EMIRATES NBD Q1 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 Quarter 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

Thank you, operator. And you all very welcome on today's call. Joining me today, as usually Surya, the Group CFO and Patrick, our Head of Investor Relations. You may have seen from the press release, that Surya has announced his resignation from the organization after nine years of service. I think Bloomberg said, we went, through Dubai's tough times or something like that,..

Surya Subramanian

It's better times now for us.

Shayne Nelson

but it's like to thank you Surya for nine years with us. Many of you probably don't know, but seriously been commuting back in forth from Singapore for 9 years and his daughters recently moved to university in Adelaide. So, he's decided for family reasons, he's going to go back to Singapore, but he doesn't leave it in total, Surya will still continue to sit on a few boards for us, and additionally, he is actively involved in the recruitment of his replacement, and we hope Surya that you can find someone as good as you.

Surya Subramanian

Thank you, Shayne.

Shayne Nelson

And hopefully you will had a chance to see to the results presentation, which is was made available earlier today. We review the operational and financial highlights of the first quarter, after which you'll have the opportunity to ask questions as the normal.

On page 3 of the presentation, it contains a summary of the key results. I'm very pleased to report a strong set of results with a net profit of AED2.7 billion for the first three months of 2019. This is a 15% increase on both on last quarter and the first quarter of 2018. The rise in profit is driven by higher income. Both net interest income grew on the back of loan growth, and fee income advanced due to a strong performance in trading, foreign exchange and derivatives. Margins have remained stable in the first quarter as we saw good growth in CASA balances. Both operating costs and impairment allowances improved over the previous quarter.

The Bank’s balance sheet remains solid with healthy capital and liquidity ratios and stable credit indicators. We issued $1 billion of Basel-III compliant Additional Tier 1 notes and we have also exercised a call of $1 billion of inefficient old-style capital notes. I am also pleased that Emirates NBD was recently named the UAE’s most valuable banking brand, with a value of over 4 billion dollars, in The Banker’s annual brand valuation league table.

Economic conditions in Dubai remain mixed. The Dubai Economy Tracker rose to 57.6 in March supported by Tourism. The main driver was faster growth in output and new work across Dubai’s private sector. However, this increase was partly due to further price discounting, particularly in the wholesale & retail trade sector. The UAE PMI also registered a healthy increase in March to 55.7

In terms of strategic developments, we made two significant announcements in April. Firstly, we announced that we have revised the terms of the Sale and Purchase Agreement relating to the acquisition of Denizbank. This represents favourable terms for Emirates NBD and the transaction is expected to complete by the end of the second quarter, subject to obtaining the required regulatory approvals. Secondly, we announced the sale of approximately half of our stake in Network International as it successfully IPO’d. The sale will result in a gain which will be reflected in the Q2 Financial Statements.

Overall I am very pleased with the Bank’s strong start to 2019. We delivered a healthy increase in profit whilst maintaining a strong balance sheet. We continue to work on strategic initiatives that will deliver long term shareholder value.

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

Surya Subramanian

Thank you, Shayne for your kind words. And for all our well-wishers on this call today. Who've already seen the DFM announcement earlier this morning. That I intend to return home to Singapore. I must say, this is not a decision I took, lightly but the family calls, and I have to go. Traveling to Singapore overnight was relatively easy, traveling to Adelaide since here from Australia, Shayne as you know, it's a big difficult. No date has been fixed for my departure, as I'm first tasked with identifying and handing over to a successor. And also to bring the closure some of the current strategic initiative, Shayne that you've mentioned and well-known and underway. It's been a glorious run for almost 9 years, and I am proud of my association, with EmiratesNBD, which is undoubtedly one of the best institutions in the region, as is obvious from our results and that brings me back to the formal proceedings of the day.

It is always a delight to talk about a strong set of results and I refer to slide 4 of the presentation. As Shayne mentioned, the Group's net profit of AED 2.74 billion represents a 15% increase on the previous year and the previous quarter. All business units delivered higher revenues during the year.

The increase in net profit year on year was driven by 14% higher net interest income from loan growth and an improvement in margins. Fee Non-interest income also increased by 18% which helped offset an increase in expenses and provisions. Over the previous quarter, the main driver for profit growth was a 15% rise in fee income due to higher income from trading, foreign exchange and derivatives. Profitability was also helped by a reduction in expenses and provisions.

