Emirates NBD

EMIRATES NBD Q1 2023 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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Patrick Sullivan – Emirates NBD – Group CFO

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Operator

Ladies and Gentlemen, welcome to the Emirates NBD results call and webcast for the first quarter of 2023 for Analysts and Investors. Today's call is being recorded. Please note that this call is open to analysts and investors only. Any media personnel should disconnect immediately. I will now pass the call over to our host Mr. Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Welcome to our Results Call. I will first touch on the operating environment within our footprint before running through the main highlights of what has been a record quarter for Emirates NBD. We delivered record results in a quarter containing a lot of turbulence in the banking sector. SVB collapsed and the Swiss authorities announced that UBS would buy Credit Suisse. There was also a knock down effect on tier 1 securities, concerns about unrealized losses on investments.

I'm pleased to say as the impact on the group from all these events is limited. The value of strong conservative risk management and healthy capital and liquidity ratios became very apparent during this volatile quarter.

Early this month, the IMF trimmed this year's global forecast to 2.8%. However, it expects most countries who are footprint, including UAE, KSA, Turkey, Egypt, and India, to match or exceed this level. ENBD Research expects the UAE economy to grow by 3.9% this year and this optimism is supported by the UAEs PMI average stream of 5-month high of 55.9 in March.

Recent events in the US and European banking sectors did not deter major central banks from hiking rates in March as inflation remains above target. Liquidity, however, in the UAE banking sector continues to remain very healthy. Our stable and low cost funding base enabled Emirates NBD to generate over 10 billion dirhams in income and deliver a record 6 billion profit this quarter. This is the highest ever quarterly profit from a UAE bank.

There are many highlights in the results, which underline our key strengths. All business units delivered an outstanding performance demonstrating the strength of our diversified business model. Retail had its best ever quarter with over 8 billion dirhams of disbursements. Retail also issued over 144,000 new credit cards last quarter. That's more than one every minute of every day. Our growing regional presence is helping drive significant income growth across our international footprint, especially in Egypt, KSA, India and London.

EmCap continues to play a lead role in landmark debt and equity capital markets transactions across the region. Global Markets and Treasury delivered over 1 billion dirhams in quarterly income and profit for the first time with a strong trading performance despite volatile markets. Emirates Islamic delivered a record profit of over 600 million dirhams as a group income by an impressive 74%. DenizBank dealt remarkably well with a challenging regulatory environment and was able to increase profitability. Funding continues to be a key strength of the group, with deposits growing by an extraordinary 35 billion dirhams during the quarter, including 19 billion of CASA growth. Despite rising interest rates, CASA accumulation demonstrates a strong market understanding of retail and our corporate customers.

Asset quality improved in Q1 with substantial recoveries, which enabled us to improve our credit quality guidance for 2023. We continue to invest to deliver future growth with our new products and services rolled out and the international strategy recharged, particularly in Egypt with the appointment of a new CEO and CFO.

To sum up, the group delivered a record set of results. We have a resilient diversified business model firing on all cylinders, state of the art banking infrastructure and a rock-solid balance sheet. We are well placed to empower our customers to benefit from the growth opportunities across our MENAT footprint.

I'll now hand it over to Patrick to go through the results in more detail. Patrick.

Patrick Sullivan

Thank you, Shayne, and good afternoon to all of you. Now just running down to usual financials on Q1 2023 on Page 2. Total income of 10.5 billion dirhams is up 64% year-on-year. Within that, both NII and NFI are up substantially. Net interest income increased as our efficient funding base benefits from rate rises.

All business segments are performing well with continued strong volume growth also contributing positively to interest income. The standout drivers in non-funded income but were stronger customer remittance and FX flows and interest rate hedging, increased local and international card business in both ENBD and Deniz, increased trade finance and higher gains from investments and property disposals.

Costs increased 34% year-on-year, supporting very strong business volume growth, particularly in retail and accelerated investments in our international network and digital. The cost income ratio at 25.3% for the quarter is comfortably within our long-term guidance. Impairment allowances are down significantly by 66% year-on-year. As I signalled last quarter, we expected strong recoveries in both the UAE and Turkey to come through in Q1. This gives us a very strong profit before tax of 7.3 billion dirhams, up 145% year-on-year and a 6-billion-dirham profit after hyperinflation and tax, which is up 119%. This is by any measure an exceptional performance and as Shayne mentioned, the highest quarterly profit ever delivered by a UAE bank.

