EMIRATES NBD Q1 2024 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL & WEBCAST
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CORPORATE PARTICIPANTS

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Operator

Ladies and gentlemen, welcome to the Emirates NBD Results Call and Webcast for the first quarter of 2024. Today's call is being recorded. Please note that this call is open to analysts and investors only, any media personnel should disconnect now. I will now pass the call over to our host, Mr Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Thank you, Nadia, and welcome to our first quarter results call. I know quite a few of you have got a three o'clock and a four o'clock with some other banks and I'm sure you've got a lot more questions for them than you have for us, given our great results. So we followed up our last year's fantastic performance by delivering a record profit of 6.7 billion dirhams in the first three months of 2024. This is up 67% from last quarter and up 12% from the 6 billion dirham profit for the first quarter of last year.

There are many highlights in our outstanding first quarter. Profits surged to a record 6.7 billion in Q1, 67% higher than the previous quarter. Total income is up 3% Q-on-Q to 10.7 billion dirhams, on excellent deposit mix, solid line growth and a strong fee and commission growth across all business segments. The group's balance sheet surpassed 900 billion as assets grew by 5% during the quarter. Retail lending had its strongest ever quarter, growing by a further 9 billion dirhams. AUMs grew by an impressive 37% year-on-year, reflecting early success of our ongoing wealth management strategy. Corporate added 24 billion of gross lending as they marked deals across the region were successfully closed. Our deposit franchise grew 26 billion in Q1, with low cost CSA growing a remarkable 21 billion dirhams. Credit quality improved significantly with the NPL ratio lower at 4.4%.

We had a 0.9 billion cost of risk credit on repayments and recoveries, as clients benefit from a bouyant economy. With that, a presence in KSA for 20 years and the branch network doubled to 18 over the last year, driving 19% loan growth in the first quarter. Emirates Islamic also celebrates 20 years of providing innovative Shariah compliant banking to its 650,000 customers. EI marked the occasion with a record quarterly profit of 811 million dirhams, and business momentum continues with lending growth of 6% in Q1.

Denizbank delivered an impressive half a billion dirham profit in Q1, providing fresh funding to the Turkish economy, the balance sheet grew to 150 billion AED. EmCAP earned a top three league table position in international sukuk origination, as well as top five in regional bonds and sukuk origination in the first quarter, raising capital for local and international customers. We allocated 500 million dirhams of competitive financing to SMEs to support the Dubai International Growth Initiative, facilitating Dubai SMEs' global expansion. Sustainalytics now rank as the leading bank for ESG in the GCC and we're rated fifth out of 311 diversified banks globally.

The advanced analytics data mining product is well-established, with 24 large use cases, improving customer service and monetising Emirates NBD 20 million daily customer data points. And retained earnings boosted capital ratios. In summary, the group continued its strong and consistent performance into 2024, delivering a record quarterly profit. The rock-solid balance sheet makes Emirates NBD a regional powerhouse providing the platform for future growth. I'll now hand you over to Patrick to go through the results in more details, Patrick.

Patrick Sullivan

Thank you, Shayne, and good afternoon everyone. Just starting with the performance summary on page two, you can see our business momentum from 2023 has continued into Q1 2024. Our ongoing investment in the UAE and region is delivering both at the top and bottom lines, total income of 10.7 billion dirhams in Q1 is up 2% year-on-year and 3% quarter-on-quarter. Within that net interest income increased 3% year-on-year on the back of a 15% increase in assets, which has more than offset margin contraction. Quarter-on-quarter NII was 5% lower caused by a tightening of margins in Denizbank, following the shar rise in benchmark interest rates by the Central Bank to curb inflation. We have split that out in the appendix on page 12 for reference.

From a volumes perspective, retail lending grew strongly in Q1 and corporate delivered 3% loan growth, more than offsetting further sovereign repayments. Non-funded income was flat year-on-year, but a pleasing aspect is that the quality of NFI has improved, with over half now coming from net fee and commission income, compared to one third contribution a year ago. This reflects a healthy growth in client-based income. NFI grew 30% quarter-on-quarter, with increased contribution from fee and commission income, coupled with higher client income from foreign exchange and structuring.