In terms of costs, the 7% reduction from the previous quarter was due to an improvement in staff costs, lower professional fees and marketing expenses. Costs were 9% higher y-o-y due to our ongoing investment in our digital transformation and technology refresh. However, as the 29.6% cost to income ratio demonstrates, we have adequate headroom to continue with this investment and still meet our long term cost to income target, even as we keep a tight control on staff costs.

Provisions of AED 570 million improved 11% compared to the previous quarter but are higher than in Q1 of 2018. The cost of risk has increased to 68bp for the first quarter, in line with the higher cost of risk we are expecting this year as we anticipate less writebacks and recoveries. Loans and Deposits grew by 3% during the first quarter of 2019. We are guiding for mid-single digit loan growth in 2019.

The Advance to Deposit Ratio was stable at 94%, comfortably within Management's target range reflecting the Group's healthy liquidity profile. The NPL ratio also remained stable at 5.9%. Capital ratios remain solid with the Common Equity Tier 1 ratio increasing to 16.8% as retained earnings more than offset an increase in risk weighted assets. As Shayne mentioned in 2019, we have issued a 1 billion dollar Basel 3 Tier 1 security and exercised a call on an old style 1 billion dollar Tier 1 security.

Moving on to net interest income on slide 5, we see that margins improved 15 basis points year on year to 2.83%, as rate rises flowed through to the loan book which more than offset a rise in funding costs. NIMs declined by 2 bps from the previous quarter as higher wholesale funding and fixed deposit costs were largely offset by an improvement in loan yields and higher CASA balances. Although we no longer expect any further rate rises in the US, we have maintained our NIM guidance at 2.75-2.85%. We did see that the effect of further incremental rate rises during 2018 have a smaller impact on margins. We have also seen a reversal of the recent decline in CASA balances. These factors help us to maintain our margin guidance.

On slide 6 loan and deposit trends, we see that gross loans grew 3% during the first quarter. Consumer lending grew 3% due to growth in personal loans and overdrafts. Corporate lending also grew 3% in the first quarter mainly supported by manufacturing, real estate and management companies with Emirates Islamic registering a 1% increase in lending. Deposits also grew 3% during the first quarter helped by a 7% growth in CASA balances. We, will continue to selectively launch innovate products and services and deposit campaigns to attract and retain CASA. CASA represents 52% of total deposits, up from 51% at the end of last year.

Capital Adequacy as shown on Slide 7, during the first quarter of 2019 the common equity Tier 1 ratio strengthened by 0.2% as retained earnings more than offset an increase in risk weighted assets. Credit Risk Weighted Assets increased by 4% during the first quarter, reflecting the 5% growth in total assets. Both the Tier 1 ratio and the Capital Adequacy Ratio increased by 1.1% as the Bank issued $1 billion of Additional Tier 1 capital in March. This issue represents the first conventional Basel III issue of capital after the UAE Central Bank introduced the new Basel 3 capital standards. Part of this increase is only temporary as we have also issued a call notice in respect of $1 billion of Tier 1 notes which are callable in May of this year.

Our funding and liquidity position On as on slide 8, we see that the Liquidity Coverage Ratio strengthened to 198.8% whilst the Advances to Deposits ratio at 94.0% remains comfortably within the 90-100% target range. Liquid assets are 80.9 billion dirhams or 17.7% of total liabilities.

During the first quarter we raised 4.7 billion dirhams of term funding in 4 different currencies with maturities out to 20 years. Debt and Sukuk now represent 11% of total liabilities, up from 10% at the beginning of the year. We have a total of 7 billion dirhams of term debt maturing in 2019 so the first quarter issuance covers 2/3rd of this year's maturities. This will allow the Bank to consider any further issuance at a time and price that makes sense for both investors and ourselves.

As I mentioned previously we issued a 1 billion dollar Additional Tier 1 note in March and we are calling an inefficient old-style 1 billion dollar note in May.