Looking very briefly at the quarter-on-quarter, numbers net interest income is down 7% due to lower DenizBank margins, which I'll touch on shortly. However, ex-Deniz NII continued strong growth with the flow through of rate rises and volume growth. NFI is substantially up from higher FX, property and investment gains. Expenses are lower to the marketing seasonality over the previous quarter.

Actually, while I'm on this page, I should point out that we have added a subtotal of profit before tax and others as the key performance metric in anticipation of the introduction of corporate tax, which for us starts from 1 January 2024. We still await confirmation on whether the 15% rate for larger companies will apply and we'll keep you updated.

In the bottom summary table, you can see that the balance sheet metrics are in good shape with assets, loans and deposits all growing. Capital, liquidity and credit quality metrics all considerably stronger than 12 months ago.

Turning to net interest income on slide 3, bottom chart shows that margins improved by 145 basis points year-on-year helped by improving loan and deposit mix and higher interest rates. NIMs are down 35 basis points in the first quarter due to the regulatory impact on DenizBank NIMs, which quickly reverted back to similar levels seen in Q1 of last year. The 4.05% NIM in Q1 is trending towards our guidance range of 3.8% to 4%. The regulatory impact on DenizBank NIMs has materialized perhaps more quickly than expected. However, CASA remains at 60% of deposits, overall and there is a possibility of another rate rise in May. So when we condense the upside and downside drivers we have maintained our NIM guidance. We'll keep you updated each quarter as the main NIM drivers evolve.

Slide 4 shows the fee and commission income is up 32% year-on-year with a solid trend of quarterly growth, mainly from increased local and international retail card business at both ENBD and DenizBank, strong investment banking revenue and trade finance growth. Other operating income in Q1 is significantly up by 72% year-on-year and more than double the previous quarter due to higher customer remittance volumes and FX flows, additional corporate hedging activity and gains on property and investments.

On slide 5, we see that gross lending increased by 3% during Q1 helped by a record quarter for retail with over 8 billion of disbursements. DenizBank also delivered strong loan growth across a range of sectors, but particularly strong in personal. Corporate lending grew on healthy demand from manufacturing, construction and trade and strong origination volumes were largely offset by maturities.

Total deposits increased by 35 billion in Q1, up 7%. Within that, CASA was up another 19 billion. The ability to attract and retain CASA remains one of ENBD's core strengths. CASA represents a healthy 60% of total group deposits with this percentage unchanged from last quarter despite higher interest rates, which gives us a lower cost of funding.

Just a note that from this quarter onwards, we incorporate Emirates Islamic balance sheet and P&L into the respective retail and corporate segments. This reflects better the underlying business franchises and how we manage them.

On slide 6, we see that the NPL ratio improved by 0.4% to 5.6% during Q1 helped by strong recoveries in both the UAE and Turkey. These recoveries also meant the annualized cost of risk for Q1 was 41 basis points, substantially lower than the 108 basis points for the whole of 2022.

The gross cost of risk, excluding recovery, was similar to Q4 last year, including an overlay for the Turkish earthquake. The realisation of healthy recovery, coupled with a good pipeline of recoveries in both Turkey and the UAE, enables us to tighten our guidance for NPLs to around 6% and lower the cost of risk guidance to 50 to 70 basis points. Coverage rose by 7% to 152% during Q1. That was stage 1, increasing slightly due to the overlay for Turkey.

Paddy will now take us through the remaining slides.

Patrick Clerkin

Thanks, Patrick. On slide 7, we see that the cost to income ratio improved to 25.3%. Rising income enabled us to proactively accelerate our investment in human capital and future growth in digital

and international and drive underlying earnings growth through incentives for sales staff. Other costs decreased quarter-on-quarter as service, legal, professional fees and marketing costs were lower due to seasonality. As we guided last quarter, we expect this year's cost to income ratio to be closer to the 30% area.

Slide 8, funding and liquidity shows that the group continues to operate with very strong liquidity with an AD ratio of 80% and an LCR of 187%. Given the higher rate environment, we are able to deploy excess liquidity in attractive yielding, high quality debt securities. There has been a lot of focus in the last quarter on unrealized losses, with some analysts estimating the impact on UAE banks to be between 60 and 120 basis points of capital.

