income is 15% and quarter-on-quarter growth is 8%

as we maintained a stable net interest margin, despite competitive pressures and delivered positive jaws on cost growth. This together with our conservative provisioning policy and a continued success in our Retail and Islamic franchise has delivered a Q1 2015 net profit of AED1.67 billion, an improvement as Shayne mentioned of 60% on the previous year and 36% over the last quarter.

Net interest margin for the first quarter at 2.90% was stable compared to the last quarter, even as we faced the competitive market and extended the maturity of our medium-term liability issuances.

Growth in non-interest income at 26% over the previous quarter, maintains the robust trend we have seen in recent quarters, supported by transactional income linked to trade, DirectRemit services, a new entrant, asset management income and also some sale of legacy property portfolio.

Headline advances to deposits ratio was maintained at 95.6% on the back of our stable deposit gathering efforts, and we remain well-placed to meet relevant prudential liquidity requirements.

Total cost for the quarter at AED1.08 billion improved 8% over the previous quarter, which as we had indicated in the last call has increased costs related to positioning ourselves to hit the ground running in the new year. As usual, we will invest further within our cost guidance to support staff and customer development efforts.

Provisions for the quarter are also AED1.08 billion and with this, we come to the end of our enhanced provisioning cycle, having achieved both a reduction in NPL ratios over the recent few years and crossed the 100% mark for coverage.

Moving on to Slide 4 on net interest income, we continue to improve our funding mix by swapping term deposits for current and savings accounts. For yet another quarter, we saw higher growth in retail assets across both conventional and Islamic products, and both these drivers have net interest margins stabilized at current levels of 2.90 for the quarter.

Our guidance for full year 2015 net interest margin remains in the range of 2.7% to 2.8% as we do see increased competition for loan growth and a rising cost of borrowing for both short and medium-term deposits.

Slide 5 shows our funding and liquidity profile. Our advances to deposits ratio was maintained at 95.6% for the quarter, and this is comfortably within our target range of 90% to 100%. Our liquidity position is strong and at AED50.3 billion, continues to grow in line with deposits to cover 15.7% of total liabilities.

Our debt shown maturing in 2015, our short-term private placements, and these are within our capacity to roll over or repay in the normal course.

While we have no immediate requirement to raise capital funds, we will opportunistically raise medium-term funds in advance of the expected rising interest rate cycle. An example of this intent, we have already raised close to $1 billion equivalent of seven-year money in Aussie dollars and euro in the first quarter of 2015.

Slide 6 shows our loans and deposits trends. While gross loans grew at a slower pace in quarter one 2015, with this we continued pick up in our retail and SME assets, especially within the Islamic franchise. In terms of products, personal loans and auto financing, continued to remain customer favorites.

Our expectation for loan growth in 2015 remains in the range of 5%, in-line with GDP growth and first quarter results.

Deposits grew overall by 1% quarter-on-quarter, as we continued to let go term deposits, although CASA itself grew 4% over the same period.

With that, I will hand this over to Paddy to take us though the next couple of slides.

Patrick Clerkin Emirates NBD - Head of IR

Thank you, Surya. On Slide 7, we see the total non-interest income improved at 23% year-on-year and 26% quarter-on-quarter.

Core gross fee income improved by 23% year-on-year and this is due to increased fee income from larger credit card volumes, coupled with higher income from asset management and a strong increase from the forex and derivatives business. We are benefitting from increased cross-sell between the wholesale banks and global markets and treasury. We also benefited from increased remittance business through our DirectRemit product and in Q1 we added Pakistan to this remittance platform in addition to India and the Philippines. And this is an online product and easily accommodate a significant increase in volumes.

Property income showed a healthy 48% raise year-on-year, as we needed some large disposal of investment properties. Investment properties reduced from AED 1.2 billion to AED 800 million during the quarter. As in previous quarters, we continued to dispose the property held as inventories, which is a function of demand for real estate in Dubai and total investment properties and inventories (inaudible) to AED 2.75 billion or about 0.75% of the bank's total balance sheet.

Income from investment securities risen significantly year-on-year and down 14% quarter-on-quarter. This number tends to be volatile but is less than 7% of total non-interest income.

Moving on to operating costs and efficiency, on Slide 8, and costs increased 3% year-on-year and decreased by 8% in Q1.

The year-to-date cost to income ratio improved by 3.4% to 28.1% for the first three months of 2015. This impressive reduction in the cost-to-income ratio is driven by the 15% increase in income easily outpacing the 3% increase in costs. During the year, income did benefit from a number of one-offs. However, even after adjusting for those one-offs, the cost to income ratio in Q1 would have be 30.2% and like-for-like improvement of 1.3%.

The longer term management target for cost-to-income ratio is 33% and we do expect the cost-to-income ratio to increase in the coming quarters as we invest more in systems and people to help support business growth and customer satisfaction. This process has already been set in motion last quarter.

Moving on to credit quality on Slide 9, as Shayne mentioned, during Q1, the NPL ratio improved marginally from 7.9% to 7.8%, a drop of 0.1%.

Impaired loans increased marginally by AED 0.1 billion in Q1 to AED 21.2 billion. During the same period, provisions increased AED 0.8 billion to AED 22 billion and this has increased the coverage ratio to 103.9%.

The financial remedial and restructuring unit continues to actively manage the NPL stock. Over the medium-term, we expect to see further improvements in the NPL ratio as legacy loans are resolved and the NPL ratio trends towards the UAE average. It's difficult to provide any milestones or specific targets at the circumstances and resolution timeframe of each loan is different.

