EMIRATES NBD FY2023 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
25 January 2024

CORPORATE PARTICIPANTS

Shayne Nelson – Emirates NBD – Group CEO

Patrick Sullivan – Emirates NBD – Group CFO

Patrick Clerkin – Emirates NBD – Head of Investor Relations

Operator

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

Shayne Nelson

Thank you, Bailey, and welcome to our fourth quarter results call. Emirates NBD celebrated its 60th year in 2023 and it has been an outstanding year for the Group. We delivered exceptional financial results that underscore our relentless commitment to excellence and the success of our strategic vision. Income grew 32% to AED 43 billion and profit hit AED 21.5 billion in 2023, increasing by an impressive 65%. In light of the Group's excellent performance the Board of Directors are proposing a 100 fils dividend, and to celebrate our 60th anniversary a further 20 fils, doubling the total dividend to 120 fils per share.

These record results were driven by a buoyant regional economy, a robust operating platform and all business units delivering an enhanced banking experience. Every part of our diversified banking model delivered phenomenal milestones and stellar results. The past ten years have been transformational for Emirates NBD, growing from a local bank to a leading regional powerhouse, serving over nine million active customers across 13 countries. We've built a high-performing, innovative, customer-centric bank, developed the leading bank app in the region through agile IT infrastructure and we are now a leader and enabler in ESG.

Over the past ten years, profitability has risen more than sixfold, the contribution of international income has increased from 6% to 39%. The share price grew by an 11% compound annual growth rate and the proposed dividend has risen nearly fivefold. The balance sheet has strengthened significantly over the past decade with much lower NPLs, a more diverse loan book, a stable low-cost deposit base and stronger capital and liquidity. This strengthening was recognised with positive rating action from both Moody's and Fitch in recent years.

Having briefly looked over the last incredible ten years, I want to talk to you about the future. We have six clear strategic priorities to maintain strong momentum and growth. Our relentless focus on straight-through processing and digital is delivering an excellent customer experience. ENBD X quickly established itself as the leading banking app for the region and customers now benefit from each new account opening and product approval, along with access through vast suite of wealth management products. Advanced analytics will enable a personalised customer interaction in real time. New products and services on ENBD X will be added, providing an unmatched, one-stop solution to service our customers' entire banking and investment needs.

The Group continues to drive core business, developing a low-cost, stable funding base by nurturing significant capital growth across all customer segments. We have excelled in many key products, such as trade finance, regional IPOs and debt & Sukuk issuance. In UAE credit & debit cards, the Group has cultivated a market share of over 30%. We continue to grow our business banking franchise, underpinned by trade, FX and asset growth. Our cutting-edge technology will enable rapid credit assessments and loan dispersal. We focus on our future potential, launching our digital wealth proposition and enabling customers to easily manage their global investment portfolio on ENBD X. A new generation of products and platforms have been developed, introducing innovative solutions for customers, such as fractional bonds for a select list of bonds and Sukuks.

Our published Sustainable Finance Framework enabled the issue of the largest green bond from any regional bank. Our carbon trading platform empowers customers to effectively manage their carbon footprint. Customers will be offered sustainable solutions to support their transition to a Net Zero emissions economy. Emirates Islamic will focus on Islamic business banking to attract new customers and deposits. We will continue to grow our presence and market in Abu Dhabi, tailoring our financial products with differentiated customer service models.

ENBD successfully expanded its presence in core markets such as KSA, Egypt, India and Turkey, enabling us to attract and service multinational corporates. This international diversification has propelled our share of non-UAE income to 39%, compared with 6% ten years ago. The Group will increase market share in key corporate, retail and wealth management sectors including further branch expansion in Saudi Arabia. We will develop competitive niches through our international network.

New organic and inorganic growth opportunities within our footprint continue to be assessed. We have built a market-leading infrastructure by investing in cutting-edge technology. Our 100% cloud native platform enables agile product delivery in the digital landscape, whilst our advanced analytics initiative is shaping ENBD as a data-first bank. ENBD will continue to adopt and leverage new technology, deepen our AI capabilities and build partnerships for innovative solutions.

We will fortify the resilience and security of our technology infrastructure. The Group is building a market-leading offering for merchant acquiring and integrated payment solutions for our corporate customers. Emirates NBD has developed a dynamic organisation, encouraging creativity and career development for all our employees. Our workforce is motivated, agile and adaptive. We're committed to gender equality, developing the next generation of Emirati leadership, upskilling and reskilling the workforce, and empowering them to grasp new career opportunities in a rapidly changing business landscape.

The Group's growth in profitability is reflected in the strong performance of the share price, a beneficial increase in proposed dividend and robust capital ratios. Our healthy capital buffers, a relatively new phenomenon, enable us to explore organic and inorganic growth opportunities within our footprint. ENBD will continue to evaluate potential acquisitions and bolt-ons. Price discipline will be maintained and, as in the past, we will walk away from opportunities that do not meet our valuations or complement our strategic aims.

I'm proud of the transformation delivered and we're well placed to fulfil our future potential. The Group stands ready to benefit from the positive regional outlook. The UAE is a beacon of growth, with the non-oil economy expected to expand by a healthy 4.5% in 2024. Given this positive economic backdrop, we expect mid-single-digit loan growth in 2024. We have maintained our margin, cost of risk and cost to income guidance and expect and NPLs to remain in the 4-5% range, the lowest range in over a decade. I will now hand you over to Patrick to go through the results in more detail. Patrick.