Given this heightened interest, we have made additional disclosure on page 11 of the financial statements. This shows that the unrealized loss on our 106 billion dirham investments measured at amortized cost is 2.66 billion dirhams. This equates to 0.5% of capital. This is below the low end of analysts' expectations, probably because of the vast majority of these investments are in government bonds.

In Q1, we issued 4 billion dirhams of term debt, including the first public dirham sukuk and conventional bonds, following the establishment of a local currency yield curve. We have just under 6 billion dirhams of term debt maturing in the remainder of the year, which is well within our normal issuance capabilities.

Slide 9 on capital shows the common equity tier 1 ratio strengthened to 15.8% in Q1 as 5.6 billion dirhams of net earnings more than offset a 3% increase in risk weighted assets. The common equity tier 1 ratio was 15.3%, excluding the ECL regulatory add back. Our first call on additional tier 1 securities is 2 years away in 2025 and any decision would be made much closer to then.

Turning to divisional performance, slide 10, shows RBWM income improved 39% during the year. There was a record quarter for loan disbursements and credit card issuance. Retail deposit gathering engine continued in Q1, adding a third of 13 billion of deposits. Corporate and institutional banking delivered a strong increase in income. This, along with significant recoveries, boosted their profit by 128%. CIB continues to roll out additional products and services to clients, including new global custody services and easier access to trading on the Abu Dhabi Stock Exchange.

Emirates Islamic's results are reported in the respective retail and corporate sectors. However, it's worth noting that 74% increase in income the EI registered, helping deliver a record net profit of over 600 million dirhams for the quarter.

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Global markets and treasury delivered an outstanding performance with quarterly income and profits surpassing the 1-billion-dirham mark for the first time ever. Net interest income jumped on higher income from balance sheet positioning and an increase in investment income. Non-funded income was substantially higher on a strong trading and sales performance. DenizBank's income was up 37% to 861 million dirhams on higher income and strong recoveries.

We have a couple of extra slides in the appendix containing more granular detail and the dollar convenience translation. With that, we can open up the call, Billy. Please go ahead.

QUESTIONS AND ANSWERS

Operator

Our question comes from Nida Iqbal from Morgan Stanley.

Nida Iqbal - Morgan Stanley

Hi. My first question is on the NIMs. The UAE performances is clearly impressive, but NIMs up 46 bps quarter-on-quarter. Would be great to get your thoughts on the outlook going forward. Do you think margins have peaked in the UAE, if you could talk about your expectations in terms of deposit datas in the coming quarters and the in the potential shift into term deposits versus CASA? And on the same topic, it would be great to get your thoughts on DenizBank NIMs under a scenario of forced elections, a return to a more normalized monetary policy.

My second question is on the accelerating investment into international growth. If we can get some more details about how you are thinking about this. Are we talking M&A or organic growth in countries that you have presence in?

Patrick Sullivan

Thanks, Nida. Maybe I can just take those points on the NIMs monetary policy, etc. and Shayne can have a go at international. Just on the NIMs in the UAE, first. You're right. It is up 45, 46 basis points for the quarter. That is a combination of the flow through from the rate rises last year. So as assets reprice coming through, plus there have been two rate rises this year. There is an expected rise in May. Of course, you can never be certain of these things until they actually happen.

What we've also seen really is we haven't seen as much migration from current accounts savings accounts term deposit. So with our CASA still at 60%, that means our cost of funding has remained lower than we might have expected.

So when we set the original guidance earlier in the year, our base assumption is that the rate rises flowing through or in the current year, less any cuts that might have been expected in the later part of the year would have been offset largely by migration from CASA to term deposits. So really the guidance that we gave where we were exiting that 4.4% at the end of last year, and therefore guiding 3.8% to 4% was largely going to be due to DenizBank and our understanding of the impact of the regulation on both the asset pricing and the costed funding there.

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What we've actually seeing is that the impact on DenizBank is probably come through slightly faster than we were expecting. The net net that's really being offset by better than expected margins in the UAE given less is migrated to term deposit and kept the cost of funding lower. So that's sort of the dynamic there.

So even just mathematically in maintaining that guidance, if you take the midpoint of 3.9% and we did 4.05% for the first quarter, implies about a 3.85% margin for the final quarters. Obviously, it's not going to be as linear as that.

