EMIRATES NBD H1 2019 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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Operator

Good day, and welcome to the Emirates NBD 2019 First Half Results Investor and Analysts Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Shayne Nelson, Group CEO. Please go ahead, sir.

Shayne Nelson

Joining me as usual are Surya, the Group's CFO and Paddy, our Head of Investor Relations. The results presentation was made available earlier today. We will review the operational and financial highlights for the first half of the year, after which you will have the opportunity to ask questions.

If we go to page three of the presentation, it contains a summary of the key results I am pleased to report a healthy set of results with a net profit of 7.5 billion dirhams for the half of 2019. This is a 49% increase on the first half of 2018 and includes a 2.1 billion dirham gain on the partial disposal of the Bank's investment in Network International. Excluding this gain, the Bank's Operating Profit grew by 8% year on year, driven by 13% asset growth, stable margins and strong growth in foreign exchange and investment banking income. We have been able to deliver positive jaws in the first half and the cost to income ratio remains at just under 30%.

The Bank's balance sheet remains solid with healthy capital and liquidity ratios and stable credit indicators. The Common Equity Tier 1 ratio strengthened by 0.8% in the first half to 17.4% due to retained earnings, including the gain on the disposal of NI shares. We have made considerable progress in terms of organic and inorganic strategic developments. We have now received all the necessary regulatory approvals to proceed with the acquisition of Denizbank in Turkey. Denizbank have scheduled an EGM for 1st August and we are aiming to complete the acquisition around this date.

We are honoured that SAMA have granted Emirates NBD permission to open a further twenty branches in the Kingdom of Saudi Arabia. This will eventually increase our presence to twenty four branches. Realistically, we expect the identification of suitable branch sites, along with hiring the right staff will take place over the next couple of years. We also continue to organically grow our branch presence in Egypt and have opened 4 more branches this year.

In respect of the UAE economy, as a result of extended oil production cuts, we have revised our headline GDP growth forecast for 2019 to 2.0% from 3.1%. The Bank's Research team expects Dubai to be the main engine of non-oil growth in the UAE this year, with GDP forecast to expand 3% in the emirate, in contrast with Abu Dhabi's expected 1% non-oil GDP growth. The UAE PMI and the Dubai Economy Tracker continue to register high scores, although price discounting has been a repeated feature amongst contributing firms.

Overall I am pleased with the Bank's performance. We delivered a healthy increase in operating profit and the partial gain on the disposal of NI shares boosted the Bank's strong capital position. We continue to make progress on our organic and inorganic strategic initiatives. We hope to close the Denizbank acquisition in the coming weeks and we are excited to expand our branch presence in both the Kingdom of Saudi Arabia and Egypt.

I will now hand you over to Surya to go through the details of the presentation.

Surya Subramanian

Thank you Shayne. As usual, I'll go through the financial results made available in slides four and five of the presentation given to you earlier. As Shayne mentioned, the Group's net profit of AED 7.5 billion in the first half of 2019 represents a 49% increase on the previous year. This includes a AED 2.1 billion gain from the sale of Network International shares as the Bank's stake reduced from 51% to 22.4%.

Excluding this one-off item, Operating Profit grew by 8% in the first half of 2019 with all business units delivering higher revenues during the year. The increase in operating profit was driven by 10% higher net interest income from asset growth and 20% higher fee income from increased foreign exchange and investment banking activity. The Bank delivered positive jaws in both the first half and the second quarter, as income growth comfortably exceeded a rise in costs

In terms of costs, the 7% increase, in the first half, relates to a rise in staff costs as the Group opened additional branches in KSA and Egypt. Part of this increase also relates to the ongoing investment in digital and technology. However the cost to income ratio for the first half is 29.7%, well below the ongoing management target of 33%. This demonstrates that we have adequate headroom to continue with our investments and still meet our long term cost to income target.

Provisions of AED 1,226 million were 62% higher than in 2018 as the net cost of risk rose to 82 basis points for the first half. We had earlier indicated that we expect the cost of risk to drift up towards the 80-100 basis point long term range, partially as a results of lower write backs and recoveries. This is indeed the case as write backs and recoveries declined to AED 527 million, down from AED 840 million in the first half of 2018.