Slide 10, the capital adequacy ratio that during Q1, Emirates NBD's Tier 1 ratio declined by 0.5% to 17.5% and over similar period, the capital adequacy ratio declined 0.6% to 20.5%.

The decline in both the Tier 1 and capital adequacy ratio is due to the annual dividend payment more than offsetting the quarterly rise in retained profits, coupled with the 2% increase in risk-weighted assets.

We will expect as with previous years, the profit generation in the remaining quarters to grow the capital base.

At this stage, as Surya mentioned, given the Bank’s strong profit generation, we have no further plans to raise any Tier 1 or Tier 2 capital.

With that, I hand you over to Shayne to run through the remainder of the presentation.

Shayne Nelson Emirates NBD - Group CEO

Thanks Paddy.

On Slide 11, you'll see that for retail banking and wealth management, loans grew by 1% while deposits declined by 3% during the quarter. Reduction in deposits resulted as we let go some of the more expensive time deposits. Revenues grew by a modest 1% year-on-year, but this was impacted by a change in internal transfer pricing arrangements.

Islamic banking showed impressive growth across all metrics. Revenue grew by 13% quarter-on-quarter. Financing receivables grew by 6% in the first quarter, with customer accounts growing by a similar figure.

Emirates Islamic also delivered a healthy increase in non-interest income, thanks to the ongoing success of the murabaha trading platform and increased revenue from the sale of takaful products.

Both retail and Islamic Banking tends to be relatively more profitable and growth in these parts of the business has helped to maintain our margins. We expect these business units to continue to perform well in the coming quarters, on both the assets and deposit side.

If we move to Slide 12, wholesale banking delivered strong growth of 15% quarter-on-quarter.

Loans and deposits, both grew by 1% during the quarter. We are still not seeing increased demand for corporate loans and the market remains highly competitive. Some corporates are cash rich and have deleveraged whilst other corporates are making use of capital markets to help fund themselves.

The wholesale bank continues to focus on customer service quality and share of wallet. This includes improved cross-sell of treasury and investment banking products and increased cash management and trade finance penetration.

Treasury income fell 34% in Q1. Net Interest Income fell due to a change in internal transfer pricing arrangements, the roll-off of some balance-sheet hedges and the size of the investment portfolio reducing. Sales revenue grew on higher volumes in interest rate hedging products and foreign exchange sales. Trading revenues increased as the foreign exchange trading desk delivered a strong performance. We expect sales and trading revenues to be strong in 2015 as more corporate clients look to hedge the interest rate exposures on the expectation that global interest rates will start to rise, especially in dollars.

On Slide 13, on the economic outlook, we saw some signs of a slowdown in non-oil sector growth in first quarter of 2015 although this is from a relatively high base. This is due to several factors. The decline in oil prices had led to weaker investor and consumer confidence. The relative strength of the dollar appears to have an impact on retail spending, real estate activity, and tourism. Tourism from Russia has particularly been affected with Dubai Airports reporting a 35.6% decline in passenger traffic from Russia / CIS in February, following a 22.7% decline in January.

The headline PMI index has declined for the third consecutive month in March to 56.3, but it's worth noting that we are still well above the neutral 50 level.

According to third-party research, the medium term outlook for Dubai's residential real estate sector is balanced with growth prospects in the affordable housing sector. However mid-range villas declined 10.7% year-on-year to March 2015. Annual price growth has slowed across other segments of the market as well. Mortgage caps and higher transaction fees has helped to deter speculation and col the market, while the relative strength of the US dollar has made property prices more expensive for foreign buyers.

Although UAE companies will be beneficiaries of the removal of sanctions on Iran, negotiations are far from over and there are important issues which still need to be agreed upon.

We remain cautiously optimistic for the remainder of 2015, but is conscious of the headwinds of strong dollar and low oil price can present.

In summary on Slide 14, it's been another excellent quarter for the Group. Net profit is up 60% to AED 1.7 billion due to higher income, stable costs and lower provisions.

Total income rose 15% to AED 3.8 billion helped by an improving asset mix and efficient funding base. Fee income continues to become a larger part of total income and we managed to hold NIMs steady in the quarter.

Impairment allowances improved by 14% year-on-year to AED 1.1 billion, as we start to see a normalization of the cost of risk.

The balance sheet remains solid with improving NPLs, stable funding ratios, and a very solid capital base.

We do see some signs of a slowdown in the economy due to oil prices and a strong dollar. We had already factored this into our 5% loan growth forecast we provided at the start of the year.

However, the bank's strong balance sheet provides a solid platform to take advantage of any opportunities that appear in Dubai and the region.

With that, I would like to open the call for questions. Operator, please go ahead with the questions.

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Nelson. We will now begin our question-and-answer session.

Our first question is from Nisreen Assi from Arqaam Capital. Please begin.

Nisreen Assi – Arqaam Capital – Analyst

Hello and thank you for the presentation. I actually have two questions.

The first one is regarding the NPLs and coverage. So now, after crossing the targets, what are the new targets set by the bank and what's your outlook on normalized cost of risk?

And the second one is regarding the government lending. So when shall we begin seeing reduction in government loans, if any? Thank you.

Surya Subramanian Emirates NBD - Group CFO

Nisreen, this is Surya. I'll take the first question on NPL coverage and cost of risk. In terms of NPL, we are at 7.8% and as Shayne mentioned, we acknowledge we are above the UAE average for the sector.