Just in respect of the Deniz monetary policy and what might happen. Well, let's just see what happens in the elections through mid-May, and if there's a run off near the end of May. But our base assumptions that we've also been making is, on one hand, if monetary policy normalizes and therefore rates go up, that will continue to tighten the margin pressure in Turkey and we'll factor that in. If the monetary policy doesn't normalize, that will also have a negative impact on margins because of the regulation on the asset pricing and the cost of defunding. So possibly a similar outcome directionally between those two different scenarios.

Shayne Nelson

On the accelerated investment, we were talking organic without investment. We would hope to have 20 branches opened in Saudi by the end of the year from 8. So we'll go from 8 to 20. We have a significant relocation, refurbishment and opening plan for Egypt to improve that. We also are accelerating some of our investment in technology. We always have, even though we keep ramping up our technology spend, our demand from our businesses and support units always is far, far greater than the budget allocation. I think this gives us an opportunity where we are in earnings to accelerate some of that and bring it forward.

We're particularly focused on delivering new customer facing services. For those of you that bank with this, you would notice that we've rolled out our new app here recently "ENBDX". We now have 250,000 clients onto the new app and eventually they will migrate everyone onto that, but accelerating the services are added to the app including wealth management services, as we go forward.

So for us, this is an opportunity to accelerate. One of the reasons we want to accelerate is we're mindful that as you all point out as analysts that rates are likely to drop in '24 and '25 and therefore, ramping up our costs, when we have the room is a good strategy for us to bring some of that forward and hopefully, thereby increase earnings for future years, and build that basis as we move forward.

Operator

Our question comes from Waleed Mohsin from Goldman Sachs.

Waleed Mohsin - Goldman Sachs

Congratulations on a strong and record set of results. Three questions, please. First on the retail business. There has been strong momentum all throughout 2022. But when we look at the first quarter, there was an acceleration both on the funding side as well as on the lending side. So I'm referring to the strong pickup in CASA generation and then some of the retail disbursement. So if you could kindly talk about what drove the acceleration during the first quarter, that would be extremely helpful. While you do that, if you could please also touch upon any changes in the liquidity situation in the UAE, given the change in reserve requirement ratio back from 7% to 11%. So that's the first question.

Secondly, on asset quality, if you could please talk about which sectors drove the recoveries and the guidance that you've changed, is it primarily driven by recoveries or would your gross cost to risk guidance also change? So, meaning that is it just a mark to market on what you've seen in the first quarter or are you also changing your forward-looking expectations around cost to risk?

My third and final question, if you could, perhaps provide an update on your in-organic growth aspirations, especially given that your domestic business continues to be in a very, very strong footing. You're delivering organic growth in some of the international markets as well and then the international environment remains quite uncertain. So your thoughts on in-organic aspirations would be very helpful.

Patrick Sullivan

Thanks very much, well, maybe I can tackle the first two of those again. Just on the retail momentum. You're right. They're very strong on both the asset and liability side, and I think the business has had a much stronger focus on the asset side in the last couple of years. There are quite combination of factors behind that, not least the ability for the business to run very strong campaigns and understand its market, and how it goes about actually renting those assets and liabilities and the promotion of those. There's been a mega campaign on both the asset and liability side this year alone, so we usually do get off to quite a strong start in the first quarter.

There's also net migration to the UAE as well. As you all know, the economy is quite buoyant at the moment and also a probably a fourth component there is the increase of our digital reach. We are able to get a lot more new to bank, as well as deepening the relationship with our existing customers. So that's that on the retail momentum side and the momentum that we're seeing in Q1, we haven't as yet really seen any signs that that has slackened off.

I think you mentioned the liquidity side with the reserve ratio going back up to 11% from 7%. It went down to 7% from 14% at the start of the pandemic, and that was very helpful for liquidity in the market. I think of the net impact for across the UAE is about 50 billion dirhams from that change in that ratio. We haven't really seen any impact on liquidity in the market from our perspective. We haven't had to start to bid up for deposits to replace that. In fact, to some extent, with strong liquidity already having to put the extra amount back into the central bank just comes out as other liquid resources. So it's not really tightening the market from our perspective.