Loans and Deposits grew by 3% and 5% respectively during the first half of 2019. Loan growth was flat in the second quarter as expected, partially due to the seasonal slowdown and the extended holiday period. We continue to guide for mid-single digit loan growth in 2019. The Advance to Deposit Ratio strengthened to 92.1%, comfortably within Management's target range reflecting the Group's healthy liquidity profile. The NPL ratio also remained stable at 5.9%. The Bank's capital ratios remain solid with the Common Equity Tier 1 ratio increasing by 0.8% to 17.4% during the first half, as retained earnings more than offset an increase in risk weighted assets.

Moving on to slide six on net interest income, we see that margins have followed a similar pattern to short term interest rates, rising during 2018 as the US Fed increased rates, before declining in 2019 on the expectation of rate cuts. The market is now expecting at least one rate cut this year. This expectation of lower rates is already visible in EIBOR rates, with 3-month EIBOR falling 25bp and 6-month EIBOR falling 46 basis points in the first half. As a result of the improvement in margins in 2018 and the subsequent tightening in 2019, the NIM in the first half of 2019 is only 1 basis point lower than in 2018.

NIMs declined 11 bps in the second quarter of 2019 as lower rates flowed through to the loan book which more than offset a rise in income from investments and bank placements. We have maintained our NIM guidance at 2.75-2.85% for this year. Although lower rates will put downward pressure on margins, the Bank has extremely strong liquidity and has the ability to retire more expensive fixed deposits. It is worth also bearing in mind that the average NIM in 2016 was 2.51% and in 2017 was 2.47%, so despite the NIM contraction last quarter, overall NIM levels are still historically healthy.

On loans and deposit trends shown in slide seven, we see that gross loans grew 3% during the first half of the year with most of this growth occurring in the first quarter. As expected, loan growth was slower in the second quarter, due to seasonal effects and an extended holiday period. Corporate lending grew 3% with demand coming from the manufacturing, services and real estate sectors. Emirates Islamic also registered 2% loan growth in the first half as it saw demand from manufacturing, personal, and real estate sectors. Consumer lending remained unchanged during the same period.

Deposits grew 5% during the first half, with CASA higher by 4% and Fixed Deposits advancing by 7%. CASA represents 50% of total deposits, down from 51% at the start of this year. Our capital adequacy position is on slide eight. During the first half of 2019 the common equity Tier 1 ratio strengthened by 0.8% to 17.4% as retained earnings, including the one off gain from the sale of NI shares, more than offset an increase in risk weighted assets. Credit Risk Weighted Assets increased by 10% during the first half as total assets grew by 7%.

Both the Tier 1 ratio and the Capital Adequacy Ratio improved during the first half but dropped in the second quarter as, with the approval of the Central Bank of the UAE, the Bank repaid $1 billion of old-style Additional Tier 1 capital in May. This was prefunded earlier in the year with the issue of $1 billion of Basel III compliant Additional Tier 1 capital in March.

The Bank has sufficient capital to acquire Denizbank and still meet all minimum capital requirements. Funding and liquidity on slide nine, we see that the Liquidity Coverage Ratio was healthy at 188.8% whilst the Advances to Deposits ratio strengthened to 92.1%, at the conservative end of the 90-100% target range.

Liquid assets are 84.7 billion dirhams or 18% of total liabilities. During the first half we raised 9.7 billion dirhams of term funding in 7 different currencies with maturities out to 20 years. Debt and Sukuk represent 11% of total liabilities, up from 10% at the beginning of the year.

During 2019 we have a total of 7 billion dirhams of term debt maturing so the first half issuance more than fully covers this year's maturities. This allows the Bank to consider any further issuance at a time and price that makes sense for both investors and ourselves. The strong liquidity position shows that the Bank has sufficient liquidity to acquire Denizbank without the need to raise further funds.

I now hand you over to Paddy to take you through the next few slides.

Patrick Clerkin

Thank you, Surya. Slide 10 shows that core fee income improved 10% year-on-year. This increase is driven by higher foreign exchange income from a strong Global Markets & Treasury performance in FX, a rise in the volume of card transactions and increased Investment Banking income.

Investment security and other income also showed a year on year improvement in the second quarter, due to an impairment provision taken in the corresponding quarter in 2018. The net effect of an improvement in both core fee income and investment security income is to increase total non-interest income by 23% year on year

On slide 11 we see that the NPL ratio was stable at 5.9%. Provisions for the first half were 1.2 billion dirhams, a 62% increase on the corresponding period in 2018. During the first half we had 527 million dirhams of write-backs and recoveries. This is lower than the 840 million dirhams of write-backs and recoveries for the same period in 2018.