We do have our financial remedial and restructuring unit that had made good progress last year and we are hopeful, they will continue to make progress this year. So both a combination of the growing loan book and recoveries should help to see a reduction in NPLs during the course of the year.

Unlike in past years, where we were able to give you year-by-year target, now as some of these are event driven, we could have large chunky recoveries in one quarter. Equally, we could have one small loan go back in the quarter due to the normal banking business. So we are holding back on giving a specific number, although it's fair to say that, that trend will be better for NPLs.

As far as coverage is concerned, yes, we are above 100%. We are at 103.8% now. That number includes both specific provisions and general provisions of portfolio impairment provisions as we call it. And it's a function of the math and the logic with which a portfolio impairment provision is created, that it's a lagging indicator, the more losses you've had in the past, the more it forces you to put.

Interestingly enough, as the old IAF-39 Accounting Standard gets way to the IFRS-9 standards in 2018, both the regulators and the accounting standards expect us to start providing in advance expected losses as opposed to incurred losses. So the general provision could be a number that could grow marginally from here, both as a result of the past effect on IAF-39 provisioning and the positioning for IFRS-9.

But we should then still be in the range of around 100 and above. Both that then leads to saying that a normalized cost of risk is what we would expect to see from quarter two onwards of this year, because the conservative provisioning cycle has come to an end.

And to what that normalized cost of risk would be, we have not commented on, although there are different analyst views out there from 0.5, all the way to 100 basis points.

I will hand over to Shayne to take the comment on governmental –

Shayne Nelson Emirates NBD - Group CEO

On government lending, I believe so, I'd just say again, we intend to comply with the UAE Central Bank's requirement for five years and that will be achieved through a mixture of capital growth reduction and exposure.

It's pleasing that Dubai this year has a surplus of AED 3.6 billion in its budget, so I think that's a positive sign for the debt of Dubai where it is and we'll keep working on the exposure as we have been.

Next question, please go for it.

Nisreen Assi – Arqaam Capital – Analyst

Thank you. I have one more question if you may allow me.

So with a better deposit mix and CASA now at 60%, do you still see room for lower cost of funding?

Shayne Nelson Emirates NBD - Group CEO

A lower cost of funding, I think the issues is going to be that, we -- if you look around, what's happening in the consumer banking market at the moment, it's seeing margins coming between 50 points and 100 points in the lot of the consumer lending. So I think, the NIM – yes, will we keep growing CASA? Absolutely, it's part of our core strategy to increase that and change that funding mix to maintain our NIMs within the range we've given you. But we are seeing competitive pressure when it comes to margins on consumer loans.

Nisreen Assi – Arqaam Capital – Analyst

Thank you.

Operator

Our next question is from Sanyalaksna Manibhandu from National Bank of Abu Dhabi. Please begin.

Sanyalaksna Manibhandu – NBAD **–** Analyst

Yeah, thank you.

Shayne Nelson Emirates NBD - Group CEO

A question from the competition.

Sanyalaksna Manibhandu – NBAD **–** Analyst

Yes, sort of -- sort of competition.

Can I just ask you about what your strategy is in terms of deposit mobilization? Obviously there are -- we all know about crude prices being low, that we know that you are not totally exposed to crude prices because you're in Dubai.

But I see that your demand and core balance has gone up slightly. Your time deposits have gone down. So is it your take to basically go for more sticky and expensive deposits or to still look to make -- to look to minimize cost of funds by going forwards less sticky, but low cost demand deposits?

Shayne Nelson Emirates NBD - Group CEO

Okay, if you do have the maturity profiles on CASA, it's far stickier than term deposits, especially when majority of our CASA is coming from consumer, so not from the wholesale side. So that -- maybe -- so when we do all the analysis on it -- and it's same in any bank actually. CASA is stickier than term deposits.

Term deposits will move around for price. There is a core sticky element but you are actually better off taking CASA than you are taking term deposits, given the cost. Capital is basically zero cost. So I mean, our strategy has been and will continue to be -- we want to keep within the 90% to 100% range for our AD ratio. We will peel-off more expensive term deposits, for stickier CASA, whenever we get that opportunity and that's certainly one of our core strategies on deposit mobilization is, drive CASA, drive CASA, drive CASA.

The other thing I'd say on funding would be and we would be very opportunistic as you have seen, where we have taken Kiwi, Aussie, Euro to actually go to market to get funding. When we think there is an opportunity that is cheap, we are going for it. So I think in the last time conference call one of thing I said is if there is one thing that worries me about oil price, it is not really the economic effect that flow into our concentration in Dubai as much as liquidity in the banking system and certainly we are watching like a hawk.

Sanyalaksna Manibhandu – NBAD **–** Analyst

Okay. Thank you very much.

Operator

Our next question is from Chiradeep Ghosh from SICO Bahrain. Please begin.

Chiradeep Ghosh – SICO – Analyst

Hello. This is Chiradeep from SICO Bahrain.

My first question is regarding your commitment that is your irrevocable credit line have gone up by almost 3 billion. So if you can throw a little more light on that? And this is one.

My second question is, I want to get a better understanding about the Islamic banking business. It has gone well. I just want to understand are you're competing against DIB, ADIB kind of a bank or overall the Islamic banking business in UAE is expanding. So what exactly is the scenario? Thank you.

Surya Subramanian Emirates NBD - Group CFO

I will take the Islamic one and Shayne will take the first one.