Just on the cost of risk guidance and the sectors, I think you asked about. The recovery has been very strong. This isn't just the recoveries from provisions made in the last year or two. The financial recovery teams work for many years sometimes on some cases, and it just happened, quite a number of them have been coming through, fairly evenly balanced between the UAE and Turkey. I would say the predominant sector from those recoveries is in the property sector. So in the UAE, there are some of those have been worked on for a number of years. The property market is quite buoyant at the moment and now's the time to be able to realize those recoveries. The same pretty much goes for the strength of the property sector in Turkey, as well.

Shayne Nelson

I mean, some of the some of the Turkish properties doubled in dollar value and I think that's largely led to some of the recoveries. I think the one thing I would point out to the analysts is you only get the recoveries when you've made the provisions. So you take the pain first to get the gain later on. So without stage 3 provisioning, as you've seen with the percentages, that means that when we are working these loans out, we are getting a recovery to the bottom line, which is beneficial to us.

I would just on the in-organic, I’ll take over for that one. In the last 10 years, we've made 2 acquisitions. So we haven't made a lot. We've looked at many and we were disciplined around what we will buy. As I said to you many times, we have to have 51% control, have board control. It needs to fit into our criteria as to where our customers going, where are they investing. And importantly, most importantly, is price. We've walked away from many transactions in markets where a price did not meet our projection.

So if we don't believe that we can, over the medium term, generates shareholder value and that it’s accretive to our shareholders, we will not acquire. We obviously would— we’re 15.8% CET-1. We have some very strong capital position. On the same token, we’ll continue to be disciplined with that capital as we go forward.

Waleed Mohsin - Goldman Sachs

That's very helpful. Just one follow up piece. On the gross cost to risk versus net cost to risk. Is it just to get a mark to market on what you've seen it terms of the guidance change or is the gross cost to risk guidance also improving?

Shayne Nelson

Just remember, we did give you a heads-up last quarter, that we were likely to have decent recoveries particular in the first quarter and in the first half. So, I mean, we did try to warn you because we could see some coming. So we didn't try to blindside you with these numbers

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Patrick Sullivan

When we started off with the guidance at the beginning of the year, you had some line of sight that you don't have cash in the bank at that point in time. We have a clearer view having gone through the 4th financial statement quarter. So yes, we do have some actual recovery that’s closing in on our pipeline as well. So it gives us some more comfort to be able to tighten that guidance. You may recall in the past, we've had fairly wide guidance, if any, on the actual impairment levels. I think previously it was 1% to 1.25%. Then we moved it to less than 1%. So we do have better line of sight on that now. So it's not just actual plus what we thought in January. We have updated our view on the recoveries. Of course, until you actually get cash in the bank, nothing's absolutely certain.

Operator

Our question comes from Shabbir Malik from EFG Hermes.

Shabbir Malik - EFG Hermes

A couple of questions from my side. When I look at your investment book and compared to some of the other banks in the UAE, you have relatively high proportion of your investments classified as amortized costs. Just wanted to understand what shapes this decision of making these allocations.

My second question is if we look at 2024, potentially, there is corporate tax coming in. Rates are also potentially going to be lower. Can we see these steps, such as your in-organic strategy, growth in Saudi Arabia, expansion of your branch network, investing in digital as potential offsets that can kind of mitigate the impact or maybe fully compensate for the impact of lower interest rates and corporate tax?

Patrick Sullivan

Just on the investment book side, you're right. We have an amortized cost investment book of about 106 billion. That's about 75%, 77% of our total liquidity book. So there are accounting rules to be able to meet that definition, I owe you hold to collect. So the bottom line is we don't trade our liquidity book. We don't need to. We have a very strong LCR ratio. So, we that's the way we hold that. So there's nothing really too much to add to that. Different banks have different views on that and so that's really our business model, that we just don't trade that book.

On your other question, the actual— I'm not sure if the question was so much about the impact of corporate tax plus lower interest rates and what we're doing about that or whether it was corporate tax specific. But as Shayne did mention before that we are taking the opportunity to invest for the future in new revenue streams and digital and our expansion. So when interest rates do come down, corporate tax does come along, that we have developed other engines for growth, as well. I think that was the essence of the question.