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

Patrick Clerkin

Thank you, Surya. Slide 9 shows the core fee income grew 15% year-on-year. This increase is driven by higher foreign exchange and derivative income from a strong Global Markets & Treasury performance coupled with an increased volume of card transactions. Property income improved during the first quarter due to a smaller impairment on illiquid inventory. Inventory now stands at 1 billion dirhams, down from 1.1 billion dirhams at the beginning of the year and well down from a peak of over 3 billion dirhams back in 2013. Investment security and other income also showed a 25% improvement to 67 million dirhams, helping to push total non-interest income up by 18% year on year.

On slide 10 we see that the NPL ratio was stable at 5.9%. Provisions for Q1-19 were 570 million dirhams. This is an 11% improvement on the previous quarter but a 30% increase on the first quarter of 2018. During Q1 2019 we had 331 million dirhams of write-backs and recoveries. The coverage ratio declined in Q1 by just under 4% to 123.9% mainly due to an increase in impaired Islamic financing receivables. The coverage ratio including collateral remains healthy at around 255%.

The cost of risk in Q1 was 66 basis points, up from the 63bps cost of risk for 2018. Earlier we signalled that we expect the cost of risk to drift up towards the more normal level of 80-100 basis points, as we do not anticipate the same level of writebacks and recoveries experienced in earlier years. We expect credit quality to be stable in 2019. Stage 1 and 2 ECL allowances now stand at 7.9 billion dirhams or 3.1% of credit risk weighted assets. This comfortably exceeds the 1.5% Central Bank requirement.

On slide 11 we see that costs were 9% higher year –on year due to investment in our digital transformation and technology refresh. Costs improved 7% quarter on quarter due to a reduction in staff costs, lower professional fees and marketing expenses. The cost to income ratio at 29.6%, remains within 2019 guidance of 33% and gives us headroom to invest selectively to support future growth.

On slide 12, we see that, in 2019, Retail Banking and Wealth Management revenues improved 8% year on year. Net interest income grew by 12% supported by growth in liabilities. Loans grew 2% on increased demand for credit cards and personal loans, whilst deposits advanced by 5%. Liv., the country's first digital bank for millennials now has over 200,000 customers as new products were extended to the Liv offering.

Emirates Islamic delivered a 97% year-on-year increase in net profit to AED 411 million. Revenue advanced 12% y-o-y driven by higher lending activity and higher core fee income. Financing receivables grew 1% during the first quarter helped by growth in lending to the manufacturing sector. Customer accounts increased by 4% during the year with CASA representing 67% of EI's customer deposits.

On slide 13 we see that Wholesale Banking revenue improved 12% y-o-y with net interest income up 9% on the back of loan growth and improved margins. Fee income grew 23% year-on-year due to fees associated with higher lending volumes, continued growth in treasury sales and increased investment banking activity. Loans grew 4% in the first quarter due to growth in manufacturing, real estate and management companies whilst deposits declined by 1%.

Global Markets &Treasury revenues increased by 73% year-on-year. The ALM Desk delivered strong results as they positioned the Balance Sheet to take advantage of earlier rate rises. Trading desk revenue grew by 171% on increased activity from new issues, volatile yield movements and healthy derivative client flow. The Global Funding team raised AED 4.7 Bn of term funding through private placements with maturities out to 20 years and issued a USD 1 Bn Basel-III compliant AT1 note.

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

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Shayne Nelson

Thanks Paddy. The strong set of results for the first quarter of 2019 was underpinned by higher net interest income and higher fee income. Banks balance sheet remain solid with all the capital and liquidity ratios and stable product indicators. Before the start of the year we have delivered 3% loan growth. Cost remain driving under control, and margins have been disabled, despite the expectation of no further rate rises in 2019. Earlier this month, we announced that, we had revise the terms of the sale and purchase agreement relating to the acquisition of Deniz, at favourable terms for EmiratesNBD. We expect this transaction to complete by the end of second quarter of 2019, subject to obtain the required regulatory approvals. And in April, we also sold approximately half of our stake in Network International has completed the successful IPO, we'll continue to have a relationship with NI going forward as they

22.4% shareholder and as a long-standing customer. With that I'd like the open the call to questions. Operator, please go ahead and take questions.

QUESTIONS AND ANSWERS

Operator

Our first question will come from Chiradeep Ghosh from SICO. Please go ahead.