Our strategy for Islamic Banking is really mid-corporate now. So we are pushing hard on a mid-corporate space, which remains in particular and in consumer retail side. So that's really the strategy for Emirates Islamic and it has been a very successful strategy.

Why are we pushing again that way strategically is, obviously in the corporate loan market, it's highly competitive, as we have to keep putting additional capital into that business. We are going to do larger chunky lines. So we have also got an Islamic window within Emirates NBD. So the larger chunkier Islamic transactions we will do through the window, but day-to-day consumer SME etcetera are all done through Emirates Islamic.

Remember, this is a separate bank license, this has a separate bank board and a separate management team. We benefit together by using things like Tanfeeth, our outsource center, process both of these.

But at this moment, this is a standalone bank that has 53 branches now. So it's actually in its own right, it's actually quite sizeable. So it's a strategy that we've been very successful and it is a UAE based strategy, it has no offshore operations at this point in time. And we're very, very pleased with its progress.

We have come a very long way in a short period of time, but we are really being managing and restructuring for a few years. I think the last four years we have really pushed it and it's been highly successful.

Chiradeep Ghosh – SICO – Analyst

Can you just add a little follow-up on this question only?

In this mid-corporate space and SME space, are people very -- I mean, they want to go for Islamic banking or I mean, they look for more competitive rates? So you're actually competing against the conventional bank as well, or there is an affiliation or there is an inclination for Islamic loans?

Shayne Nelson Emirates NBD - Group CEO

If we look at the pace of Islamic banking growth in this market, it has outstripped conventional probably about two to one. So I think that's one of the positive signs for it. Does it cannibalize your own space? Absolutely. The conventional space is being cannibalized by Islamic banking. There is absolutely no doubt about that. I was just saying with the growth in the likes of the Abu Dhabi Islamic bank, Dubai Islamic bank and Emirates Islamic.

So they are absolutely competing with the conventional banks and themselves in the Islamic space. It's a highly competitive market. Whatever we say is certainly we're seeing a movement of clients in the UAE to Islamic banking who come from Muslim background, but we do have quite a few non-muslim clients within the Islamic bank space as well. So I think the people are adapting and adopting Islamic banking very positively.

Chiradeep Ghosh – SICO – Analyst

Okay.

Surya Subramanian Emirates NBD - Group CFO

Chiradeep, this is Surya. I'll take the first question on irrevocable loan commitment, but first off, let me wish you a very happy new year and a good year ahead.

Chiradeep Ghosh – SICO – Analyst

Thank you very much

Surya Subramanian Emirates NBD - Group CFO

In terms of irrevocable loan commitments, letter of credits, and liabilities on risk participation and guarantees which are on page 24 of our detailed financial statements, the note 17 to the accounts, this is really the potential for a Q2 drawdown.

It does mean that we booked the business on an irrevocable basis with our customers. the chances of whether they drawdown or not is quite high depending on whether you look at an overdraft facility or term loan type of the facility and I can tell you that of the 3 billion increase that you see there about a third is a working capital line, a third is project base and the others are trade related.

So chances are the project based and the trade related would get drawn down very shortly within the next six months. The working capital line really depends on the needs of our customers. So that will lead to asset growth in Q2 and Q3 in the normal course.

Chiradeep Ghosh – SICO – Analyst

Okay, thank you very much for that. Thank you.

Operator

Our next question is from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik - EFG Hermes - Analyst

Hi, thank you very much for the conference call. Just had a question on your NIM. You are guiding at 2.7% to 2.8% for 2015 you are at 2.9% at the end of the first quarter. So basically the pressure is coming from tighter pricing on loans and lesser room of improvement in cost of funding, Am I correct?

Surya Subramanian Emirates NBD **-** Group CFO

It will be tighter pressure Shabbir on the loans, not so much the cost of funding because as we increase our CASA, the increase is a cost component of our funding but we do think we have a strategy to lengthen the medium-term maturity profile of the book. There we obviously have to see up depending on whether we go on the five year note or the seven year note, etcetera.

Now if you look at the last two years, our NIMs have been steadily increasing because both of the liability side we were letting go term deposits and increasing CASA. On the asset side we were growing the retail assets faster than the corporate assets. Both those had a good impact of opening up the margins.

As it get to 60% CASA as a proportion of total deposits and as we get to mature growth levels within the retail banking portfolio the treadmill effect starts to kick-in where you have to run faster and faster just to maintain that level of margin also.

Shabbir Malik - EFG Hermes - Analyst

Okay. And on the asset side, you still continue to see pressure because LIBOR rates apparently have bottomed out. So what is causing that pressure? Is it competition between banks or new customers?

Surya Subramanian Emirates NBD - Group CFO

It is very much competition between banks and you would have seen earlier in the week, one of our counterparts, in Dubai banking industry had come up with some significant growth in their assets as well, although not everybody in the market has grown. So it depends on which sector they focus, which sector we focus.

Shayne Nelson Emirates NBD - Group CEO

I think, it depends also where you are on your potential limits around GREs and government as to where you can and cannot grow as well.

Shabbir Malik - EFG Hermes - Analyst

Okay. When I look at your NPLs, you have about 21 billion in fully provided NPLs. What is the scope of these being upgraded and what kind of success you've had so far in bringing these numbers down?

Shayne Nelson Emirates NBD - Group CEO

Well, I think we've basically halved them I think in the last 18 months, so I think that's somewhat a success. But certainly, it is part of our focus. As you rightly said, there is 21 billion of problem loans there, and certainly, we are working extremely hard to get that money back.