Shayne Nelson

I think I'll try to answer it and I'd say that if you think about what Patrick and I focus on, it's not our day-to-day business. Our focus, really, the two of us, is ’24, ’25, ’26 how are we going to generate revenue to make up for that shortfall that will come with low rates. Obviously, we're very interest rate sensitive and every 25 bps is about $100 million. So for us, we're very, very aware of that and we also know that we want to position ourselves for when those rates logically will come down.

Shabbir Malik - EFG Hermes

That's what I was hoping for or kind of the response that I was expecting. Maybe one final point. You said that there are certain regulations, which is impacting NIMs and DenizBank. I think you've mentioned this before, but can you please reiterate what those factors are?

Patrick Sullivan

So, there are two sides of the balance sheet. On the asset side, if you want to charge an amount over a specific amount and there are different banks, and the duration risk, then you have to hold government securities, almost as a penalty as a quid pro quo, those government securities won't have a yield as great as that lending. So that means net net, if you actually try and land at 25% or 30% that was the race before Q4 closed last year, then you would find that you probably have an even lower yield than if you lent at around 20% or lower, actually. So, there are different gradings of that. So that's what's driving the rates down and it's designed to funnel credit into specific sectors. Then on the liability

side, there are specific rules that are trying to I guess, de-dollarized the economy. So it's discouraging Dollar liable foreign currency liabilities is a prominent there. So there are rules to have— at first it was 50 substantive funding and later then became 60 and that will be heading towards 70s. Therefore, banks are having to pay up more to through their tracks layer of funding, so that's obviously going to squeeze them out.

Shayne Nelson

And then if you don't meet those thresholds of 50, 60, 70, there's a percentage that you have to invest in low yielding government bonds without duration risk.

Operator

Our question comes from Chandra Kumar from Al Ramz Capital.

Chandra Kumar - Al Ramz Capital

Congratulation on the strong set of results. I have a question regarding FX and trading gains, which increased significantly during the quarter. Can you please provide some guidance on drivers of this increase? Were there any one off gains or non-recurring items that contributed to this increase?

Patrick Sullivan

Actually, if we look at page 4 in the deck, that sets out the quarterly profile of other income and I think you're referring to the FX and derivatives dark blue bar at the bottom right there. So the vast majority of that is client flow business. The mix between ENBD and Deniz changes. The ENBD part of that is actually seeing very strong client growth, particularly with false FX with SME and retail customers. Plus, there are corporates that are hedging on the interest rate side as well, but FX has been growing at a phenomenal rate. And a substantial part of that, not all of it, is also from new to product customers, customers that haven't been using that before. So about 250-odd million of that delta from 907 to 1.4 billion is coming from ENBD as a combination of FX and other products as well.

Deniz, I think every quarter, I sometimes give a potted history of some of the ups and downs of what's changing in each quarter that within DenizBank that the larger part of it is also very strong client flow income as well. They saw foreign currency spreads widened quite significantly in the last year or so. Volumes are strong, so the business flows are strong. There is quarter-to-quarter, sometimes between 100 to 200 max of mark to market changes that we've discussed previously in DenizBank depending on what's happening with interest rate hedging and the shape of the curves or whether some events happen. So a significant part of that 1.4 is very strong client income growth.

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Chandra Kumar - Al Ramz Capital

Okay, so around, like 70% is from customer flows. So you mean, this level of trading gains are sustainable going forward. Am I right?

Patrick Sullivan

I didn't actually give a percentage. So obviously, the client flow pass is what we want to change, but you can get a delta of between 100 to 200 from quarter-to-quarter. So, the prior quarter, Q4 there, that had a negative delta in DenizBank that went positive. So from quarter-to-quarter, you can get the actual movement can be 100, 200, 300 possibly from quarter-to-quarter. But there is a real strong underlying client flow there. I can't put an exact number on it for you.

Shayne Nelson

I think it's fair to say that the vast majority of our FX is client flow. Yes, we trade, but it's small compared to the total flow.

Patrick Sullivan

Not trading, yes.

Operator

Our question comes from Olga Veselova from Bank of America

Olga Veselova - Bank of America

I have three questions. One is about your sensitivity of CET-1 ratio to Lira devaluation, if you decide to disclose your sensitivity of the group's CET-1 ratio to Lira devaluation. Let's say for every 10% Lira devaluation, CET-1 ratio goes up or goes down by this percentage point. If you can update us or disclose that. That will be useful.