The cost of risk in the first half was 82 basis points, up from 63bps in 2018. Earlier we signalled that we expect the cost of risk to drift up towards the long term level of 80-100 basis points, as we do not anticipate the same level of write-backs and recoveries experienced in earlier years. The coverage ratio improved by 2% in Q2 to 125.8% mainly due to an increase in impaired provisions on both conventional loans and Islamic receivables. The coverage ratio including collateral remains healthy at around 230%. We expect credit quality to be stable in 2019. Stage 1 and 2 ECL allowances now stand at 8.2 billion dirhams or 3.1% of credit risk weighted assets. This comfortably exceeds the 1.5% Central Bank requirement.

On slide 12 we see that costs were 4% higher year on year, and 2% higher quarter on quarter, due to staff costs relating to our international expansion and our ongoing investment in digital and technology. Other costs improved as higher telecom costs, partially as a result of increased internet availability, were more than offset by lower consultancy charges. The cost to income ratio at 29.7%, remains within guidance of 33% and gives us headroom to invest selectively to support future growth.

On slide 13, we see that, in 2019, Retail Banking and Wealth Management revenue improved 9% year on year. Net interest income grew by 11% supported by growth in liabilities. Fee income grew by 5% due to an increase in card and foreign exchange transactions. Loans balances were unchanged whilst deposits advanced by 2% backed by higher current and savings accounts. Liv., the country's first digital bank for millennials, now has over 250,000 customers as new products were extended to the Liv offering.

Emirates Islamic delivered a 7% year-on-year increase in revenue to AED 672 million on higher lending activity. Financing receivables grew 1% and Customer accounts increased by 5% during the year with CASA representing 64% of EI's customer deposits. EI's headline Financing to Deposit ratio stood at 83% and is comfortably within the management's target range.

On slide 14 we see that Wholesale Banking revenue remain unchanged y-o-y. Revenues declined 5% quarter on quarter due to lower volumes of Treasury sales and tighter foreign exchange margins during an extended holiday period. Fee income of 700 million dirhams for the first half was 15% higher due to higher investment banking revenue helped by Emirates NBD Capital's strong presence in the debt and equity capital markets.

Loans grew 4% in the first half with strong momentum in lending activity and growth in the Bank's core and short term lending business. Global Markets &Treasury revenues increased by 71% year-on-year. Increased credit trading activity from higher new issuance volumes in the region helped drive revenue growth. The Rates desk enhanced its market making activities which helped increase market share. The Foreign Exchange desk was able to successfully take advantage of volatility in G10 currencies. The ALM business continued to deliver strong results by positioning the balance sheet to take maximum advantage of interest rates movements

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

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Shayne Nelson

Thanks Paddy. This healthy set of results for the first half of 2019 was underpinned by continued growth in net interest income and higher fee income, along with the gain of disposal of Network International shares. The bank's balance sheet remained solid with strong capital and liquidity ratios and stable credit indicators.

In this first half, we have delivered 3% loan growth. Costs remain firmly under control and we have delivered positive jaws. Margins declined in Q2 mirroring the market expectation in US rate cut, but we have been able to hold our guidance unchanged. We have now received all necessary regulatory approvals to proceed with the acquisition of Denizbank, and we are aiming to close this in the coming weeks.

And additionally, we are very pleased to receive SAMA permission to open the further 20 branches in the Kingdom and we look forward to bring these branches online in the next couple of years. And with that operator Chris, I'd like to open the questions. Please go ahead.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik - EFG Hermes

First of all, congratulations on a good set of results. In terms of you said that you expect this Denizbank deal to be closed by around August or in the next couple of weeks, can you give us a timeline of what happens next – how – and perhaps even what kind of capital impact do you expect from this consolidation?

And if – and I think Surya mentioned that with this acquisition, you have enough capital to kind of absorb this acquisition and still meet the minimum requirements of capital. So, does that mean that you won't be pressed to do a rights issue and that means that you may not do the rights issue? Some colour on that will be quite useful.

And, finally, on Liv, you said that you have added about 250,000 new customers because of Liv. Is this the net growth for the bank or has there been some cannibalization of existing customers because of this? Some colour on that will be also very useful. Thank you.

Surya Subramanian

So, Shabbir, I'll take the first few questions then hand over to Shayne for Liv. In terms of the timeline itself as Shayne mention, we are expecting to close in a couple of weeks. You will know that Deniz is a publicly listed entity in Turkey, and they have already issued a notice for an Extraordinary General Meeting on 1st August, so hopefully all the closing will happen by then.