Costs have increased 16% year-on-year, supporting strong business volume growth, particularly in retail and the accelerated investment in digital and our international network, and the cost income ratio at 28.8% remains well within guidance. We have registered an impairment allowance credit this quarter of 0.9 billion dirhams on the back of cash repayments and recoveries, as a result of this continued healthy credit performance, we have lowered our full year cost of risk guidance to 20 to 30 basis points, down from the initial guidance of 50 to 70 basis points. This gives us a very strong profit before tax and hyperinflation of 8.5 billion dirhams and a 6.7 billion bottom line profit, which is up 67% on the previous quarter and 12% year-on-year.

In the bottom summary table you can see the balance sheet metrics are in great shape. The total assets, loans and deposits all grown substantially through the quarter on strong underlying business momentum. Capital and liquidity metrics remain robust and the NPL ratio improved to 4.4% on writebacks, repayments, recoveries and write-offs.

Turning to net interest margins on slide three. The bottom charts show that margins tightened by 53 basis points year-on-year due to higher funding costs and competitive loan pricing at Emirates NBD and lower margins at Denizbank due to the sharpy higher interest rates. NIMs were down 29 basis points in the first quarter, there is a small net impact on Emirates NBD's margins, but the main overall margin tightening in the first quarter is from Denizbank. The squeeze on their margins is due to the interest rate increases to combat inflation, which in turn feed through to higher funding costs compared to the timing of asset repricing.

We have revised our margin guidance to 3.6 to 3.8%. We signalled last quarter that our base case assumption was that Turkish interest rates were expected to pause with inflation starting to fall around the middle of the year and interest rates potentially falling in the second half. Whilst the market stills expects this scenario, the unexpected hike in Turkish interest rates to 50% in March suggest that inflation is more persistent than first thought and therefore interest rates may need to stay higher for somewhat longer.

Our assumption is now that Denizbank NIMs will widen in the second half but later than originally anticipated, and we now expect Denizbank NIMs to average 4% to 5% this year. While higher interest rates may hurt Denizbank's margins in the short term, the Turkish authorities have clearly signalled that bringing inflation down is a priority, and this is very much to the long-term benefit of both customers, consumers and Denizbank. So, with a higher for longer interest rate outlook in Türkiye we have revised our NIM guidance and we'll come back at Q2 to keep you up to date to see how the main NIM variables are panning out.

Slide four shows that fee and commission income is up 48% year-on-year with a 17% increase quarter-on-quarter. With a solid trend of quarterly growth across almost all of the group's customer-driven businesses. The increase in Q1 fee income as per the bottom left chart is from substantially higher investment banking activity, increased loan volumes and higher retail card spend volumes at both ENBD and Denizbank with the added impact of the higher interchange rates in Türkiye.

Other operating income increased 42% quarter-on-quarter due to an increased volume in retail consumer spot FX and remittance and additional corporate hedging. Other operating income is lower year-on-year due to higher swap funding costs in Türkiye. The underlying FX and derivative client-flow income for Q4 last year and Q1 remained quite strong at more than 1 billion in each quarter. One of the pleasing aspects is that over the last year client flow business has become a bigger component of NFI.

On slide five we see that gross lending increased 2.3% during the first quarter, with net loans up 3%. Retail had its strongest ever quarter, adding 9 billion in loans. Corporate had a strong quarter with 24 billion in gross lending. There was strong demand for trade and multinational financing throughout the region, which more than offset sovereign and other scheduled repayments. Denizbank also had strong growth at 11% in local currency terms and up 1% in AED terms in the first quarter, with regulations favouring a pivot towards sectors such as agriculture. On the liability side, total deposits increased 26 billion, up 4% in Q1. Within that CSA is up an impressive 21 billion thanks to customer campaigns, digital banking, and promotions. CASA as a percentage of total profits grew by 1% to 61% in Q1.

In slide six we see that the NPL ratio improved by 0.2% to 4.4%, reflecting the continued trend of strong recoveries that we're seeing throughout 2023 and the related write-offs. On the bottom right you can see the stage two loans have also improved by 0.3% to 5% during the quarter as a result of repayments and staging transfers. We had a 0.9 billion cost of risk credit as a result of the strong level of writebacks, repayments, and recoveries, and as mentioned earlier we have lowered the cost of risk guidance to 20 to 30 basis points for 2024 as a result of the continued healthy credit performance and the 0.9 billion impairment credit in Q1. Paddy can now take us through the remaining slides.