Chiradeep Ghosh - SICO

Hi. Thanks for hosting the call, and for a good set of results. And Surya, we will miss you. So my two questions are - yeah, you've been really helpful, I'm sure that could be acknowledged by everybody, the investor community.

Anyway, so my two questions are, first case, in the - from the loan book, I see the other loan category, that have gone up by AED 4 billion. So if you can throw some light, what exactly construed that other loans category? And the second thing which I want to know, is the operating - the cost to income ratio guidance which you have given, that is much lower than - much higher than what you've achieved in first quarter. So do we expect more operating expense to pick up in the rest of the year? Those are my two question.

Surya Subramanian

Okay. Thank you Chiro for your kind words. The organization is firing on all cylinders, and I'm sure whoever comes after me, will take it to greater heights. On the questions that you asked, let me start with the operating cost income ratio, because that is a more interesting debate. The guidance we always give is 33%. Our actual this quarter has been much lower as you know at 29.6%. And part of this is the good results we had on non-funded income. If you look at it, our non-funded income had been growing, but at a very I would say range bound fashion for the last couple of quarters. It really opened up this quarter, I guess once people had certainty on where rates are going, there were greater derivative transactions booked by our treasury sales debt, higher forex volumes. And we also had some credit card related income with the business volumes increasing with some of our new launches as you would have seen.

So, obviously that's a boost on the top line. The net interest income itself is fairly within guidance as you could see. So that wasn't what was affecting the ratio. It's the increased non-funded income that improved the ratio. We will obviously watch this over the next couple of quarters and if we have to, we will revise our guidance. At this moment, we will hold our guidance. The underlying trend on the cost, the non-interest income hasn't changed. And if we have one or two more quarters of a trend of improved non-interest income, then we will change our guidance. As far as the other assets are concerned, we have temporary balances, we have some receivables and some other sectors like the oil sector, holding companies and so on, and that's where you see that in the other sector.

Chiradeep Ghosh - SICO

One more question, if I understood the financial reporting correctly, so if the deal happens, the deal gets closed in the three or four months, the Turkish bank? And if Turkish lira further deteriorates, so you might have to pay even lower than what you would be paying right now. I am right? just in terms of structure?

Surya Subramanian

No, all that we have announced on that structure, is that the settlement exchange rate will be determined with reference to a range closer to the closing date.

Chiradeep Ghosh - SICO

Okay. So if the exchange rate is - if the rate can be favourable for you, also. I mean, may or may not be, right?

Shayne Nelson

It could be all the way, yeah.

Surya Subramanian

Yeah. At the moment, we also are it's closer 5.83 at the moment.

Shayne Nelson

But it’s better said that the transaction is priced in Turkish Lira, yeah? It's not priced in Dollars. I think, Elena has asked a question, and can you discuss the P&L and Balance sheet impact on NI? that seems like a being counter question to me.

Surya Subramanian

So the balance sheet impact of it is quite minimal. We did disclose in our financials normally holdings and associates and jointly controlled entities, which you'll notice is not very significant. And if people later refer to page 34, not 28 of the detailed financial statements issued, we have a note in the financial statements that discusses it. So the bigger impact is really the P&L. We would simply - IPO date itself was post the quarter end. We did not record anything for the first quarter. We will be reporting P&L in the second quarter. At this moment, we hold 22.4% of the entity - the new entity, so we treat it as an associate, which means for the 28.6% we sold, we would record a profit for the difference between what we received and what we hold it as. For the balance, 22.4% we would continue to hold it at cost, and not recognize any further profit. Unless we sell to a level below 20%, when we would cease to treat it as an associate. Fair value, the entire holding. But that would then subject us to further quarter on quarter volatility in the valuation, because it's a listed entity. People are probably aware from the perspective that there is a 180 day lock up period for all the original shareholders. I'm not quoting the exact profits now, because we do have to offset costs of the transaction, but there are enough analyst commentary out there that estimates it to approximately a profit of - additional one off profit of AED 2 billion for the second quarter.

We have another question from the web, from Selena who asks, any update on potential changes in RWA calculation for sovereign exposure? And people would remember that in the first quarter we answered this question, we haven't agreed approach with the UAE Central Bank. That has been reflected in our financial statements and capital computations. There is nothing further to update on that. We can go to the next question please, Operator.