Patrick Sullivan

Thank you, Shayne, and a very good afternoon to all of you. Let's go straight to the numbers on page four. The overall headline is that we've had an incredibly strong year with four solid quarters. Total income of AED 43 billion for 2023 is up 32% year-on-year. Net interest income increased 30% on the back of a 16% increase in assets funded by our stable and low-cost deposit base that meant, with rising Fed rates, margins increased to 3.95%. Both retail and corporate delivered high-teen loan growth, more than offsetting strong sovereign repayments. We also made good returns on surplus liquidity. Non-funded income grew by 3.6 billion to 12.9 billion in 2023. This growth has been strong across almost all customer-focused parts of the Group, but in particular we have strong growth in customer remittance, FX and interest rate hedging, debit and credit card business and increased trade finance.

Costs have increased 26% year-on-year, supporting strong business volume growth, particularly in retail and the accelerated investment in digital and our international network. We opened a further seven branches in KSA last year, bringing the total to 15, and are on target to add a couple more in the coming months. Even with our investment for the current and future growth the cost-to-income ratio at 27.2% for 2023 is comfortably within long-term guidance.

Impairment allowances are two thirds of what they were for the preceding year as strong recoveries in both UAE and Turkey have come through. And the cost of risk finished the year around the top end of guidance at 71 basis points, still the lowest in recent times. This gives a very strong profit before tax and hyperinflation of AED 27.9 billion, nearly 10.0 billion higher than last year and a 21.5 billion bottom line profit, which is up 65%.

Looking briefly at the quarter-on-quarter numbers on the same page, income is down 10% quarter-on-quarter, mainly DenizBank's NFI, which I'll take you through shortly. Costs are 15% higher due to higher marketing costs and seasonal events. Impairment allowances are higher than Q3 as we have taken stock of loan quality post all the recoveries in 2023, and assessed any need to downgrade from Stage 2. Q4 profit before tax and inflation was therefore down 37% to 5.0 billion and after the equity neutral inflation adjustment, Group profit was 4.0 billion in Q4.

In the bottom summary table you can see the balance sheet metrics are all in good shape with total assets, loans and deposits, all growing substantially through the year on strong underlying business momentum. Loans were lower in Q4, coinciding with sovereign repayments. Capital and liquidity metrics remain healthy and the NPL ratio improved considerably to 4.6% on writebacks, recoveries and write-offs.

Turning to net interest margins on slide five. The bottom chart shows the margins widened by 52 basis points year-on-year, helped by improving loan and deposit mix and higher interest rates. NIMs are down 25 basis points in the fourth quarter as rate rises fed through to higher funding costs. The contribution from DenizBank was lower in Q4 as Turkey increased interest rates to combat inflation, which in turn increased our funding costs.

Heading then to the first quarter of 2024, we want to hold our current guidance of 3.8-4.0%. We are exiting Q4 at 3.81% but we do see potential upside from rising rates in Turkey. Offsetting that, we have factored in two or three Fed rate cuts starting in the second half. As with the last few years, the market view on Fed rate changes with each piece of published economic data and no doubt it will continue to do so through 2024. But just to illustrate that, over the last six weeks market expectations have gone from higher for longer to six cuts starting in March and then to three to four cuts starting in the second half. The other main variable is the rate and quantum of migration of CASA to term deposits. We've done well growing CASA during a period of rising rates but there comes a point when more is likely to migrate. Nonetheless, growing CASA remains a focus in 2024. We'll come back in Q1 to keep you up to date to see how the main NIM variables are panning out.

Slide six shows that fee and commission income is up 28% year-on-year with a sold trend of quarterly growth across almost all of the Group's customer-driven businesses. The increase in Q4 fee income, as per the bottom-left chart, is mainly from higher retail card spend volumes in both ENBD and DenizBank and an increase in the interchange fee in Turkey in Q3. Other operating income increased 47% year-on-year due to an increased volume of retail customer spot FX and remittance, additional corporate hedging and lower swap funding costs in Turkey before the rate rises. The fourth quarter is lower, as you can see in the bottom-right chart, due to the reversal of some of the gains made in Q2 and Q3 around the time of the Turkish elections and the monetary policy pivot. The underlying FX and derivative client flow income for Q3 and Q4 remained quite strong at more than 1.0 billion in each quarter.

On slide seven we see that gross lending increased 5% during 2023, with net loans up 7%. Both retail and corporate lending have seen strong growth in Q4 and during the year, both growing 18 and 19% respectively. DenizBank also has strong loan growth in local currency terms amidst the partial unwind of regulations, up 63% and up 5% in AED terms. You'll see that sovereign lending reduced in Q4. The Government of Dubai's finances are in good shape. They have repaid a significant amount, as they did in 2022. In our account disclosures you will be able to see that related party deposits that stood at 22 billion as at Q3, have reduced by 14 billion to 8 billion.