Patrick Clerkin

Thanks Patrick. On slide seven we see the cost to income ratio at 28.8% is comfortably within guidance as continued acceleration of investment for growth is supported by existing income levels. Staff and IT costs increased as we drive business growth and invest in human capital for future growth in digital and international, including the branch expansion in KSA. Other costs reduced in the first quarter on lower seasonal costs and earlier one-off marketing costs. We expect this year's cost to income ratio to be within long-term guidance and closer to the 30% area.

Slide eight shows that the group maintained very strong liquidity, with an AED ratio of 75% and an LCR of 186%. We refinanced a three-year syndicated loan, upsizing it to $2 billion shared across ENBD and EI. And this was refinanced about 20 basis points cheaper than the previous loan. The bulk of the remaining maturities in 2024 are Denizbank one-year syndicated loans, which typically roll over. So 2024 maturities are comfortably within the group's natural term insurance capacity.

Slide nine shows the common equity tier one ratio strengthened in Q1 to 15.2%, but retained earnings more than offset a 2% increase in RWAs. The increase in credit risk RWAs is from strong retail and corporate loan growth. The group continues to operate with very comfortable capital buffers.

On slide ten we see that RBWM income grew 15% year-on-year, delivering its highest ever revenue and growing lending by a record 9 billion dirhams in the first three months of 2024. We enjoy a one third market share of UAE credit card spend, as card spend grew 16% year-on-year. All UAE customers have now been onboarded onto the new ENBD X and EI+ apps. AUMs grew by an impressive 37% year-on-year as Shayne mentioned, reflecting the early success of our ongoing wealth management strategy. And CIB profitability jumped 44% due to higher income and higher recoveries. 24 billion dirhams in gross lending helped offset sovereign and other scheduled repayments. Continued CASA growth was backed by the best in class digital escrow capabilities, including APIs and virtual accounts.

Non-funded income grew on higher capital market activity, increased FX and derivative cross-sell and higher fee income on increased lending. International revenues increased as we capitalised on network opportunities. Corporate delivered healthy impairment reversals due to continued recoveries and improved credit quality. EI's results are reported in the respective retail and corporate sectors, however it's worth noting that EI also had a record profit of 811 million dirhams in Q1 as lending grew 6%.

Global markets and treasury delivered another solid performance, generating 618 million dirhams of income in Q1. Net interest income is strong at 666 million dirhams, and lower than Q1 of last year due to the year-on-year increase in the cost of wholesale funding. Trading income was lower due to the

Egyptian currency devaluation, but sales delivered strong income growth driven by new innovative structured solutions for clients. Denizbank delivered an impressive half a billion dirhams profit in the first quarter, providing fresh funding to the Turkish economy as their balance sheet grew to over 150 billion dirhams. We have a couple of extra slides in the appendix containing more granular detail and a dollar convenience conversion, but with that we'll open the call up for questions. Nadia, please go ahead.

QUESTIONS AND ANSWERS

Operator

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

Naresh Bilandani – JP Morgan

Thank you very much, it's Naresh Bilandani from JP Morgan, three questions, please. One is, and I'm sure you're anticipating this, just some more insight on the impairment reversals that you've endured in the first quarter. Just keen to understand what parts of the loan book and the segments are driving these reversals? The segments do show that you're seeing this in both in the UAE corporate bank, and Deniz in Türkiye, I'm just keener to understand if there's any concentration of single names that could have led to the impairment reversals like we've seen in some of your peers. That's the first question.

My second question is on the tax rate, the tax charge run rate that seems to be in line with the previous quarters, while my intuitive expectation was that it should be higher due to the implementation of the 9% corporate tax rate in the UAE. I'm keen to understand some more insights there and also specifically how the tax authority treating elements like reversals, impairment charges and write-offs from a tax perspective, any light that you can throw on that, that will be super helpful.

And my third and final question would be is on, if you could please share thoughts on the impact to cost of risk and the net interest margin from the proposal of deferrals on the personal loans and auto loans that has been asked for by the UAE Central Bank. Any thoughts that you can share there that would be very helpful, thanks a lot.