Operator

We will take our next question from Naresh Bilandani from JP Morgan, please go ahead.

Naresh Bilandani - JP Morgan

Thank you. Surya, I wish you very much of a good luck for your future endeavours. And two questions please. First of all, could you kindly quantify the sensitivity that we could see on your NIM guidance, should we see a 25 bps of say a rate cut in the US? I know at this stage - well, in your guidance, you mention you're not forecasting any further rate hikes, but if in case we have a rate cut, if you could throw any light on the sensitivity, that would be super helpful. That's the first question.

And the second question, when you mentioned Liv., you currently highlighted that they were - that new products were extended on the platform. Can you please throw some light on the same? And then, in lined, one of your peers, as you must've heard, recently announced cutting down it's branch network as it shifts focus further into digital. Now while the growth that you've seen on Liv. looks very solid, can you - in this regard, also please talk about your brand strategy in the medium-term? Thank you.

Shayne Nelson

I'll take the Liv. question. One of the products we just launched on Liv. was the insurance platform. So, we hope to pick up some more revenue obviously from that. We have a - quite a big number of new products that we will be launching on Liv., and we will certainly be looking to expand Liv. offshore as well. As I've said to you guys before, Liv. for us, it now has over 200,000 clients, so that's a fantastic growth in customer numbers. It runs at a cost income ratio, basically half the bank, the main bank, and it is making money. So for a start-up that's been around for basically 18 months, it's actually in very good shape. But as we diversify its product base, we expect it will contribute more heavily. But as I said before, it's not really - to me the most important thing about Liv. is not how much money it makes. It's the manner of innovation that we can pump through it, and testing that we can pump through it, then we bring to the main bank and the Islamic bank as we go forward. And that's certainly really our aim.

On branches, obviously know who you're talking about. Who's announced they're cutting 50% of branches. But I think the one thing I would say is, have a look at their retail profitability compared to ours. And if you look at how we've reshaped our branch network, we have basically, even though Dubai and the UAE has grown significantly in geographical spread, and economic size, we basically maintain our network the same the same number. So we've moved it around, to fit where new industrial zones, population zones, etc. And if you look at the shape of our branches, more and more, we're seeing that they're becoming more advisory than they are transactional. And I think last year, we can dropped all about 11% in transactional volumes if I remember correctly, year on year. So we are seeing transactional volumes drop, and therefore, it is important that we adopt more advisory and wealth approach in these branches. And we have a teller-less branch - one teller-less branch at this stage as well. So I think for us, we still believe that given where the UAE is with its cash penetration and its cheque usage still, we're going to need that network for the foreseeable future. I don't see that it’s going to drop like a brick in numbers, but we will continue to reposition and downsize the size of those physical footprints as more - there's more adoption of electronic payments, etc. within the country.

Surya Subramanian

Yeah. So Naresh, on rate sensitivity, we don't disclose the sensitivity in our quarterly analysis, but if you go to the 2018 full year financials, on note 50, page 121, we do have our rate sensitivity, and I will just repeat for the benefit of all, 200 basis points uptake, gives us a benefit of AED 3.3 billion. Whereas at 200 basis points down shift, gives us a negative AED 3.9 billion. Now the two are obviously not equal because of the shape of the balance sheet and different flow rates that appear in the different products. So if you just take a simple math, 25 basis points would give you about 400 plus, depending on whether you're looking at the up or down shift. Having said that, we always dynamically change our balance sheet once we know which direction the rates are going. And depending on whether we grow our fixed rate portfolio faster or slower, either on the asset or liability side, we could always mitigate the impact of those rate shifts as well

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Operator

We will take our next question from Hootan Yazhari from Bank of America Merrill Lynch, please go ahead.

Hootan Yazhari – BoAML

Hi there gentleman. Thank you for the call, and Surya all the very best for the future. Just with regards to Denizbank, can you please give an indication what the current regulatory hold ups are, and how confident you are that you will overcome these? Or is it something that could potentially delay the transaction beyond the end of the second quarter?