This loan repayment has reduced the concentration of sovereign lending to 17%, back to the 2008 rate. We have been successful in offsetting repayments by building the corporate and retail loan books with our strong client and customer franchises across our regional footprint. For guidance, we expect mid-single-digit loan growth for 2024. On the liability side, total deposits increased 82 billion, up 16% in 2023. Within that CASA is up 30 billion, even after a 15 billion decrease in the final quarter. Net-net, 14 billion of this is from the government-related party deposits that I just mentioned. We continue to push for CASA growth and have recently launched another Mega Liabilities campaign. However, clearly any movement in CASA to term deposits will reduce NIMs, as I've highlighted in the last few quarterly calls. We continue to grow time deposits, as we are able to deploy these profitability in liquidity assets if surplus.

On slide eight we see that the NPL ratio improved by 1.4% to 4.6%, reflecting the strong recoveries we've seen throughout 2023 and the related write-offs. You can see the stock of NPLs has dropped from 27 billion to 22 billion and the coverage on the remaining book is now at 99.5%. Our NPL guidance for the coming year is in the 4-5% range. The cost of risk for 2023 is 71 basis points, around the top end of guidance. We are comfortable keeping guidance for 2024 at the same level but within that we do expect lower recoveries but offset by lower levels of gross cost of risk. Paddy will now take us through the rest of the slides.

Patrick Clerkin

Thanks, Patrick. On slide nine we see the cost-to-income ratio at 27.2% is comfortably within guidance as continued acceleration of investment for growth is supported by existing income levels. Cost-to-income ratio in Q4 was 32.4%. This was higher than Q3 due to 10% lower income in the fourth quarter from lower non-funded income. In Q4 we also had higher marketing costs, including COP28 sponsorship, seasonal events and campaigns to ensure that we hit the new year running. IT and communication costs increased as we invest to deliver market-leading technology solutions. Staff costs were flat on the quarter and increased year-on-year to drive business growth and underlying earnings, coupled with human capital investment in digital and international to deliver future growth. We expect this year's cost-to-income ratio to be within long-term guidance and closer to the 30% area.

Slide ten shows that the Group maintains very strong liquidity, with an AD ratio of 76% and an LCR of 210%. Given the higher rate environment we are able to deploy excess liquidity in attractive yielding, high-quality liquid assets. In 2023 the Group issued AED 22 billion of term debt, comfortably covering the 8.6 billion of maturities. ENBD issued the largest ever green bond by a regional bank, reinforcing our ESG commitment. DenizBank had a very successful 2023, upsizing both their syndicated loans, issuing a DPR transaction, a dual-currency Murabaha, term financing, as well as EMTN issuance. 2024 maturities are well within the Group's natural term issuance capacity, with the largest maturity being a relationship Club Deal which we are already working on. The profile also includes DenizBank's one-year syndicated loans which typically roll over.

Slide 11 shows the Common Equity Tier-1 ratio finished the years at 14.9%, down from 15.4 a year ago, on a doubling of the proposed dividend and a 17% increase in risk-weighted assets. The increase in credit risk RWAs is from strong retail and corporate loan growth and higher lending and investment security holdings at DenizBank. The increase in operational risk RWAs is a function of higher three-year average income and increased transaction volumes. The Group continues to operate with very comfortable capital buffers.

On slide 12, we see that RBWM income improved 31% during the year. It was a record performance with retail lending which grew by AED 18 billion in 2023. The retail deposit-gathering engine continued, adding a further 35 billion of deposits. ENBD Group has a one third market share of all credit card spend in the UAE. ENBD X and EI +, our enhance mobile banking apps, have been successfully rolled out, incorporating our digital wealth management platform, which in turn helped drive up assets under management by 40%. CIB profitability jumped 90% due to significant growth in revenue, on higher margins and increased cross-sell and strong recoveries. 70 billion of new corporate lending throughout the region across manufacturing trade, transport, communications and conglomerates helped offset repayments. EI's results are reported in the respective retail and corporate sectors. However, it’s worth nothing the 71% increase in EI’s profit to over AED 2.1 billion. EI is a publicly listed company and the financial statements are available on their website.

Global Markets and Treasury delivered an outstanding performance, with profit doubling to AED 3.4 billion. Net interest income jumped on higher income from balance sheet positioning and an increase in investment income. Non-funded income was higher on a strong trading and sales performance and new products, such as fractional bonds and carbon trading were offered to clients. DenizBank maintained their annual profit at AED 1.6 billion, providing fresh funding to the Turkish economy and growing their balance sheet by 19% to AED 147 billion. We have a couple of extra slides in the appendix containing more granular detail and a dollar convenience translation. And with that we can open up the call for questions. Bailey, please go ahead.

QUESTIONS AND ANSWERS

Operator

Our first question for today comes from Naresh Bilandani from JP Morgan.

Naresh Bilandani – JP Morgan

Hi, Shayne, Patrick, Paddy. It's Naresh, from J.P. Morgan. Congrats on the good set of results. Just a few quick questions, please.

One is the topic on NIM sensitivity. Could you please just talk through the NIM sensitivity that stands on the balance sheet as of the end of the period? I'm just looking at note 46, Patrick, on page 69 of your financial statements which deals with the IRRBB. It just shows that there's a market different in the NII impact between when rates go up or down by 200 basis points. I think the impact on NII is markedly stronger on a decline in interest rates as presented in that sensitivity. Could you please explain to us why this occurs and any insight there would be helpful.