Patrick Sullivan

Absolutely, Naresh, welcome to the call, thanks for those questions. I'll just take those in order. The impairment, what's driving that particular sectors, etc. Actually, we have set out in note 23 of the quarterly statements, the movements between stages. So we have benefitted from a 0.7 billion from recoveries in stage three loans. You asked for names but of course we don't give specific names. And then also we've had about a 1.2 billion coming back from stage two, which is simply from repayments. So even within ECL you get releases, sometimes they are larger facilities and therefore because it's in stage two you'll get a larger release.

The sector and the related collateral, principally would be around the property sector. Obviously, the markets and the collateral value are very strong and very saleable, so again, it's just continuing the strong trend of recoveries that we saw through last year in those recoveries.

Just on the tax and the effective tax rate, this is the first quarter that we have implemented the new corporate tax regime in the UAE, the effective tax rate is, I think you will be able to see this in the appendix, is that the effective tax rate is indeed 9% for the UAE, if not just a slight shade under that. And therefore actually, what's driving the overall tax rate, which you might have expected to be somewhat higher given the 30% tax rate in Türkiye is because, during that quarter a number of items in the profit of Denizbank are not susceptible. I won't go into the specifics of each line item, but you can get two or three specific permanent differences coming through. More often than not, the effective tax rate in Türkiye is about 20 to 30% range and this quarter just happened to be lower, more around the 13% mark. So yes, the 9% tax rate has come in in the UAE, and the Turkish effective tax rate can go up and down quarter to quarter.

Number three, just the cost of risk and NIM impact for the flood deferrals, you're right, the Central Bank has set expectations. We will likely follow a one-month deferral, no questions asked approach and for anything's longer than that, there would be an evidence request to support that. Of course we'll support our customers affected by the flood. From a credit risk point of view I think there is more limited impacts given the insurability of homes and vehicles and therefore if something has been destroyed then the loan can be repaid by the insurance proceeds. And from a technical forbearance point of view we don't see any material impacts on our financial results going into this quarter. So hopefully that helps, Naresh.

Naresh Bilandani – JP Morgan

Understood, thank you very much. Just one follow up question, if you could please also clarify on how the tax authority in the UAE is treating elements like reversals, impairment charges and write-offs from a tax perspective?

Patrick Sullivan

Okay, everything is assessable and thus the effective tax rate is 9% or a shade under 9%. So if you have an ECL charge or a release that's both deductible and assessable.

Naresh Bilandani – JP Morgan

Okay, so there's no specific requirements from their side on changing the tax assessable base and treating these items any differently from how you account for these, is that just to put it simply a fair understanding?

Patrick Sullivan

Not at this Stage, Naresh, no.

Shayne Nelson

Which is different, Naresh, in Türkiye. So a deal for example billed in Türkiye is not deductible.

Naresh Bilandani – JP Morgan

Correct, yes. Thank you very much, I appreciate it.

Operator

Our next question comes from Jon Peace of UBS.

Jon Peace - UBS

Thank you. Hello everyone and well done on the results. So three questions, please. First one, in your new NIM guidance, how do you see NIM develop ex-Denizbank versus Denizbank? I think you said 4% to 5% for Denizbank this year but just also interested in the UAE business.

Secondly, on the fee income, 1.67 billion this quarter, very strong. Do you see there's an element of one-off and the IB fees there? I'm just trying to get a sense of the run rate going forward.

And then finally, I realise talking about M&A is very difficult but there were some more stories in Bloomberg this last week. Could you just remind us of your thoughts in that space and how important a progressive dividend is in the context of your M&A planning? Thank you.

Patrick Sullivan

Jon, maybe I'll just take those first two and then hand over to Shayne for the third one. Just on the NIM guidance ex-Deniz, page twelve of the deck highlights that the margins for ENBD excluding Denizbank have been relatively stable, in fact been quite stable since Q3, Q4 and then into Q1. So while we do see some competition around pricing on the asset side, the strength of our CASA growth has largely offset that and therefore in this quarter we only saw a two basis points impact.

With indicators from the FED that there will perhaps be fewer rate cuts this year, I don't think that would lead to significant upside because what it's really done is take what we had assumed to be an end of June 25 basis points and moved that into next year and you're still left with September and December rate rises that's in our base case at this point. Obviously it seems to have been changing a lot through the quarter. But actually the rate cuts for this year wouldn't really be as material as they would flow through into 2025. So we had strong CASA growth, that may not be at this pace through the rest of the year but it certainly helps from the overall margin perspective, so ENBD NIMs should stay relatively stable.