There's a lot -- there's probably a lot of loans, there with collateral behind them and so I think, it is a combination of sale and foreclosure on properties, plus I think we have got some clients, so I think we will get positive workouts over the course of time. And I think we certainly see that as a -- to us, it's a revenue pool. It is an asset pool that we need to maximize the value on and I can assure we are absolutely concentrating on.

Timing is very difficult, right? Because how soon can you get through a workout and get the client into a state that even when you -- if you sign a deal today, it will take you time before you will reclassify it. So these things take quite a bit of time to actually solve. We've made good progress -- we made good progress last year. I'm confident, we'll make a decent progress this year.

Surya Subramanian Emirates NBD - Group CFO

Shabbir, I was just going to add, if you look at Slide 9 of the investor pack, you will see an absolute dirham we kind of peaked at quarter four of 2013 and quarter one of 2014. And even if you ignore the Dubai world impact, just looking at the core corporate business and the Islamic loans, both have come down almost 800 million and 600 million over the course of the year. And if that trend continues and I would hope accelerates with the efforts that are financial remedial and restructuring unit. There should be recovery coming through for a few years, but it's fair to say that in any credit cycle over 8-10 year period, you would eventually have to write-off, I would say looking at my Asian experience at least 30% would eventually be non-recoverable overtime. I think, Shayne you had similar experience.

Shayne Nelson Emirates NBD **-** Group CEO

Yes. I think, in the Asian financial crisis it was about 50. The loss given recovery was about, loss in default was about 50%.

Shabbir Malik - EFG Hermes - Analyst

Okay. Thank you very much.

Operator

Our next question is from Vikram Vishwanathan from HSBC. Please go ahead.

Vikram Vishwanathan – HSBC – Analyst

Thank you for the presentation. I have three questions.

My first question is on the impairment side. When I look at the impairments, they went up from 64 million in March 2014 to more than AED 0.5 million in this quarter. Is this all due to IFRS 9 or is this due to provisioning on retail loans? That's my first question. Also on the provisioning side, did you mentioned that your normalized cost of risk is 100 basis points. Maybe I missed it. So that's my first question.

Surya Subramanian Emirates NBD **-** Group CFO

Vikram, I did not state what our normalized cost of risk is, but I said that the analyst out there in the market have a range from 50 basis points to 100 basis points. But all I did say that we should start getting into the normalized cost of risk cycle, now that we have completed our enhanced and conservative provisioning cycle.

Vikram Vishwanathan – HSBC – Analyst

Right. Okay. So, sir you're not giving any guidance for cost of risk at this stage. Right?

Surya Subramanian Emirates NBD - Group CFO

No

Vikram Vishwanathan – HSBC – Analyst

Okay. And the increase in the corrective provisions, this is all due to IFRS 9? It's based on expected loss accounting? Is that the way to interpret it?

Surya Subramanian Emirates NBD - Group CFO

We obviously follow IFRS 9 and we have both specific and collective provisions during the quarter. They have been collective provisions also as you can see during the quarter.

Vikram Vishwanathan – HSBC – Analyst

Right, so that's my question. If you look at the charge for the collective provisions, in March 2014 it was 64 million and this quarter it was more than AED 0.5 million, right. This is note six of the financial report. So there is a massive increase in the collective impairment and so my question on this is, it's just all due to the -- this is all due to the accounting for expected losses, rather than -- on incurred loss basis here?

Surya Subramanian Emirates NBD - Group CFO

No, we haven't yet moved to IFRS 9, which takes you strictly into expected losses. The implementation date for that is 2018 as a mandatory level. People are allowed to adopt early, we have not adopted early. But the reason we are still on IAS-39, which is the incurred loss basis, but the incurred loss basis is for specific losses, but within that, they have a catch all section on how you come up with the portfolio of provision under the model.

The way the model works is, it pretty much gives -- if you had a certain loss experience, one year or two years, there, one thing the nearest peer and get three big deals this year, there is a formula that gives the highest weightage to what's in year one and the lowest weightage to what's in three, apply that on the risk-weighted assets you have in your books to arrive at this provision. So it's also a function of how the book moved and how past provisions moved to understand what happens for general provisions in a particular quarter.

I think it's probably better for us to say that, having achieved 103.8% total coverage and we are looking at approximately 4 billion of total portfolio impairment provisions within our current stock of impairment allowances, and that a number will grow a little bit, but you should see it stabilizing very soon.

Vikram Vishwanathan – HSBC – Analyst

Alright, okay. It's very clear. The other trend I noticed was when I look at your balance sheet, I saw that your investment in the bond portfolio, both government and non-government, they declined quite a bit from December to March. Is there something of a structural decline or was it just a temporary -- is it just a temporary kind of reduction?

Surya Subramanian Emirates NBD **-** Group CFO

These are trading securities that you are looking at?

Vikram Vishwanathan – HSBC – Analyst

These are mostly AFS which are available for sale securities, so the government bonds declined from 7 billion to 6 billion and the corporate bonds declined from 4.2 billion to 3.9 billion, this is note 6

Shayne Nelson Emirates NBD **-** Group CEO

Yeah, I think you have to see it in the context of our overall investment book which is almost 15 billion, so 14.5 billion came down to about 12.6. You just happened to pick the screw that have moved. I wouldn't say that it is anything structural, these are just normal buy and sell operations that happened.