And then also, if we could just look at dividends. You've obviously alluded to a 2.1 or AED 2 billion injection coming from the sell down of Network International, your CET 1 ratio ended Q1 at a record. How are you now thinking about the dividend going forward? And how are you thinking about a potential capital increase? We'd love to hear your thoughts. Thank you.

Shayne Nelson

On regulatory, I'll take that, because it's a really easy one. We don't comment on regulatory, is the answer unfortunately. I can assure you we are trying our best to close this deal by the 30th of June. And that's certainly our endeavour, is to get it closed by the 30th of June. But other than that, I'm sorry, but I am prohibited from talking about regulatory approvals, which ones are outstanding, what - where we are with them, I cannot talk about that. Surya, the other one?

Surya Subramanian

Yeah. On capital and dividend, part of it is clearly to improve our ability to absorb transactions like Deniz, and we also have a potential $2 billion rights issue as you know, that would enable us to continue to grow our domestic and international franchise in the future, without having to have a start/stop/go type of approach. Obviously if none of these transactions happen, then there is potential for somebody to say we have excess capital, and clearly then it would be a shareholder call as to what it means in terms of dividends at the next AGM. Even at the last AGM that was held about a month and a half back, we did see some calls, and by and large the shareholding community was willing to wait to see where our acquisition strategy to cut, before renewing that call for additional dividends.

Shayne Nelson

I'll be very clear, if we don't get Deniz or something similar, we're not doing a rights issue. I mean, that would be crazy given the size of our capital base.

Hootan Yazhari – BoAML

Which then begs the question, would the FOL increase then be off the table? Or are you still keeping those two issues separate?

Shayne Nelson

Yeah, very separate.

Operator

We will take our next question from Vikram Vis from NBK Capital. Please go ahead.

Vikram Vis - NBK Capital

Thank you for the presentation. First of all, Surya all the best for your future projects. I just have a question on the cost income ratio. You're guiding for 33% for the 2019 year. I just want to know, whether it is taken into consideration the realized profits from Network International sale? Or is it before the - are you not budgeting that income in the cost income ratio?

Shayne Nelson

No, it does not include the Network International sale. The board would kill me if I spend a third of that money on cost.

Look, it's obvious we do have some headwind in that cost income ratio. There's some capacity there to invest and spend. But it's also fair to say that we did have a very strong first quarter when it came to fee income that we haven't seen that sort of jump for quite a long time. So frankly, it was a bit by surprise - pleasantly surprised, but it was a very strong quarter, especially from the derivatives and the FX side, and some cards. So, it was ahead of our budget, let's be frank.

Operator

We will take our next question from Adil Rashid from Daman Investments, please go ahead.

Adil Rashid - Daman Investments

Hi. Could you shed more light about the NPLs at Denizbank? And do you foresee the need to infuse more capital at the bank?

Surya Subramanian

We don't, today, own Deniz as you know, so we are not in a position to comment on that.

Shayne Nelson

I mean, the only commentary I would give you on that, just to try to give you some - we've done two DDs on Denizbank, yeah? And looking at the credit portfolio. Certainly - do we expect, because of the economic situation in Turkey for - the Turkish banking system they have, further problems? Absolutely. Have we built what we believe is reasonable into our financial model to justify the price that we're willing to pay for Deniz? Absolutely.

Operator

We will take our next question from Aybek Islamov from HSBC, please go ahead.

Aybek Islamov - HSBC

Thank you for a very detailed call. Have been very useful. I just wanted to clarify with you a couple things, if you may comment or not, but as you acquire Denizbank, and what's your current sort of ballpark estimate for the net income boost you're going to have from this name? I just wanted to kind of learn it from you? Obviously we can put our own estimates. So - yeah, how much of the boost you'll have from Denizbank acquisition? Yeah, on net income

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Shayne Nelson

I can - that one we - I believe that one, we don't give forecasts for ourselves. So there's no way we're going to give a forecast for Deniz. But you can see, that -

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Surya Subramanian

It's a public company.

Shayne Nelson

It is a public listed company. The results for the first quarter are out. Well - they must be out shortly, right?

Patrick Clerkin

Shortly. Full year results. You can see its performance.

Shayne Nelson

Yeah, but I'm sorry I can't give you any more than that when it comes to forecasts.