The second one is on the sizeable write-off that you've taken in the fourth quarter. Would you please be able to share any insights into the economic segments or the portfolios where this write-off was undertaken? I am equally keen to get some more insight into the pick-up that you've had in the provision charge in the fourth quarter and to the extent to which this was linked to this write-off.

My third question is on the tax charge, which has led to a positive impact in the fourth quarter. Could you please guide us on the effective tax rate this year and any insights into what trended in tax rates this year, especially in the fourth quarter. That would be super helpful. Actually, these are the three questions that I have. Thanks.

Patrick Sullivan

Naresh, good afternoon. Let me take those. You're quite right on NIM sensitivity. I think that's important for anyone who has got differing views through the year with the rates that can and will change. No one knows exactly what the rates will be. You can make a base assumption. So, hopefully that disclosure gives you some reasonable basis to then translate your view on rates into the impact on our top line of the interest income. So, you're right. You may recall in the last year or so, the upside sensitivity for every 25 basis points was around the $100 million or AED 378 million or so on an annualised basis. Because we are near the top of that rate cycle, that has actually lowered as an impact, so any rate rise is $83 million equivalent for 25 basis points. But then you'll be more interested in the downside, no doubt, where we've noted that, for 200 basis points down move, it's a 4.1 billion drop in earnings. Translating that into 25 basis points, that works out at just over 500 million per 25 basis points in AED and about $140 million. Now, the reason there's a difference between the up and down is that once you hit the top of the cycle and rates start coming down, we have made pretty conservative assumptions that there has been migration from CASA to term deposits and it takes time for those deposits then to unwind and come down. All the while your asset side is repricing down at a slightly faster rate. So, that's the main difference but that's pretty much the rule of thumb as well for everybody else on the call, around $140 million per 25 basis point cut.

The second one there, just on the write-off in Q4, look, it shouldn't be a surprise to anyone that after such strong recoveries through the year you then, as a normal part of accounting, have to do the write-offs when you've got back everything that you think you will from those aged, impaired loans. So, yes, you book the credit for the recovery but you also then write-off the nominal amount of the loan as well. Is it coming from any particular segment? I think in the previous quarters, and we've seen these recoveries through the year, it's not any industry sector per se but the recoveries themselves are typically coming from the realisation of property collateral. That was true in Turkey, particularly in Q1, and then consistently through all four quarters this year we're seeing property-related recoveries in that the property market is strong. Now, is the time to realise that collateral.

Just on the increase of impairment. Impairment overall for the Group has gone up from AED 0.6 billion to 1.9 in Q4. That is more a function of us taking stock of the Stage 2 book, looking at what is in there and making that annual assessment on the migration of that through Stage 3. So, in the detailed note to the accounts you can see a table of the migration between the stages, so if something goes from Stage 2 to Stage 3 you would have seen typically the impairment coverage was around up to 30% or so. It was more like 26-27% through the year. And therefore if it has gone Stage 3, then you have to top that up. And because you can see that we now have 99.5% cover. So, anything that went from Stage 2 that was typically on average at 30% and goes to that, obviously there is an impairment charge that comes along with that as well. Hopefully, that answers that.

Just to your third point on the tax charge, yes we did have a credit in Q4. We are taxed in Turkey and Egypt, Turkey being the main part of that. I think I mentioned in Q3 that there has been a retrospective adjustment of the corporate tax rate from 25% to 30%, so we had an increase in the tax for Q3. So, that skewed the cost of tax or the effective tax rate a bit at that point but also we've been able to release some of a deferred tax liability with the clarification of certain deductions, on depreciation and other various allowances where through the last year or so we've been taking a very conservative approach as to the tax liability on that, and that has now been clarified. It's less of a liability, so you get to release some of that and take a credit. That's just a one-off.

Just thinking about tax into the new year, yes we will have the 9% tax coming in for the UAE. We will be back in Q1 and then you'll be able to see the overall Group effective tax rate but I think you can pretty much do the maths based on what you think our results are going to be by the quarters through next year. Take 9%. I don't think the UAE effective tax rate specifically will be plus or minus more than one or two percent from the 9%, just generally. And obviously that's just for this year and then we are anticipating, but it is not legislated, an increase of that tax rate to 15%.

Naresh Bilandani – JP Morgan

Thank you very much. A very small follow-up. The point that you mention in your reply to the second question on Stage 2 with regards to the provisioning, pardon me but do I have this correct? I think the Stage 2 exposure, the total mix, remained relatively flat quarter-on-quarter and so did the coverage. So, forgive me, I'm not very clear with regards to the linkage between the increase in the overall impairment charge and the coverage on Stage 2, as you mentioned.

Patrick Sullivan

I'll point you to note 46-H. That will give you all of the details of the flows from Stage 1 to 2 to 3 and the 2s to 3, etc., the back and forth. There has been migration from Stage 1 to 2, so that overall pool then sees an increase and then some move out of Stage 2 and into Stage 3. So, if it was provided on average at 30% in Stage 2 and it has moved into Stage 3 and on average the cover is 99%, then you have to pick up almost 70% additional coverage on those loans. So, that's what causes the impairment charge.

Shayne Nelson

And we also have increased the Stage 2 coverage as well. That's 29.6%. It is up as well. So, the coverage, Naresh, is also higher in Stage 2 than it was previously.