In terms of my comment on the CAR, I think there are two separate issues here. The first statement we want to make is, we have the capacity to do this transaction, and we've always been saying this with our existing liquidity resources and our existing capital resources. However, as we continue to be a bank that wants to grow both organically and inorganically, you do not want to live at the edge of minimum capital ratios, and we have always run this bank conservatively in the last couple of years. So, in order to help, support --

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Shayne Nelson

Couple of years?

Surya Subramanian

At least post-global financial crisis, it did coincide with your term Shayne. But as we look and certainly expansion of business in Saudi, if we have 20 more branches, this is going to use up capital. Deniz and our own natural growth is going to use up capital. So, the rights issue was to ensure that we do not have a stop-start-go kind of approach with business but to have conservative buffers.

Just on Liv, before I handover to Shayne, quite apart from the comments that you see in our own press, I think there has been some world ranking of digital apps as well including Liv and both the Emirates NBD app, mobile app, and Liv has ranked quite well in the Middle Eastern survey there. Shayne, I'll hand over to you to comment further.

Shayne Nelson

On cannibalization, actually very, very little cannibalization between Liv and the main bank. And the reason for that is the target audience to target markets. One of the reasons that we want to do – Liv as a millennials bank is actually a market penetration in that area was not as strong as we wanted, and this has certainly given us impetus to gain market share in that important millennial segment that we did not historically.

So, it's 250,000 clients in total that we've just passed. It's not we've gained 250,000 in the last quarter. It's 250,000 total. But if you think about the population of the UAE and what we've gained out of that, that's a substantial market share of new customers for a start up. It's making money. I obviously won't tell you how much, but it's making money; and for a digital bank that's been going less than two years or around two years, that's a hell of an achievement.

But importantly, one of the things about Liv, which I'll just reiterate it, for is, it's a really great experimentation platform for new products, processes, procedures, straight through processes that gives us the capacity to trial products and services within Liv and then migrate it to the larger platform of the bank and also to offshore locations. So, for us – as importantly it is from a customer edition, it's critically important for us for to actually test and learn on products and services.

Shabbir Malik - EFG Hermes

If I can maybe ask a follow-up question on Denizbank. Can you provide some specific dates for or a general idea of what comes next after this closure of Denizbank in terms of the rights timeline and in terms of the foreign ownership limit, any specifics on those two?

Shayne Nelson

I knew I'd get a foreign ownership limit to your question. I'll probably get it six different questions in different ways from the analysts today. But this is what I'll tell you exactly what I told you last time. You and I both know that the foreign ownership limit is extremely price-sensitive and we would not announce it here. We have to go to the market first, obviously, before we can announce it. The rights issue, again, is also price sensitive. But be assured as analyst, we have every investment bank in the world knocking on our doors, giving us lots of advice on the foreign ownership limit and the rights issue. So, we understand exactly the process. We understand we should come first. And as Surya pointed out, we are a conservative bank, we do want to make sure we have adequate capital buffers, but the timing, I will not be drawn on. I know that doesn't answer question, but you know I can't, right.

Surya Subramanian

There are a couple of linked questions which I will take that came on the web. One was from Elena Ponceca. She wants to know what is the impact on CAR and CET1 from the Deniz acquisition. And I would just say, obviously, we haven't disclosed the final acquisition price, although there is enough news in the market for you to estimate that. But, broadly, for every $100 change in capital, it impacts our CAR by about 7 to 9 basis points, which means if you're looking potentially at – I'm just using round numbers here – if you're looking at a 3 billion price tag, then that's 240 basis points on the average. However, you have to be careful to just adjust that from our Q2 results. Bear in mind, we've also been building liquidity to pay for this. That liquidity is currently deployed in assets that already carry RWA, so you can't just do a straight math of plus/minus. There will be moving parts.

There's a second question from Harshjit Oza from Shuaa. Elena was from Al Ramz. Harshjit wants to know should we assume no impact on dividend coming from the one-time gain of Network International IPO.

So, Harshjit, as far as profits go, it doesn't matter where the profit comes from whether it's a one-time gain from Network or our organic business. It all rolls up into profits that are available for dividend. A dividend itself is a call that shareholders stake at the AGM once a year and we do not comment on that. Suffice to say, we have obviously, enough profits to maintain our dividend levels.