Aybek Islamov - HSBC

Yeah, the second question. I wanted to ask is - I mean, what are the real challenges in the real estate sector that you think you face as a bank? You have extension of loan durations could be one example. What are your thoughts about the collateral valuation, the real estate? Obviously we had 5 years of property price declines, is there a particular trigger point when you will go and start to rethink about your valuation of real estate assets that you carry on the balance sheet? And in a scenario, if real estate loans leads to an increase in stage 2 loan ratios, in a scenario, what could be the pressure on cost of risk, right? It depends really on on LTV is loan to value ratios you have, the amount of collateral, etc.

Shayne Nelson

Yeah. I'll answer most of that. Hopefully do your satisfaction. I think first thing I'd say is, there's no doubt that real estate value is under pressure and we revalue our own stock consistently. And in fact we took an additional charge against that stock, as we mentioned in the first quarter. So, we're being very conservative with the holding value of our own stock. On clients - and by the way, on our own stock, we've been doing that for ages. This is consistently what we do, reviewing our property portfolio and marking it down where necessary or upwards if necessary. Unfortunately there hasn't been too many ups of late.

On client loans, there's - look, there's no doubt that yields on properties have dropped, and so have values. But it - from our perspective, those loans that may have paid you off in 5 years, you may need to go to 7, you may need to go to 10. They're still generating cash flow, but the payback period are from those property investments, isn't going to be anywhere near as quick as it was historically. Let's be quite blunt about that. There's no way that these properties are going to be able to pay you back in 5 to 6 years anymore. The yields just aren't there. The yields have dropped.

So I think from our perspective - yeah, we proactively look through our property portfolio constantly, as in our clients to see where we see there are any pressures, and we get in front of that client proactively, not reactively. We don't wait where there’s default, before we go and sit down with a client and look at their cash flows from their properties and other businesses, and see actually what we need to do to actually position the bank to be in an excellent position when it comes to managing those exposures. We adhere to the central bank's strictest interpretation of property, as a definition. And we meet that guideline - always within that ratio. So, our exposure to property is - when you see exposure to property, it's under 20%, and it's - all our property is under 20%.

Surya Subramanian

Yeah. I'll just add to that last comment that the valuations of not just property, but any collateral gets into the loss given default in our ECL model. So it does get reflected in the stage 1, 2 and stage 3 provisions that we reflect in the financials.

And Janany from Arqaam had a couple of questions. If - she has three questions. The first one, was any update on the rights issue of 2 billion, and I think Shayne answered that before. Her next question was, could you throw some color on the asset quality on Islamic book and what is driving positive credit charges for the Islamic segment in Q1 '19? When impaired loans have gone up in the segment, and total coverage has slightly come down. And then lastly she asks, can you give us a breakdown of stage 1 and 2 loans, as well as provisioning?

The last question is easier to answer. I think there are some detailed disclosures in the annual financial statements for stage 1 and stage 2. And in our investor pack, we also talk about stage 1 and stage 2 allowances totalling to AED 7.9 billion or 3.1% of credit RWA, which is well above the 1.5% that the Central Bank wants. On the more detailed question, it is an interesting triangulation. The retail loans get provided for, and normally written off at 180 days. They don't enter NPL ratios, but they do affect the P&L charge. Corporate loans, retail, unsecured and SMEs tend to stay on the balance sheet and have a different impact on the coverage, and so on. In recent quarters, we've also written off some loans, and have had some cash recovery, that has impacted the coverage ratio, because when you do get a full cash recovery on some legacy loans, it actually deteriorates the coverage ratio. There have been other loans that in the normal course, have gone bad, and it just happened to be in the Islamic segment, rather than in the conventional segment. Because if you look at the overall ratio, it's still stable at 5.9%, and overall cost of risk is also just marginally higher than last year's, but well within our guidance. In fact, still lower than our medium-term guidance. Operator, if you could check if there are any further questions?

Operator

No further questions.

Shayne Nelson

Thank you. I would like to thank you very much for joining us on the call today. I think we have produced a very strong set of numbers for the first quarter. And I hope you're all happy with them as am I. And we look forward to talking to you again very shortly on the next call. Thank you very much for joining us today. Thank you.

Operator

For any further questions, please contact our investor relations department who's 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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