Just on fee income, yes, you can see then on page four, we've got a pretty consistent trend on fee and commission income up, that's not all from ENBD. Yes, ENBD underlying that was quite strong, it's perhaps not going to grow at that rate every quarter but you can see the direction of travel. There's also good Denizbank client revenue growth within that. So, we don't give specific guidance on non-funded income, per se, but we look to grow our client volume and that's what we've been investing for, particularly if we head into a rate cutting environment next year. So, we will be looking to grow that, but it may just not be exactly at that pace given the strength of all the businesses firing on all cylinders this quarter. And maybe the third point if I can pass that one to Shayne.

Shayne Nelson

Jon, you're right, we can't really talk much about M&A, we're aware of our regulatory obligations on reporting on M&A. But it's fair to say that every investment banker in the world knows we've got big capital buffers and lots of liquidity. So we get our door pounded on constantly with transactions out of Eastern Europe, anything in the Middle East, India, and even into Asia. So we get a lot of knocks on the door, but the truth is, in 12 years we've done two deals, we've looked at a lot, whether we did deliver on them is another matter. I can't really say much more than that, other than we have previously said to everyone on the call that geographies we would be interested in are Türkiye, Egypt, Saudi, India. This consistent strategy we've had for a long time, that we want to grow scale in our core markets where trading and capital flows are strong within our core footprint and those markets. So our strategy is unchanged on that.

Jon Peace - UBS

Thank you.

Operator

The next question comes from Rahul Bajaj of Citi Group.

Rahul Bajaj - Citi Group

Thank you, thanks Paddy, Shayne, Patrick. Two questions from my side. So first one is on the sovereign portfolio, I see that the sovereign loan portfolio has declined from first 111 billion in end of third quarter to 75 billion at the end of the first quarter, so why the significant drop in two straight quarters? Just wanted to understand is this all usually sovereign repayments or is there any deliberate strategy from the top, from the bank, to maybe change the business mix or slightly make the mix more towards non-sovereign private sector? So any thoughts there would be useful.

And the second one is on the Egyptian devaluation, so you have a sizeable Egypt business as well, just wanted to understand what impact you saw in 1Q on your group numbers based on the Egyptian pound devaluation and how are the business prospects looking now after the devaluation and the 600 basis points interest rate increase there? Thank you.

Shayne Nelson

Okay, I'll answer on sovereign. I think I've talked before on different calls, and it's in our related party notes, that the Government of Dubai has reduced its borrowing from us substantially in recent years. And that is purely because of the financial position Dubai finds itself in, it's super strong. For those of you who live here, you've seen the growth in the market, population, businesses, etc. And that's purely a customer-driven strategy, not a strategy for us to be forced to reduce the exposure or reposition the book. If you look at it from a capital-perspective, it's a pretty good return on capital that sovereign lending generates. So with repayment, we've had to backfill that and, yes, our strategy as those repayments have been coming down is to grow to backfill it, and also to grow for the future for when interest rates start coming off. So one of our preferred strategies is to grow now to offset interest rate reductions in the future.

On the Egyptian side, unfortunately whilst we do like Egypt it's not that material to us and it's one country where it's a pretty small operation for us in overall terms. Last year it made $100 million of the Group's $5.9 billion profit. So it's unfortunately not that material. We would like to make it more material, don't get me wrong, and Egypt still remains a focus for us both organically and inorganically. But the effect on us from a RWA, or even from a value perspective, is miniscule.

Patrick Sullivan

And I'll just add to that, Shayne, if I can, just the revenue the Egyptian biusiness recorded for the first quarter was actually up year-on-year, it was 30% up. The timing of the rate rises versus the FX depreciation meant that there was limited impact in the first quarter and they are still profitable as well. And from a Group point of view there's been nil impact on the Group's CET1 ratio. And as Shayne said, that's because it's assets are between 1% and 2%, it's just not going to have a significant impact on the Group.

Rahul Bajaj – Citi Group

Understood, I'm clear. Just one follow up if I may, please, on the earlier question of tax rates. So just to clarify you mentioned that Türkiye usually ranges effective tax rate between 20% and 30%, is that correct? And then you get on top of that the 9% in the UAE, is my understanding correct?

Patrick Sullivan

So, the effective tax rate in Türkiye can be typically between 20% and 30%, yes, and then for the UAE part that is going to be around the 9% give or take a bit here or there, until any of the tax rules change and there become a permanent difference.