Shayne Nelson

We have another question. Can you update us on the search for the CFO? Interestingly, we do a staff briefing as well and I got the same questions in the staff briefing. And my comment is we're basically searching for a mini-me of Surya out in the market. What I would say is we are at quite advanced stages. And in that, we have interviewed candidates from all over the world.

We are quite progressed there. But until I've got something to announce, I obviously can't announce. But we certainly have had some very good quality candidates applied both internally and externally for the role. But just to reiterate, Surya is not going anywhere soon.

Surya Subramanian

I have to close the Turkish transaction for one.

Shayne Nelson

So, there's a few things he needs to do before he departs for retirement.

Surya Subramanian

I did remind Shayne though that mini-me was the evil character in the movie.

Shayne Nelson

And my response was that could be very suitable to you.

Surya Subramanian

Let's see if there are any more questions on the call.

Operator

The question, it comes Aybek Islamov from HSBC. Please go ahead.

Aybek Islamov - HSBC

Yes, thank you, good afternoon everyone. So, I think the questions I wanted to ask you, well, firstly they relate to the approval of the rights issue and the FOL fees, you know, it was given last year. So, how long is it valid for, so, one, does that approval lapse at all?

Secondly, I wanted to ask you about your plans to expand in Saudi Arabia; so a pretty generous kind of sign from SAMA you can open 20 branches. How do you see your competitive strategy there? I think that's something that we asked in the past. I think personally that Saudi Arabia is probably good market to get a cheaper funding for you, but what about asset growth strategy? And also, what could be implications to the cost to income ratio given your plan to grow in Saudi Arabia.

And I think thirdly on asset quality, you mentioned that the asset quality is quite stable, we see it the results. What could be the triggers in your opinion that could lead to some deterioration in phase 2 loans with phase 3 loans, yeah, if you can cover that, that will be great. Thank you.

Shayne Nelson

Okay, I'll start with Saudi. The thing for us is we obviously have a business plan that we had to submit to SAMA for Saudi. I don't think we want to be drawn into what that plan was, but, obviously, we want to grow significantly in Saudi where we are.

If you look at the size of the economy, the demographics of the population ambition of Saudi all the other things that they want to achieve, there's lots of opportunities I think in Saudi. But having said that, it's going to take us quite a while to get these branches up and going. Finding sites, hiring people in Saudi is not an easy process. So, it will take us a while to get these branches up, and I expect it to take probably over two years to get them all opened and start correctly.

Now, from a from a strategy play, we don't need actually a lot more branches for our corporate banking, investment banking platform. This for us is a retail play. We certainly want to launch about digital capabilities into Saudi, including Liv. We see that is one of our strengths. And then you might ask then if want to play hard in digital, why do you need branches. Well, I think just from a brand recognition, you know bricks and mortar are still very important. But quite a few of those branches would be fully digital branches basically, with only a couple of people and then tellers, etc.

So, quite a bit of all that expansion is, yes, it's bricks and mortar, but it's very digitally focused rather than the traditional branch. We're highly ambitious with Saudi, but I can't give you any percentages. So, that we do want – to get to a 24-branches there, you obviously have to be far bigger than we currently are to make it pay.

On cost to income ratio, yes, it will affect our cost to income ratio as we go forward, but it's not that material when it comes to another 20 branches, especially when quite a lot are digitally based. That will amortize the majority of that expenditure. Sorry, yeah, also asked on asset quality, I didn't respond to that one. On asset quality, I think we have tried to move you guys between 80 to 100 basis points. We think that's more of a medium term. Therefore, you can see, prima facie, we have deterioration, but that is largely because of our recovery capacity.

I think majority of you work and live in this market. You know that the market is going through some pretty tough times in many areas. And the recoveries in things like property prices are becoming more and more difficult, and just getting those properties out the door is becoming more and more difficult. So, I would expect the numbers to be within that range. I don't expect we'll go back to much better than that.

Having said that, we have a very conservative coverage – 125 to 230 with security coverage. We are very conservative how we provision. So, I think we're in a pretty good shape to weather any storm better than anyone else in this market.

Aybek Islamov - HSBC

There was one question that I asked on the beginning that has to do with the approval by the board, there will be a rights issue and the foreign ownership limit. How long the approval is valid for? When does it lapse and if it lapses, what happens?

Surya Subramanian

The rights issue itself is an AGM to AGM approval. And if you would recall, we had it renewed at the last AGM. It was first announced the previous year. It was renewed this year. And obviously, if the rights happens this year, that's the end of it. If it doesn't happen, there would be another discussion at the next AGM if we needed to continue.