Vikram Vishwanathan – HSBC – Analyst

All right. Okay. My last question is, you obviously -- you are seeing good strength in consumer lending both in conventional and Islamic business. What impact does the creation of the new credit bureau have on these business segments? Is it fair to say that there be a slowdown in the next nine to 12 months once the credit bureaus start delivering -- once it starts delivering reports on the borrower profile?

Shayne Nelson Emirates NBD **-** Group CEO

I think that's a very good question. I mean, the experience I've had in other markets when the credit bureau has been introduced, it is been that credit growth has slowed quite sharply. Because you don't know what you don't know and once you know, you might not like what you know. So I think in some markets you can see quite drastic contraction in volumes, I mean, in actually outstanding, but just new volumes coming through. That normally stabilizes within nine to twelve months.

So I think we will be in for a tougher consumer and bank driver as we go into the next nine months. One of the reasons why we were one of the lowest in forecasting what loan growth would be in 2015, we just saw some of our competitors. We factor that in where we thought all was going.

Vikram Vishwanathan – HSBC – Analyst

All right. Thank you very much for your answers. Thank you.

Operator

Our next question is from Sandeep Daya from Individual Investor ADCB. Please go ahead.

Sandeep Daya - Investor

Hello. I have a two quick questions.

One question is regarding the operating income. As per your notes 20th of your financials, usually under others you report income from Egypt, which is usually around 110 million or 120 million, but this time you are showing a net interest income of 401 million, so I just want to know how this has been increased?

And the second question is regarding the net interest income of the wholesale banking. In Q4 2014 it was 737 million, which has increased to 898 million. However, the loan growth is basically almost flat and if there is a loan growth that is coming from the sovereign. So can you please explain the rationale behind it?

Surya Subramanian Emirates NBD - Group CFO

In terms of operating income we've had, as I mentioned some sale of legacy properties that are included within that number as well. The other amount -- product that is well was foreign exchange linked to our remittance business, as we launched some of these new products as well.

So both these are contributed, one is the kind of one off that we talked about. Although we call it one off, the bank has a sizable property portfolio and we have been consistently getting some income out of this for the last two years.

We do display under a separate line to distinguish from the core fee income growth in the Investor Relations pack. The financial statements themselves do not bring the core and non-core, you have to refer to the IR pack well.

But if I take you to slide --- in the IR pack that would be, Slide 7, which is non-interest income, you'd see that core fee income grew 25% year-over-year and 13% quarter-over-quarter, even if I exclude the property income and the investment securities income as well.

Your second question relating to wholesale bank performance, some elements of the benefit we have on the funding sides, because when he talk about current and savings accounts, it's not just current and savings accounts in the retail and SME portfolio, it's also catch cash management accounts that in wholesale bank that come in.

So even if asset growth is muted as long as the liability mix improves, there is benefit, plus as recoveries come in, some recoveries do result in a reversal of interest expansion that comes into the P&L. Finally, you have increased income on non-funded income with trade-related services as well and that's more of a turnover issue linked to the growth in the economy, which have been pretty good I would say in 2014 and 2015 as far as trade and services are concerned.

Sandeep Daya - Investor

Okay and in the retail side, you mentioned that net interest income/debt because of the transfer pricing, any view like how much impact because of that?

Surya Subramanian Emirates NBD - Group CFO

Well, we haven't segregated the impact, but this is -- there was some gain within the organization. As we look at – our asset liability committee will look at internal liquidity premiums depending on where the market is, where the book is and what kind of behavior we want to promote for our products.

Sandeep Daya - Investor

Okay. Thank you.

Operator

Our next question comes from Rahul Shah from Deutsche Bank. Please go ahead.

Rahul Shah – Deutsche Bank – Analyst

Four questions from my side.

If we turn to loan growth and strip out the exposure to the Dubai sovereign, it does look as if loans actually shrank quarter-on-quarter, year-on-year. I guess some of that is down to FX effects, but given your high levels of liquidity and capital, it does seem that you are perhaps being more cautious than your competitors. I'd be interested to get your take on why you are being more cautious than many other banks in the market? So that's my first question.

The second is just on the Egyptian business, if you could give us an update on how that's been progressing in terms of volumes, margins, and risk costs and whether you'd be interested in doing more M&A within Egypt.

The third question is on property gains. You've mentioned that certain segments of the market are actually seeing price declines. Would you as a bank be willing to sort of ride out that cycle and perhaps we'll see lower property gains going forward or will you continue to supply the market with your inventory?

And fourth question, just on NPLs. If you can give us a sense of what proportion of the NPL book that you have disclosed is effectively performing and just pending reclassification to performing status? Thank you.

Shayne Nelson Emirates NBD - Group CEO

Okay. On loan growth, some of the -- as far as maybe line growth reflects success, believe it or not, and that is the successful workout of some of the problem lines we've got, so you will get repaid and the example I would give you Dubai World have repaid 1.8 billion in the quarter.

So we are seeing some reduction in our loan book, because we will be successful at collecting. So I think that's a good thing. Are we being more cautious in the line growth than some of our competitors? I think the answer is, honestly, it is yes. We are very mindful of our return on risk capital and some of the loans we've being seeing in the price that we are being seeing versus what we can find out, so that make sense to us. And where we don't see enough ancillary business to cost subsidize that, we are quite prepared to let the business move to someone else. That's the discipline we have within the organization. Unless we hit our return on risk capital hurdles, we don’t think it's prudent if we there is no other business to actually do that lending and someone else can have it.