Patrick Sullivan

And that also goes for Stage 1, where that cover has gone from 1.1 to 1.4. That is all model driven as well, so that's also driving part of the 1.9 impairment charge for the year. So, it's across all of the stages.

Naresh Bilandani – JP Morgan

That is clear now. Yes, that is clear. Thank you very much.

Operator

Our next question comes from Waleed Mohsin Goldman Sachs.

Waleed Mohsin - Goldman Sachs

Thank you much and congratulations on a strong set of results. Three questions, please, from my side. The first one, you briefly touched upon growth in Saudi. I just wanted to get a sense of how you're approaching some of the opportunities coming up in Saudi Arabia, more specifically on syndicated loans and large corporate exposure. Any thoughts on that, how you're approaching that will be very helpful.

Secondly, I wanted to touch upon your comment regarding net interest margin, your guidance of 3.8-4.0% for 2024. Now, Patrick, you did mention the exit is 3.81 and you expect some positive tailwinds from Turkey. My question is that, given the contribution of inflation-indexed bonds or CPI linkers in Turkey and inflation expected to come down during 2024, I would have expected your Turkish names to decline on a net basis despite a positive impact from rates, from your cost base. So, if you could please comment on that and help reconcile that, that would be very helpful.

And my third and final question is on the doubling of the dividend, which is great to see, but I was wondering what prompted that because the last two-three years have been very strong in terms of profitability but we did not see dividends increasing in line or above profitability. So, is this an indication that you see more credit growth going forward or is this a reflection that you are rethinking your view on inorganic growth? Thank you.

Patrick Sullivan

Hello, Waleed. Good afternoon. Thanks very much. Maybe I'll cover off the NIM question to start with and maybe I can hand to Shayne on the Saudi one. I'll have a look at the dividend one as well. Just on the margins, on the 3.8-4.0 and within that Deniz, in the appendix of the presentation we are also splitting out ENBD and Deniz margins to be helpful, so you can see the different dynamics. ENBD actually closed out Q4 at 3.58%. There we do see some risks and we have stressed that in assessing our guidance. We look at what a 6x 25 basis point cut would be, migration of CASA to term deposits, etc., but that is one that is much more stable and well understood.

You're right in Turkey, that there are a lot more variables within that margin included the CPI linker income. And, in a way, it's a good thing if their income comes down from lower inflation and I think the central bank's survey results for inflation next year is around the 40 or 42% mark for 2024. So, that would inherently be lower. But it did exit Q4 at about 5.1%. We do see upside on that because of the increased base rates, which have gone from 8.5% and up to 42.5. I think there's an MPC committee today, so let's see what happens with that.

But the regulations that they had to redirect lending or slow certain lending, a lot of that on the interest rate caps has actually been removed. There was a cap at Q3 of being able to lend at 1.8x the base rate or a compound rate and that has been removed now. So, we can lend to the market. There are some regulatory limits on the volume that you can do, so that might be constrained, but then the rates that you can lend at are heading up towards the 60 percent level, in the range of 50-60%, while the cost of funding, yes, that has also been going up as there's competition for lira deposits as they also unwind the regulations around that and some of that cost of funding can be around the 50% mark.

So, there's quite a range there where we see there's the positive upside on pricing, on the lending versus the funding costs. Within the overall calculation, within that 3.8-4.0 we would need DenizBank's NIMs to be somewhere in the 6-7% range but obviously there is translation risk in that as well, depending on the FX risk. So we've held the guidance. There are a lot of things going on but you have to start somewhere. Let's see how all of that is panning out through Q1 and into the first half and I'm sure we'll have more clarity around that point. Shayne, would you like to cover Saudi.

Shayne Nelson

The first thing I'd say is you can see how robust our liquidity is at the moment and how robust the capital is. If I look at the Saudi banks, liquidity of individual banks and the sector as a whole, it is pretty tight. So, there is big opportunity in Saudi purely because of the liquidity that we hold and we are joining syndicated loans in Saudi. Although, what I would say is we're trying to be quite disciplined when it comes to syndicated loans because the pricing in Saudi, despite liquidity being tight, the margins aren't great. So, we're participating where we can see there's ancillary business that we can either win in Saudi or within the region as a whole. And we certainly see there's opportunities, not only growing at the top of the market there but also in the upper and middle of the corporate space.

So, there is a very strong opportunity for us. We have got a good network built there now. We have brought on a pretty good new team in Saudi in the corporate space. So, we think there's very good opportunities there for us. Not only that but because of our distribution capabilities with Emirates NBD Capital, we're certainly being invited more and more into syndicates there.

On dividends, we've historically paid 30-40% but largely around 30% dividend payout ratio in the last few years. You will notice how we structured the dividend announcement. We broke it into 100 and 20, and the 20 being very much around the 60th year. Therefore, I think hopefully we've created the right expectations. And if you look at the 100, it's just around the 30% payout ratio mark. So, I think the answer on that is we had an exceptionally good year and it was 60th and we decided to reward a little bit extra this year. We structured it because we didn't want to create undue expectations. But when you talk about does that mean we don't think there's a lot out there to buy at the moment? Well, we didn't buy in 2023. We had lots of spare capital, we have the profitability and the dividend payout ratio is still 36%. It's not extremely high, so there's still a lot of capital retention in there and remember we're going to be extremely capital accretive quarter-by-quarter as we go through 2024. So, we still think there's heaps of room, given that we're massively over the regulatory minimum, for an acquisition if and when one comes along. But as I've said many times, we're very disciplined about this. In 11 years we've made two acquisitions. We've looked at dozens of opportunities and we haven't got any across the line that we thought made sense for us strategically and on price. So, yes, we are looking but we've been looking for a long time.