Rahul Bajaj – Citi Group

Got it. And are there any conversations to increase the tax rate in UAE from 9% to 15%, or you think 9% is here to stay?

Patrick Sullivan

That's still under consultation stage, so nothing's been promulgated or legislated to make it 15%, but our expectation is that, for planning ahead, we're expecting 15% next year. If it's not 15% then that's a bonus. But in our jurisdiction, if the EU's already put a directive out for that, it means that we would be caught in the EU because of our Austrian business. So why would we want to pay that top up of tax to the EU, it would be better to pay it to the UAE, so that's what I would expect for next year.

Shayne Nelson

And my comment would be that when eventually the OECD does drop it uniformly, which I see that US still has not voted through, that if a multinational company's going to pay in 15% minimum somewhere then the UAE should collect it's share, so you would expect it to be 15%. Otherwise basically they're going to have to pay it in another jurisdiction from the profit that you've earned out of this economy. So I would expect the UAE to equalise with the OECD 15%, it just make absolute sense for the country. Unfortunately that means that we will also pay a bit more, but that's the cost of doing business and 15%, let's be honest, is still a very low tax rate against anywhere in the world.

Rahul Bajaj – Citi Group

Understood, all clear, thank you.

Operator

Our next question comes from Shabbir Malik from EFG Hermes.

Shabbir Malik – EFG Hermes

Thank you very much, a couple of questions from my side. In terms of the corporate tax that you mentioned that is going to, potentially that's what you're planning for, it's going to be 15%, do you think it's going to be applicable just to large multinational banks or it's something you expect to be like a sector-wide phenomenon, like it will apply to other sectors as well? Or maybe smaller banks that do not have multinational operations?

Secondly, I think one of the comments that was mentioned earlier about NIMs, that there is some competitive pressure on loan pricing, I just want to understand in which product or segment is it the strongest, or is it just that there is abundant liquidity in the system so it's competitive pressure is effectively on all segments?

And your cost growth has been outpacing revenue growth, I think you've provided some colour that there has been some investments, but I would like to know is there anything that's discretionary that could potentially normalise or are there any one-offs in the first quarter that we need to be aware of? And one of the concerns that you've highlighted in the past is about CASA migration to time deposits. We haven't seen that so far, is that something that you anticipate going into the rest of the year? Thank you.

Patrick Sullivan

Yes, thanks Shabbir, maybe I can just take those in reverse order. Just on the CASA to TD we're always mindful that that's a possibility in a high interest rate environment. We're very pleased that we've been able to grow CASA to 21 billion out of the 26 billion growth in total deposits in the first quarter.

Shayne Nelson

Frankly, stunned.

Patrick Sullivan

Yes. And it was very deliberate. We had significant campaigns in the first quarter and so the pace of growth may not continue in subsequent quarters. But remember also that UAE is benefiting from population growth, with also marketing attracting new-to-bank customers. So we're quite happy with that. When we look at our margins and the guidance, we're always factoring in an assumption about migration to time-deposits. As rates go down it's possible that clients and customers may look for yields, whether it's in the wealth management sector, so with our new wealth management app, we're ready to capture the assets under management there as well.

Just on the cost jaws, yes, it's negative jaws for this quarter but we are consciously investing in our network and also within our Ops capability, to support the significant increase in transactions and client volumes. So it is investment to build volumes as we head into a lower rate environment next year and maintain revenue. So better to do that investment now than have to think about starting that as you go into a rate cutting environment. There's no particular one-offs in the first quarter included. On staff costs, there about three quarters of the staff costs increases from headcount investment within the UAE and the region and the rest is more the annual inflationary or increments and performance-related payment.

Just on the NIMs and competition, so obviously on retail products one typically has a stronger gross yield, we're not seeing too much pressure on that. We didn't raise our rate significantly in retail as the rates were rising. So, we don't feel that there's pressure to cut those on the flip side. There is competition in the corporate space, particularly if it's refinancing, but we are managing that and we do price for risk and we manage on that basis. So, we're also mindful that when rates fall, if you've cut your gross margins too much, that will have a bigger knock on down the road.

Just your first point then around the corporate tax at 15%, any thoughts on what sectors that will apply to. The basic principle there is under the OECD rule that specific threshold is large companies with income greater than €750 million that would apply the 15%. So we expect that is how it would be applied in the UAE.