Surya Subramanian Emirates NBD - Group CFO

I'll take the questions on NPL and property and then turn back to Shayne for the Egypt strategy. Rahul, in terms of NPL, there is no such thing called performing NPL. Nonetheless, certain NPL customers do payback cash from time-to-time. We do not apply that cash towards income until we are in a position to upgrade the customer and that has to follow a positive strategy event and we look at that every quarter.

When you look at our year-end financial statements, we do show a distinction between past due but not impaired and impaired and the quarterly doesn't show that. But if you look at the year-on-year financials, you'll see that component of past due not impaired, and also been coming down over the years, reflecting the overall improvement in the credit quality in the book. But as I said, you would hope as the remedial and restructuring unit works out solutions, going with our customers, some of the NPLs will be re-graded during the course of the year and we'll update you every quarter as it goes along.

As far as properties are concerned, we have two sets of properties, Rahul. One is, what is publicly known in the market. We have had asset swaps with the Union Properties in 2010, 2011 and a little bit in the early part of the 2013, which we have been off loading in the market. The intention is never to hold it and we haven't done any other assets swaps of significance with any other customers and that would come into our inventory. We report that as inventory in the financial statements.

Apart from that, because we are a 50-year old bank, both within the Islamic Bank and the conventional bank, we have legacy properties that we have acquired way back in the past. Some of these, we have got rid of in recent years, especially when we don't have any reason for it.

I'll give you an example. We had a branch in a fairly well good location in Dubai that we used the ground and the first level and then, there are 20 floors of residences above that. We don't really need those. In the past, we used to collect rent from those, but we are not in the property business. So what we've done is, we've sold the entire building, we've leased back the premises we occupy as a branch. Now that portfolio, together with what we have in inventory in total is about AED 2.8 million right now. If I go back in history and don't hold me to this number, but from memory when I joined four years back that number was well over AED 4 billion to AED 5 billion and that's come down now to 2.8. We haven't been adding to the stock.

And just on Egypt as I hand over to Shayne to talk about how Egypt has performed. I noticed, you slipped in a question about will we be doing other acquisition in Egypt, you really do not expect us to answer that question, do you? But I will let Shayne talk about how Egypt is doing and what are strategic view on Egypt is.

Shayne Nelson Emirates NBD - Group CEO

Thanks, Surya. I think from our perspective, it has actually outperformed our acquisition forecast. So I think one of the things I'm very happy about is, it's beaten all our forecasts from where we acquired it. So from a value perspective, we believe we got extremely good value out of the Egyptian operations and it continues to perform well. We are looking to expand organically in Egypt and like anywhere, if there is an inorganic opportunities that made sense to our shareholders and the bank's liquidity and capital position, we would looked at it whether or not we paid the price it was going, is another matter. It took us five years to find Egypt in the first place and it turned out to be a good acquisition for us and we are very happy with it.

Surya Subramanian Emirates NBD - Group CFO

Rahul, I think you asked a question on lower margins or rebound in margins. It is the expectation as well for this sort of generic tightening in margins that we've been alluding to, may become strong. As we move from frontier economy to an emerging market economy and tightening in generic margins across all out products that you would expect from that.

Shayne Nelson Emirates NBD - Group CEO

One of the things that I will say to people about margins on especially consumer lines is that when I was working in Hong Kong, when I first arrived, their spreads on mortgages were 300 to 350 basis points. By the time I left, those spreads were down to 75 to 100.

So when I arrived, mortgage business had about a 25% cost-to-income ratio, looked like a fabulous business and by the time I left, it look like a pretty sick business. So one of the things that I'm very, very conscious is that lesson I have learned in history is that, don't fool yourself that you are efficient, because you've got healthy margins. Make sure that you keep generating efficiencies and that's one of the reasons we're very conscious to run positive jaws.

Rahul Shah – Deutsche Bank – Analyst

Thanks very much.

Operator

Our next question is from Naresh Bilandani from JPMorgan, Dubai. Please go ahead.

Naresh Bilandani – J P Morgan – Analyst

Thank you. Hi, Shayne, Surya, Patrick. Thanks a lot for your presentation.

Two questions please, more broad in nature.

One, can you please provide some comments on the state of the USD funding comfort and the liquidity availability on USD that you're seeing in the market currently and has that changed materially over the past year? I ask this because we've seen quite a bit of volatility around the pegs in the regional currencies, especially the Saudi riyal. Is this a reflection of some stress on the USD funding in the domestic or the regional system? So that would be my first question.

And second, can you please share your thoughts, I know you talked on the margins already, but please can you share your thoughts on how your annual budgets and expectations for 2015 are aligned to your expectations of the US rate environment? I'm just trying to understand the pace of pass-through of any potential hike in the fed rates and how you position to see your NIM trend developing, not this year, but I'm trying to get a gauge for where next year NIMs could look like, assuming we are living in an era of about rates and higher about 200 to 250 basis points. Thank you.

Shayne Nelson Emirates NBD - Group CEO

Yeah, just on the last one I have to say, if your book is largely CASA, 60% of CASA and you get a hike in rates, it's going to be positive for you. Providing you're not passing on that, of course that the benefit to that CASA client. So normally you would get it on the lending side and on the deposit side, the cost will remain the same. So I think, that's a positive thing for us. I'm sure you can work out how many basis points, I've just given that funding mix. So I think, in some regards, higher rates will be beneficial for us, so that the counter side of that is, it affect loan demand as we go forward.