Waleed Mohsin - Goldman Sachs

Got it. Thank you much. And if I could just follow-up, please. So, that means on the dividend part, it's reflective of where you were with the capital and the ability to pay. It's not a change in strategy. You will remain disciplined.

Shayne Nelson

No, Waleed, it is not a change in strategy. Even at 120, it is not that outside of our normal range of between 30-40. We don't have a declared dividend policy, that's up to the board, but that's been the range for us for a decade.

Waleed Mohsin - Goldman Sachs

Perhaps another way of putting this question is why not do it a year ago or two years ago? Why do it this year? In fact, I think most of my questions on prior calls were why not increase the payout ratio. And something prompted it this year. That's the reason I asked this question.

Shayne Nelson

Why not increase it more?

Waleed Mohsin - Goldman Sachs

No. You did it this year. In the prior years you also had the opportunity going to the 30%, etc. That is why my question is why do it now? Why not do it the year before?

Shayne Nelson

In the end, Waleed, that's a board decision as to how much dividend they've paid. That was a board decision this year.

Patrick Sullivan

And in the last two years before this year we had increased it 50%, so we were on the path.

Shayne Nelson

It has been moving up every year. We're the only bank I think in the last five years that has not cut their dividends.

Patrick Sullivan

Yes, in the last four years.

Waleed Mohsin - Goldman Sachs

Got it. And final follow-up please on the Saudi lending. Is it fair to assume that most of your originations are dollar versus riyal given the syndicated loans being in dollars?

Patrick Clerkin

Waleed, we lend in both dollars and Saudi riyals in the Kingdom. I'm conscious of time. We have other questions, so I'm going to move on Waleed. Anything else you can follow-up with me.

Waleed Mohsin - Goldman Sachs

Thank you.

Operator

Our next question comes from Rahul Bajaj from Citi Group.

Rahul Bajaj - Citi Group

Hi, Shayne, Patrick, Paddy, and thanks for the call. Rahul Bajaj, from Citi, here. Two questions remaining from my side.

The first one is on the non-funded income and DenizBank. This line has been pretty volatile on a quarterly basis and the number was around 600 million in 4Q. You mentioned earlier there were some reversals that you saw in 4Q on this line. If you could help us understand what is the normalised quarterly run rate for this line that we should use to model in 2024. Is 1.0 billion maybe a ballpark right estimate for a quarterly run rate for this line? That would be very useful to build our models.

My second question is around Egypt. I know you have a smaller business in Egypt compared to the Turkish one but with the potential deval in Egypt expected in 2024 what kind of potential risks do you see emanating from that business? Those are the two questions. Thank you.

Patrick Sullivan

Thanks, Rahul. Thanks for joining as well. Just on the Deniz NFI and that's on page six of the presentation. Every quarter I think I'm doing a potted history of what's going on that FX and derivatives dark blue bar. A couple of things. Do we have a normalised rate for you? Not specifically. I won't fill that one in for you. But in Q2, when it was 2,087, that was particularly strong, that was strong spot FX that Deniz had during the period of the election. And in the last quarter I gave an indication that between Q2 and Q3 around 70% of that FX & Derivative income was client flow, ENBD client and trading plus Turkey client business. So, that was that proportion and that gave you an idea of how much that would be.

And for Q4, some of those gains over and above the client flow business have reversed, so where they have a net open position and you get some FX gains if there is a sharper currency depreciation. Also, on the swap funding costs, while we rely less on swapping dollars and euros into lira for funding, the cost of that has actually gone up and IFRS actually requires us to put that cost of funding through this FX & Derivative line. So, that and some of the reversal of some of the hedging gains we made in the previous quarter, those three components have really all come through as a reversal in Q4.

If you actually step back, for the full year, on a full year basis we split out the total of the FX & Derivative in the account. Actually, only about 300 or 400 million of the net 1.7 billion growth is from Turkey non-client business. So, the main point is this is a very strong client flow business underlying these FX & Derivative numbers. It's just that they do go up quarter-to-quarter and we have seen strong growth on the client business year-on-year when you actually aggregate all of that, so the underlying, actually that 661, the client-related business there is just above 1.0 billion, and I think you can calculate 70% of 1.7 is just under 1.2 billion or so. So, that's the ballpark of where the client business is. Hopefully, that answers that one for you.

Just on Egypt, look Egypt is less than 2% of our assets, so even with current depreciation and structural effects it just hasn't been material. Even from a net asset value risk to us, it is really not material, even to our capital basis and the impact from that. On profitability it earns just under $100 million.