On the FOL, there is no need to renew it. AGM to AGM, the approval that was given two years back stays valid.

Patrick Clerkin

The question from Jagadishwar at Franklin Templeton, in terms of contribution from KSA in terms of loan growth. Surya had covered that. Zeeshan from Abu Dhabi Capital, who is just asking about government lending, the growth in that. What we've actually seen in government lending is it's actually been at or even below the rate of overall loan growth for the book. I'm just looking here in 2017, it grew just under 7%. In 2018, it was close to 7.5%.

This year is up 3% in line with loan growth, in line with broader loan growth. So, we have seen that over the last number of years stable at that 42% of the overall loan book. He also asked about growth in real estate lending. Again, we are subject to the 20% cap in terms of lending as a percentage of total deposits that had been implemented by the Central Bank, and we continue to be compliant with that.

Surya Subramanian

On Liv, this is I think Shayne for you where Edmond Christou from Bloomberg asks when are we going to fully integrate it into the bank's platform and the entire processes digital from underwriting loans to back office?

Shayne Nelson

If you look at what we're doing with our digital platform at the moment in the main banks, over 70% for example of personal loans are straight through. So, if you go to our branch now, you'll actually have an iPad and that will key straight through and you get an immediate response for a decisioning on that. So, we're quite advanced on that.

The only process that is hard to automate is the validation piece of the credit process. So, you couldn't key everything in obviously, but given the amount of fraud that we do have in this region, we do need to validate things like salaries, employment, etc., with quite a lot of individuals that don't bank with us. So, if they've already banked with us for years and have that record, we don't have so much of a problem.

That includes automation that goes straight through to the credit bureau to actually get a score from the credit bureau. It also includes they're on algorithms that we roll through. Now, Liv will have that expansion in the near future with a lot more products in the lending space there. It's largely been more the deposit orientated and large dollar orientated than loans, and that will be more and more expanded as we go forward.

Are we confident to meet NIM guidance?

Surya Subramanian

Yeah, I'll take that Shayne. So, Edmond also asked whether we are confident to meet the NIM guidance given that a large part of the book reprices within three months.

You're right on that Edmond, but, equally, we have fixed deposits that were taken last year when the rates were much higher. That would also roll off the book in the second half of the year. So, on balance, we believe we will maintain the NIM guidance for the year, which is 2.75 to 2.85. More likely, the final number would be closer to the lower end of that range, but we maintain that guidance.

We have another question from Rahul Bajaj of Citi. He wants to know, is there any plan at some stage to lower the Network International stake further?

Rahul, I'm afraid we are in the closed period as far as Network International itself is concerned. It's a publicly listed entity in the UK so we cannot comment. However, you should be aware that given the size of the stakes that we and our partners Wabanchay[?] hold, any sell down would have to be notified to the market in any case.

We have some repeat questions. We won't cover these from Mark Cronbus[?] of QIC about the FOL and rights that has been answered. Harshit Ojha on Egypt and Saudi. We covered Saudi. Shayne, do you want to touch upon Egypt?

Shayne Nelson

The question was, give me some more color on regional expansion. I think what I would say on regional expansion is, if we look at the UAE and we see the GDP growth going forward, this is now a pretty mature economy. And we won't get back to, or is highly unlikely we're going to get back to, those heady days of GDP growth 8-10%. So, given that and given the small population here and the market share we already have in – I mean most products we are over 20-22% in some. So, we're unlikely to get massive increase in market share. Having said that, if you look at most of our growth, our growth is taking market share from other banks. So, that's one thing about digital that is done for us is actually take a market share, take market share from other players, especially the smaller banks. Now, if we think about why Saudi, why Egypt, why Turkey, you've got three big economies, three with big population base, three with great demographics for expansion, and we have a big capital earning base here that we can feed the capital and growth into those above three markets being Turkey, Egypt and Saudi.

So, for us, we see there's a huge opportunity for us to use the capital that we generate out of the UAE to fund the expansion of markets that have very strong economy. Well, large economy, some aren't so strong at the moment, but with very strong demographics with very youthful populations that plays into the products and services that we provide. We can develop here and expand into those markets.

On Egypt itself, I'd say we have opened more branches there. The bank is doing quite well there. I think we can get more out of our branch network than we have. There are some branches that would be – that was opened – they're not giving us the returns that we would have expected. So, I think we need to see more work in Egypt on our existing network to actually improve it.