On dollars, I think it's one of the things that worries me, it's not only dirhams, but it is also dollars. Hence why we've been quite prudent in how we are managing our liquidity and watching it like a hawk. I had said this, at the end of last year, as oil prices fell, my concern is around liquidity and managing that liquidity. And I think the market is shorter in dollars than it was. I don't know about Saudi but certainly I think the UAE is short of dollars, but to be honest, we're not a big dollar bank, we're a Dirham bank. We've naturally long Dirhams. We don't have a massive amount of use for dollars. So the effect on us is not significant at all, because we don't have a lot of demand internally for dollars.

Naresh Bilandani – J P Morgan – Analyst

Thank you very much Shayne. Now we're hearing the same message from the Saudi banks also that there is certainly a shortage of dollars and they're definitely watching that part of the liquidity also very carefully. On the first, thanks to reply on the first bit of the question on the expectations of the rate hike and how that would impact the margins. It's easy to sort of like say yes there would be definitely these would be positive rate hike, would be positive for the domestic margin environment. I'm just trying to understand a bit more on the numeric side, how given the state of the competition and how is your balance sheet position to say is there a sensitivity you can provide that 100 bps hike in the margins in the fed rates, how would that impact your margins by 10 bps or 30 bps? I'm trying to get a bit more of a numeric guidance on that.

Surya Subramanian Emirates NBD - Group CFO

Naresh, we do not disclose it in the insurance financial statements. But if you look at note 49 risk management disclosures in the year-end financials for 2014, you will see that 200 basis point rise or fall costs about 824 million increase if it's a rise in our net interest income and 361 million drop in our net interest income if there is a fall. So obviously the book is positioned, anything from the (inaudible) would say to benefit from a rate rise.

Naresh Bilandani – J P Morgan – Analyst

Thank you, Surya. Then maybe delving a bit more deeper into it. These theoretical sensitivities historically in my experience as covering the banks in the EM space, usually they're down to work and typically banks tend to, because the sensitivity assumes a parallel rate hike across the curve and passage of the higher rates into both lending as well as deposit books. Could you please give me your thoughts on how does the consumer behavior sort of change within the regional space and how much of a real benefit you could potentially get, because it's unlikely to believe that you would also pass through the entire rate benefit into the deposit books once we enter into that environment.

Surya Subramanian Emirates NBD - Group CFO

I can't give you an exact model, Naresh. But let me just break up it into assets and liabilities. For liabilities, it is fair to say that a certain portion of the CASA will be cannibalized into fixed deposits as there is an offer of higher rates on fixed deposits. But having said that, if you look at our strategy for the last four years, the growth in CASA did not come from taking additional money from the same customer, it came from new money from a new customer, both on the retail space and the SME space. So the statistical stickiness of the enhanced CASA pool is stronger in a rate hike scenario than if we had just doubled existing deposits of existing customers. So it's not a perfect answer, but we are a little bit more confident that we will get the benefit on the liability side.

On the asset side, it's a little bit more complex because certain loans do have floor rates, and even if rates rise, you may not get the benefit if the floor is above where the market is and so on. And that's a more complex calculation. But you would have seen in 2012 -- in latter part of 2013 and 2014, our NIM -- if you look at our NIM chart, it did show the lagging indicator whereas EIBOR dropped, we got the benefit first and then the loans caught up in the subsequent quarter. You'd see the same effect on the reverse way, as the rates go up, it will hurt us one quarter and then the loans will reset after 90 days or 180 days. The benefits of that will come with a three-to-six month lag on that book. That structure hasn't changed.

Naresh Bilandani – J P Morgan – Analyst

Okay. Thank you, Surya. I promise you, my final question on this one is, how does the rate pass-through work inside UAE? Assuming, we have a rate hike from the Fed in September, now there is a differential between the LIBOR and the EIBOR of roughly about 50 basis points, approximately. Does this mean that the domestic central bank has a leeway, not to immediately match the rates or to maintain that level of a differential that the timing or the lag will not particularly be there and we could see effectively these rate pass on immediately into the domestic monetary policy?

Patrick Clerkin Emirates NBD - Head of IR

Yeah, hi it's Paddy here. I think if you look at the differential between EIBOR and LIBOR over the last number of years, it has varied and there is a strong mechanism in place for setting EIBOR rates within the UAE, and the contributing banks and the process that they follow. And I think, it fair to expect that, should there be an increase in rates within the US, the flow-through impact towards LIBOR rates would not necessarily be instantaneous but we would see that happen and pretty soon there afterwards, gather momentum.

Shayne Nelson Emirates NBD - Group CEO

Basically if you don't pass it on quickly given the peg, you're going to allow an arbitrage, to an outflow of Dirhams and the dollar, so normally, the translation is pretty quick.

Naresh Bilandani – J P Morgan – Analyst

Okay, Shayne. Thank you Shayne, Paddy. Thank you so much for your replies back. Appreciate it.

Operator

We have no further questions. I will now hand the call back to Mr. Shayne Nelson for the closing remarks.

Shayne Nelson Emirates NBD - Group CEO

We thank you very much for joining us today. Truly well, I think it was an excellent set of results and we look forward to your reports to see what you think our results, hopefully they are all shining. But we remain cautious optimistic for 2015. The bank is in great shape and we're ready to go and expand more and we like to thank you for your participation. Cheers.

Operator

For any further questions, please contact our Investor Relations Department, whose contact details can be found on the Emirates NBD website and under results press release. A replay of this call will also be available on the Emirates NBD website next week. Ladies gentlemen, that concludes today's conference call. Thank you all for your participation.

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