Second is we noticed that the volume of sovereign loans went up in the first quarter, quarter-over-quarter. It was a small increase, but still this is the reversal after several quarters of consistent reduction. Can you please comment on that?

Finally, the question again on net interest margin coming back to the first question from Nida, I need. I think 46 bps increase of margin quarter-over-quarter is a very substantial rise. Can you give us

your outlook for the next couple of quarters for ENBD standalone excluding Deniz? Do you think that's the peak? The next most will be flat or down or that's not the peak?

Patrick Sullivan

We don't we don't have that as a single number for Turkey but across our major currencies, we do look at a 30% shock rate and that would be something in the range of 20 basis points on CET-1. Having said that, what we've actually witnessed over the last two years, particularly in Turkey, is that even with the Lira depreciation, the denominator of our WA has actually depreciated faster than the numerator, therefore, it's actually— often that either had a very small impact on net CET1 a handful of basis points. It's not a positive impact. So this quarter, has been slightly positive net net on all of that. So, the Lira's been more relatively stable in the last quarter, but hopefully that gives you a sense of magnitude.

Just on the sovereign lending. We've had an ongoing trend of that going down for the last two or three years. It's gone up slightly in the quarter. That's just the timing of cash flow, but the overall trend would be down.

The third one, just on the 46 basis points on ENBD stand alone. So in the back of the deck, hopefully we're being helpful on page 13, we've also presented the NIMs of ENBD ex Deniz, which is what you're after. So it's gone up from 3.48 in Q4 last year to 3.94. That's probably better than we might have been expecting. There is room for some increase in that if we are able to maintain our rate of CASA versus turn deposit. Plus, there is some of the rate flow through still to come through from the two rate rises we've seen so far this year, and the possibility of one in May this year. If there are any rate cuts for later in the year, that's likely to have less of an impact for this year. So a little bit of upside on that, that we think would then offset and mitigate some of the Deniz downside.

Operator

Our question comes from Jazz Pasunoori from NBK Capital.

Jazz Pasunoori - NBK Capital

Two questions from my end. NPL ratio has dropped from 6 to 5.6. Wondering which segments are contributed to this? Is it retail, corporate or Deniz? That's the first question. Can it go down further on the follow up as well? And the second one is, you wanted to grow Saudi number of branches from 8 to 20 this year. What is the current composition of Saudi in terms of the loans to the overall loan book and where do you want to take it forward in the next couple of years?

Patrick Sullivan

Just on your NPL. You're right. It is down with our strong recoveries and look, substantially, that is in the property sector. It's more generically. There are a multitude of other the sectors as well, but properties is it's been recovered most of all.

Shayne Nelson

I think on the on Saudi, we don't disclose a specific breakout on Saudi, but what I would say is, we're far too small, is what I would say. In fact, I've been talking to the CEO there and the corporate team, I was there a few weeks ago. I think there's a pile of corporate counterparties that that we're not dealing with and we do need to ramp up our exposure to Saudi. We are growing our retail book there quite nicely, but I think from the corporate side, there's a lot of counterparties there that we don't bank with. That, given the liquidity that the UAE has, whereas Saudi has been quite short on liquidity, it has been a bit patchy, that we have got the capacity to ramp up our lending in Saudi. But we're also mindful that unless we can get some ancillary business there, then just pure lending for the sake of lending in Saudi margins are quite fine. Doesn't make a lot of sense.

So where it makes economic sense for us, we do want to ramp up our lending in Saudi, especially in the corporate space because I think we're quite light there. If you look at the ambition of the kingdom and the development that's going on there, it's been quite exceptional. I think there's plenty of opportunities there for banks like ourselves to grow significantly in Saudi.

Operator

Our question comes from Rahul Bajaj from Citi.

Rahul Bajaj - Citi

Quick one from my side. I see you booked about 300 million dirhams in credit charge for unfunded exposures. Just wanted to get more colour on what these exposures are and are these kind of one off charge or should we expect more of these in the future? Another question on the same topic, credit charge, you mentioned recoveries were largely in the first quarter. Should we expect more of these recoveries going forward in Q2 and rest of 2023 or you think the recoveries are largely done?