Shayne Nelson

Just under $100 million for the year. But having said that, are we watching Egypt closely? Yes. I think on the black market yesterday the currency was about 65 against the interest rate of 32. So, that is something that we do watch very carefully when it comes to the performance of the Egyptian economy. It is a good franchise for us. We continue to grow there very nicely but the reserves are an issue for this country and we're hoping that some asset sales under the IMF programme will help bolster their reserve position and certainly the Houthi attacks in the Red Sea is not helping Egypt with their volume through the Suez Canal dropping by about 50%. That revenue is worth about 10 billion to Egypt. It's important as an earner.

Rahul Bajaj - Citi Group

Understood. Thank you.

Operator

Our next question comes from Jon Peace from UBS.

Jon Peace – UBS

Hi, everyone. Thanks for taking my questions. Let me just ask two in the interest of time.

Firstly, should we think of the big increase in risk-weighted asset density this quarter as permanent if the higher operational risk and the DenizBank reserve requirements persist?

And then secondly, just in terms of the bottom line performance of DenizBank, any thoughts on how that might progress through 2024? Should we see some stabilisation or improvement of the loss in the first half and when do you think it could turn back into profitability? Thanks.

Patrick Sullivan

Maybe I can just take that second one first. With Deniz, you can see the track record over the last four years since acquisition, that they've been delivering AED 1.6 billion, or thereabouts, per year. That's $450-odd million per annum. Every year there seems to be some new headwind or change. They've had the unconventional monetary policy. There is going to be some pain from the unwind of the regulatory intervention that they had in lieu of monetary policy. The Group is in good shape, so if there's a year or two to weather that, now is the time.

But actually looking through in the new year, there will be pressure on their margins, just from the prices, lira funding versus what they can lend at. There may be some dip of that through the first half because their deposits can reprice faster than their assets. We've been through that cycle before and then with that margin coming back through the latter part of the year. They also have very strong impairment coverage. They've had strong recoveries. So, from a credit risk point of view they're in good shape.

Shayne Nelson

Just to add on that, it's one of the few times where your accounts get qualified and we wear it like a badge of honour because the auditors are saying we're well provisioned in Turkey. I think we have been quite conservative with how we run the Turkish operation and their buffers.

Patrick Sullivan

So, we won't give you specific guidance on the numbers for next year. There are certainly things that we can usually do. The management team there has been superb at engaging all of that and you can just look at their track record in the past to get an idea.

On RWAs, yes, with government or sovereign repayments where you have zero-risk weighting and then you replace that with corporate or retail lending, that would be between 50-100% risk-weighted. Essentially, you do get that RWA then baked into your overall base. Having said that, you then get income and growth and adding to the capital, that means that you do get overall strength in your capital ratios over time. So, in a way, as sovereign repays you get a bit of a reset on the RWA base.

It just means that we have to then manage RWAs even more efficiently and drive the returns on that and maintain a healthy capital base. It has been pretty strong for quite some time. So, from a density point of view, it does bake in once you have changed from zero-risk weight to 50-100.

Jon Peace – UBS

Yes. Got it. Thank you.

Operator

Our next question comes from Shabbir Malik of EFG Hermes.

Shabbir Malik – EFG Hermes

Hi. Thank you. Just a question on corporate tax. Do you think you have any potential offsets available to mitigate the impact of corporate tax?

And secondly you explained the provisioning in the fourth quarter quite well. I just want to get maybe a big picture view. Do you see any signs of worry or concern that might have led you to be more cautious and you made the decision to boost coverage? So, those two questions, please. Thank you.

Patrick Sullivan

Shabbir, on that first one with the offsets, from a tax point of view the rules are pretty straightforward with relatively few permanent or even timing differences for that matter. I think I indicated earlier that the effective tax rate will be pretty close to the actual tax rate. It might be 1% or 2% either side. Let's just see how that goes in Q1. But there's no tax planning per se that you would need to do to mitigate any of that other than grow revenue and profit before tax more. That's probably the best solution to that one, which we will endeavour to do.

Shabbir Malik – EFG Hermes

Sorry, what I meant was, is there any other lever available in the P&L? Loan spreads, could those be adjusted or there could be potential cost efficiencies that could be realised to help mitigate the impact of corporate tax?

Patrick Sullivan

Well, I guess that's what I meant by we just need to grow the profit before tax and that is doing all of those things, so we're always obviously striving for income growth. We've been investing quite heavily in the last couple of years to generate new streams of revenue, build the business volumes, because we're very mindful of heading into the latter part of '24 and then '25 with the prospect of further rate cuts. So, that's what we are planning for. That's not just to mitigate tax. It's to mitigate the impact of rate reductions.

Shayne Nelson

And, Shabbir, that's one of the reasons why we've had that big investment push and you can see it in our costs of growing our network out in Saudi, more headcount in UAE to drive volumes because we need that asset build. And thankfully we have because it has offset massively the sovereign repayments. The best defence for this tax and for the interest rate decreases is growth, and that's what we've been trying to do for a while. And certainly from my perspective and Patrick's perspective, our focus is medium and long-term, not just the ’24 performance. It’s really about ’25 and ’26 we’re trying to position ourselves for.