Having said that, in the last 12 months, the results in Egypt have improved markedly from the previous year.

Surya Subramanian

There is one more question on the web from Sandip Bhatt from DAMAC Group. Wanting to know if we can throw some light on our strategy, especially, on NPL; there are too many concerning issues on SME real estate sector; etc. I pass it on in a bit to Shayne to talk about the sectors.

We don't really have a strategy on NPLs other than to make sure they're managed well. And we have been holding it at and around the 6% for a long time with coverage well over 120%. And so, going forward, we've always said we would maintain conservative provisioning policies if NIMs are in doubt.

Shayne Nelson

I think, Sandip, it's a good question. Did you read that question? Could you throw some light in strategy, especially in NPLs, there are too many concerning issues on SME, real estate sector, etc. Appreciate your thoughts.

As I said, most you live in this market, so you live and breathe here and you got lots of friends in different industries, so you know what the market is like. What I would say is that we manage the bank very conservatively. We have a very robust early alert process where we monitor our accounts proactively. One of the things we have been doing, I'll give you an example, is where we say we've got a – let's argue and say – an eight-year facility, and we know yields have dropped on that property and we know, therefore, that their capacity to repay on the original schedule is going to be hampered. So, rather than waiting for there to be a problem, we're going out to those clients and saying okay, we know yields have dropped, let's reschedule. Just get it sorted now, let's not create a problem in the future, let's get it fixed right now. So, we're going proactively out to all those clients solving the issue before it's a problem. And I think that's a really important thing that I hope all banks are doing is making sure that they're looking after their customers in more difficult times, and that's one of the things that we're doing proactively.

On SMEs, our exposure is not massive in any case. We haven't seen any – or we saw one not pretty long ago, but not that many skips compared to what we were a couple of years ago. We're seeing an odd one here and there. So, we're not seeing the same flow-through of skips that we saw historically. So, it seemed to be certainly in our credit book holding up pretty.

Now, if I look at my forward indicators on my retail book, on my SME book, it looks good, surprisingly good to be honest given the noise in the market. So, I think we're in a good position. But having said that, we worked hard to make sure we're in a good position and proactively do a lot of work to identify problems very early

Operator

Yes sir. We have one question currently queued up over the phone. It comes from Naresh Bilandani from JP Morgan. Please go ahead. Your line is open.

Naresh Bilandani - JP Morgan

Hi, three quick questions please. One, can you please talk about the trends in the deposit market especially – when, Surya, you kindly highlighted that you intend to replace the expensive deposits with cheaper ones, but what kind of a competitive challenge are you likely to face in the market currently, and mainly from a pricing perspective, given the focus on liquidity under the new regulatory regime tends to be especially high. So, just some insight into the landscape would be very, very much appreciated.

The second – separately with the declining rate environment and the impact that is showing up on your NIMs, do you think this could offer some level of an upside risk to the loan growth or do you think it's still early days to talk about the same?

And the third question is on your FX business. I'm glad to see the strength on the FX line. Can you please provide some more insight if there's any one-off related in there, given that you had a receipt of GBP from the Network International's deal and you had any strategies that you may have put around the same? I ask this question because the results that we've seen from the global banks in the past few days, those are not looking very good for the FICC business. So, any kind of insight would be very much helpful here. Thanks.

Surya Subramanian

Thanks Naresh. I'll touch upon those. In terms of trends in the deposit market, the comment that I made earlier was just that if we roll over the deposits that we took in the latter half of last year, we would obviously roll them over at a lower rate today, given where the rates are.

Having said that, that would, of course, help us on the NIMs even as we lose some margins on the asset side. But having said that, in terms of market trends, we see that we are actually gaining market share relative to the market on deposits because if you look at the UAE Central Bank statistics, the overall banking market hasn't growing, but our deposits continued to grow relatively in the CASA space and also in some cases absolutely in the term deposit space.

And that's a function both on the retail side of the products and the online apps that we offer, and on the corporate side, the increased cash management and trade financing activities that we do. In terms of the upside risk to loan growth, yes, in theory when rates are cheaper, people may borrow more. But right now, rates are cheaper because of what's happening in the US market. But given all the business uncertainties we have in the local market and some of the challenges that people face, Shayne had mentioned earlier the margin compression issue as well for businesses, I'm not sure they will chase borrowings for the sake of borrowings in those businesses.