Shayne Nelson

Just on NIM pressure, there is abundant liquidity, as you're aware, within the UAE system, which is the reverse of Saudi which is actually liquidity short, so we have been directing more liquidity into Saudi. But what I'd always also say is that the Central Bank has been mopping up some of the spare liquidity that, the cash reserve ratio, as you'll remember, dropped from 14% to 7% in COVID. Then it jumped back to 11 about 18 months later and it's now been brought back to 14%. So, some of that spare liquidity will go to the Central Bank as it has put back the cash reserve ratio to 14%.

Shabbir Malik – EFG Hermes

All right, thank you very much. One comment on the financials, I think move to millions instead of thousands, it's pretty useful and easy for us, at least for me, to spread it in Excel, thanks.

Patrick Sullivan

Thanks for that feedback, Shabbir.

Operator

Our next question comes from Aybek Islamov from HSBC.

Aybek Islamov – HSBC

Yes, thank you for the conference call, very good Q&A so far. Can I ask you about your Saudi loan growth, I think in the presentation you talked about 19% growth rate in Saudi Arabia in loans, what would take Emirates NBD to consistently grow loans in Saudi Arabia above 25%? Can you also comment what kind of borrowers do we have there in Saudi Arabia, I presume these are all dollar syndications? That's my first question.

Secondly, when I look at your book value the growth is pretty good, if I add back the dividends your book value increased 8% quarter-on-quarter, now it looks like you're going to be accumulating capital from here. Can you comment again about your dividends in case you're accumulating capital? Would it be fair to see special payouts or dividend increases? And also, how do you see your book value sensitivity to rate cuts in the US in particular?

Shayne Nelson

On dividends I think we've discussed many times, that's a Board call, not a management call. And if you look at it historically, the Board's probably paid out about 25 to 30% on average and I think last year was a special, it took us to about 36% payout, we did the 100 fils plus a 20 special because of the sixtieth anniversary. So, you know from history the Board's pretty conservative on the dividend payout ratio.

On Saudi growth, to be honest, even though we're happy with 19% growth, it's still, if you look at where we sit against even the smallest local bank there, we're a long way behind. So, we have big ambitions for Saudi and we have the liquidity, we have the capital, but we also have to be very mindful in Saudi that at the top end of town the margins are quite slim and our capacity to cross-sell in that space is not great at this stage. It'll improve over time but we've also got to be really mindful of return on capital, especially at the top end of town, as the big guys in Saudi are demanding very fine margins in a market that has quite tight liquidity.

So, we're really mindful of that and our strategy's more, I suppose, large corporates down. But we're aggressively going after the retail franchises, from credit cards to housing loans to car loans, within that market. So, it's not just a one legged race there, we're not just going after corporates. Also with our branch penetration now, we're really trying to grow our retail market share. And that's being quite successful for us at the moment. But we're still small there compared to the local banks. I think it's fair to say we are the largest foreign bank in Saudi but that's not saying much. And the KSA team know this but we have a much bigger ambition to grow in Saudi from where we currently are.

Aybek Islamov – HSBC

Thank you.

Patrick Clerkin

Okay, there is a couple of questions that have come in the web, I'll just clean those up. One question about recoveries in Q1 from the UAE and Türkiye. Patrick alluded to that before, because of the health of the property market a lot of those recoveries are property related, but certainly they're not just from the property and construction sector, there are other recoveries from the sectors and they are quite representative of our loan book.

A question about the growth in the wealth management business. It is a focus for us, you will have seen last year we relaunched the app and within that we included our wealth management products, with ability to buy 11,000 equities, fractional bonds, population growth, etc. All these factors are really helping drive the success in the wealth management franchise.

And the final question about potential acquisitions, Shayne's already addressed that, so nothing further to add. That's all the questions answered on the web.

Shayne Nelson

Okay, well if there's no further questions I'd like to thank you all for participating in today's call, and as you can see, we continued our strong and consistent performance into 2024, delivering a record quarterly profit. The group's rock-solid balance sheet makes Emirates NBD a regional powerhouse, providing the platform for future growth. I'll now hand you back to Nadia to provide our details in case you have any further follow up questions and we'll close the call. Thank you very much for joining us and I wish you well for the next couple of calls that many of you will be joining.

END