Patrick Sullivan

And you had a point about the cost of risk and was anything in particular driving it? No. I think what it really means is by being able to boost the coverage across all of those stages, it just really puts us in really good shape as we head into 2024, particularly with that prospect of lower rates in the latter part of the year. So, no, we’ve had strong recoveries. We’ve had a good look at the book just to make sure that we’ve really flushed out any residual risk. There can’t be too much residual risk if you’re at 99.5% but obviously the Stage 2 book is something we watch like a hawk for any possible further downgrades. But there wasn’t any single thing in the macro economy, etc., that has said we’d better take all of that now, thinking something is coming along just in the future, a forward-thinking aspect. It was what was in the book today.

Shabbir Malik – EFG Hermes

Great. Thank you.

Operator

Our next question comes from Jag Pasunoori from NBK Capital.

Jag Pasunoori – NBK Capital

Congratulations on a great set of numbers. If you exclude DenizBank, time deposits rose significantly quarter-on-quarter. I just want to know if they’re transient or sticky. And on the same thing, the current loan-to-deposit ratio excluding Deniz’s 83%, what is the optimal ratio that you are planning? I know some time back you were at more than 95. So, that’s one question.

The second question is what is the risk-weighting of a sovereign bond if it is not in the UAE? Those are my two questions.

Patrick Sullivan

Well, we don’t prescribe an optimal ratio. There are some international banks that operate around 75% and there are some in the region that operate near the top end of that. We’re actually not regulated on the advances-to-deposit ratio, we’re regulated to the LCR, which is a better indication of liquid resources covering the possibility of outflows of deposits, etc. So, you can see that LCR is now in the 200% range. There is a regulatory minimum on the LCR of 100% and we’re at 200%.

Obviously, with some of the repayments in Q4 we have some surplus liquidity that we're in the process of redeploying but we don't really prescribe an optimal AD ratio for surplus liquidity. Happily, in this phase of the interest rate cycle you can still make very good returns on that surplus liquidity. You need to maintain a good proportion of surplus liquidity for that very point of liquidity management. So, if it's 80 or around that mark, that's pretty good. If it's lower because we have surplus liquidity, that it still earning a return. Obviously, you get a better margin overall the more you have deployed it. So, it's somewhere in between to find the balance of liquidity management and the returns overall.

And you had a question on RWA. Sovereign Bond risk weighting depends on the rating of the sovereign and also what currency it is in, in that country as well. Something could be risk-weighted at zero percent in Turkey and Egypt but when it gets risk-weighted from a Group CET-1 point of view, RWAs can be translated back to 100% risk weighting.

Jag Pasunoori – NBK Capital

Thank you.

Operator

Our next question comes from Aybek Islamov from HSBC.

Aybek Islamov – HSBC

Thank you very much for the conference call. You have answered already very many questions but what I'll just add are small clarifications. Speaking of Saudi Arabia, can you comment how big is your Saudi loan book today? That's my first question. And are you thinking of any inorganic growth in Saudi Arabia that's additional to this?

And secondly you elaborated on your risk-weighted asset density increasing and so on and so forth. Can you comment a little bit on your internal CET-1 ratio target? There is a slide where you discuss the regulatory minimum but I would like to know your internal CET-1 ratio target.

And I think thirdly, the cost-to-income ratio, the guidance is quite a wide range, 33% as the upper end, and you hit that 33% in Q4. Is there a possibility that your cost growth will be higher than normal because of more investments in international? Is that what you're discounting in your cost-to-income ratio guidance? That's all. Thank you.

Patrick Sullivan

Let me catch those last two ones. CET-1 target? No, I can't give you that. That's not something that we provide as guidance. You can see how we've been operating for the last four or five years typically around the 14-15% mark. CET-1 has been very strong in the last year or so with strong earnings. Paying a high dividend has then brought that back down to around the 14.9 but we don't provide a target range, as I know some international banks do. Just on cost, our long-term guidance on that is less than the 33%. It's at 27% for 2023. Looking into 2024, we expect it to be closer to the 30% area, if I can give that general feel because I know 33% is not always helpful but that's just our long-term guidance.

Patrick Clerkin

In terms of KSA, it's about 2-3% of our total asset book given that we've now opened more branches. We've seen very strong growth this year, so retail lending for example in KSA has grown 27% year-on-year. So, yes, we are seeing particularly strong retail growth and good corporate growth in Saudi.

Shayne Nelson

You did ask question about is inorganic in Saudi as well? I think I've said it before on these calls that Saudi is a market we would like to acquire into but it is somewhat difficult given that there is a cap on foreign ownership of 40%. That does make an acquisition there difficult because, from our perspective, any acquisition we would want board control and we'd want consolidation and obviously we'd want value for money. So, I think as much as we would love to acquire in Saudi, it's not that easy given the 40% cap on foreign ownership there and a path to consolidation is not so easy. Hence, why we have quite aggressively grown in Saudi organically rather than inorganically. We saw the opportunity when SAMA granted us an extra 20 grants licences to grow organically and we invested heavily into Saudi on the back of that.

Aybek Islamov – HSBC

Thank you.

Shayne Nelson

Thanks, to wrap-up, we delivered a record set of results in 2023, capping a successful ten-year transformation of the organisation. Our investments, strong balance sheet and strategic pillars are positioning us to continue a strong momentum of growth. Thank you all very much for joining the call.

We're very proud of the results that we've delivered in our 60th year and I look forward to talking to you again at the end of the first quarter. With that, Bailey, I'll hand it back to you.

END