Shayne Nelson

If I could just add to that. I think one of the things I've mentioned before is economically, whilst there's a lot of benefits from the peak, it works a lot better if your economies are in sync. The US was expanding quite rapidly. Rates popped up higher because of that expansion, but actually that was completely the opposite in the UAE where the market wasn't going so well and we didn't need higher rates.

So, I think certainly, economically, it's very beneficial for the economy and will provide some relief for our clients, which I think is needed, and it will put us more in sync as to where the economy is, so which hopefully will then prevent any flow of problem loans. And whilst we may get some contraction in NIMs, hopefully we may get benefit on the NPLs.

Surya Subramanian

Naresh, on your last question on FX, I wish we could make money on ourselves. That Network International trade that you talked about, that GBP belongs to us. So, when we convert it, it gets into the sale cost and the net transaction gain we have on Network International. The real gains we are making on FX is a combination of two; the increased retail remittances that we do, the direct remit channels and the leverage it offers us as well as what we do with our corporate customers in terms of offering solutions on FX trading solutions, derivative tradings, and both these have been holding strong for the last couple of quarters.

So, fingers crossed, in fact, if you notice, although Q2 should have been a light quarter given Ramadan and summer that followed, we had some pretty strong showing in the non-funded income space especially in FX. So, I'm keeping my fingers crossed and hoping that such volumes prevail for the rest of the year, but we will only know later because summer continues until the end of Q3.

There is a question on the web from Mohammad Alnamaz[?] from Avalon who asks if the Turkish exposure will increase the group's NPL, and if so what will be the target NPL going forward. And Sandip Bhatt from DAMAC also clarified that his earlier questions on NPL strategy and issues concerning SME and real estate was in relation to Turkey.

We, obviously, haven't acquired the bank in Turkey until towards the end of this month. And, typically, on acquisition, there is a purchase price accounting at fair value. So, on acquisition date, it should not have any material impact to the NPL ratio of the group. In fact, if anything, the asset base for the group would change because it would now include Turkey, but the NPLs would be just what is in the UAE, the Turkish NPLs being fair valued on the date of acquisition. So, it is a complex math which I think we would be better positioned to explain once we complete the acquisition and do the purchase price accounting.

Deniz itself is a publicly listed entity, so you would have access to their historic and current balance sheet industry sectors they're exposed to, and the NPLs that they're generating today. You would be able to do an A plus B kind of simulation to know what the future could look like post-acquisition.

Shayne Nelson

There is a question from Sandip from DAMAC on your view on the competitive landslide especially, given the DIB now Abu Dhabi Commercial Bank, UNB, Al Hilal mergers, how does it affect you and medium to long term, appreciate your thoughts.

Okay, what I would say on that one is, if you look at the combination, plus if you had DIB, you have four major banks with over 70% market share in the UAE. Now, if you look at our numbers and if you look at the Central Bank stats, you'll see that we're growing market share just about across the board. So, I think that's typical when you're getting a concentration of big banks with big capital bases, but more importantly the capacity to invest in the technology space.

If you think about – I think, independently, we are viewed as the best digital bank in the country and the region. If you look at how much money we're spending on our transformation project of a AED 1 billion, and that's on top of what we would normally spend on our digital development. So, if you look at what we're spending, you have to question how the medium and small banks compete, how can they keep-up with that spend, where do they compete.

And I think if you look at it in the large corporate space, well, they haven't got the capital enough. They take large tickets. If it goes wrong, that's not a good outcome for them. If they try to operate in the digital space, they frankly can't afford it. People keep saying technology is getting cheaper. I have not seen it, it's not getting cheaper in my opinion.

So, yes, maybe you can operate in the SME space, but we all know a couple of years ago SMEs had a lot of problems in this market and the industry took AED 7 billion to AED 10 billion of hits in that size. So, I think the question really, Sandip, you should ask is to the medium and small banks, because I think the large banks are going to be in the position with their capital, with the capacity to invest in technology to grow in the market.

I think the small to medium banks are the ones that really do need to merge and get scale because this industry now is about scale. And they're going to need to compete against us, plus a lot of other banks within the country.

Paddy

We've answered all the questions on the web. Chris, can I just do a final check if there's no further calls queuing on the phone line?

Operator

That is correct sir. There are no further questions in the phone queue at this time.

Shayne Nelson

Thanks Chris. So, if there's no further questions, I'd really like to thank you for your participation in today's call. I'll hand you back to the operator who will provide further details if you have any follow-up questions and to conclude the call. Thanks Chris.

Operator

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

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