Patrick Sullivan

Just the 300 million on unfunded, quite simply that the contingent books been growing very rapidly over the last couple of years and we've updated our models. So that's really what that's for. Just

on recoveries for Q1, we do have line of sight as a pipeline for some more in Q2, perhaps not of the same magnitude. Then H2, we expect is more likely to be at a more normal level.

Operator

Our question comes from Naresh Bilandani from J.P. Morgan.

Naresh Bilandani - J.P. Morgan

Three very quick questions. One is, I know you've not commented on your M&A plans in India and what's been reported in the press but just for some colour there would it be possible for you to give us an indication of what is the minimum level of capital that you, or the minimum that you would like to hold at all times at any time when you work through the M&A process? That's one.

Second is the FX currency translation reserves. The reserve has— the negative value has kind of been improving for the past two quarters. Would you be able to comment on that, on what is driving this improvement? Does this have anything to do with the de-dollarization in the Turkish balance sheet? Is that a fair way to think of this or is there any reason there?

The third is just very keen to understand why the change in the segmented disclosure and why are you not disclosing Emirates Islamic separately as a segment anymore? Does this have anything to do with the new tax regulations that are being implemented and the presentation makes any difference?

Patrick Sullivan

Maybe I can work backwards from that. Just on the EI segmentation. That's more redefinition of how we're managing those businesses, management reporting lines, etc. It also then articulates better when we talk about retail, for example, that includes the whole of the UAE, where EI has a substantial retail franchise. So if we talked about retail, UAE excluding EI is not really giving the full picture of our market share and penetration.

Shayne Nelson

And remember, EI is probably listed still and has DFM disclosures. So those numbers are readily available to you separately, if you so require them. So they are quite transparent

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Patrick Sullivan

Just on the translation reserve, I think you're looking at about page 7 on the accounts and the currency translation reserve, right? So, In OCI on page 4, there's 755 million of translation loss. Two-

thirds of that's probably Egypt for that quarter and the rest is DenizBank with the Lira not depreciating so much in this quarter. I think it was down just about 2% or so. The whole overall total is down significantly from the last year or two, where I think one year we had up to two or so billion going through that.

Naresh Bilandani - J.P. Morgan

Pardon me, that is indeed my question. What is driving the improvement overall?

Patrick Sullivan

Just less currency depreciation than before. So the Lira I mean, they're doing everything they can to prop the Lira up by non-monetary policy liens. So I think it's sort of went from about 18 at the beginning of this year to 19. So it's much less of an impact. So that would have been a much smaller number even if it wasn't for Egypt, which I think there was a much more substantial depreciation through this quarter.

The minimum capital, that's not something that we would say. We have our regulatory minimum capital. If you do an acquisition, then you're not meeting your risk appetite over that, then you have to raise capital, but that's a discussion for way in the future, if and when anything was done with that. But you can see we've got 15.8% CET-1 so extremely strong and a significant amount of capacity.

Patrick Clerkin

I have a few web questions. I'm very quickly going to run through those. Waruna Kumarage, we've answered the first three of your questions. In fact, we've answered the fourth question as well. Reason for recovery from Turkey, despite difficult operating environment, as Shayne mentioned, we're seeing some property doubling in dollar terms there and that is helping our recovery efforts.

Shayne Nelson

Sometimes inflation is good.

Patrick Clerkin

Yeah. Another question on market share within the UAE, we definitely are taking market share. Not just in retail. Corporate is doing very well. Given the consolidation we've seen in the Abu Dhabi banking sector, we are seeing improved opportunities to take corporate business in Abu Dhabi.

A question on high valuations of banks, again, Shayne addressed the criteria that we would look at in terms of value determination. We have that price discipline. Unless an acquisition makes absolute sense, both in terms of shareholder value, that was something that we would consider or only consider.

High NPLs in Turkey, potentially. Again, with high inflation, we've seen the ability to repay previous loans has been good, and we will just see how it evolves going forward. Then final question on sustainability of NIMs going forward. Again, Patrick addressed that. It has come down slightly quicker than we had it anticipated, but that's been offset by increased CASA and potential for another rate rise. So net net, we were able to maintain our guidance. Okay, that's all from me.

Shayne Nelson

Well, I want to thank you all for joining today's call and for your questions. As per usual, always some very good questions. I'll now hand you back to the operator to provide details in case you want any follow up questions and close the call. Thanks, Billy.

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