Emirates NBD

Q3 2019 Results Presentation



28 October 2019

Important Information

Disclaimer

The material in this presentation is general background information about Emirates NBD's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take in to account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

The information contained here in has been prepared by Emirates NBD. Some of the information relied on by Emirates NBD is obtained from sources believed to be reliable but does not guarantee its accuracy or completeness.

Forward Looking Statements

It is possible that this presentation could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Emirates NBD undertakes no obligation to revise or update any forward looking statement contained within this presentation, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Emirates NBD delivered a strong set of results in Q3-19

Key Metrics

		Q3 2019 YTD	2019 Guidance
Profit	Net Profit	AED 12.5 Bn +63% y-o-y	
	NIM	2.82%	2.75-2.85%
	Cost to income	30.3%	33%
Credit Quality	NPL	4.8%	Stable ✓
	Coverage	126.6%	
Capital	CET 1	13.7%	
	Tier 1	15.9%	
	CAR	17.0%	
Liquidity	AD Ratio	91.8%	90-100%
	LCR Ratio	149.3%	
Assets	Loan Growth (Excl. Denizbank)	5.0%	mid-single digit

2019 Macro themes

Regional

- **GCC growth supported by stable oil production**

- **Geo-politics**
- **Softening UAE real estate prices**

Global

- **Slowing but growing US economy**

- **IMF downgrades global growth forecast**

Q3-19 YTD Financial results highlights

Highlights

- Net profit of AED 12,483 Mn for Q3-19 YTD increased 63% y-o-y, or 3% excluding Denizbank and the impact of the Network International transaction
- Results include Denizbank revenue of AED 1,256 Mn and net profit of AED 198 Mn for two months since acquisition date
- Core Operating Profit grew 5% y-o-y, or 2% excluding Denizbank supported by asset growth and higher fee income
- Net interest income improved 17% y-o-y, or 8% excluding Denizbank supported by 5% loan growth
- NIMs improved marginally to 2.82% y-o-y due to the positive impact of Denizbank
- Non-interest income advanced 31% y-o-y, or 20% excluding Denizbank due to higher foreign exchange and credit card related income
- Costs increased 14% y-o-y, or 4% excluding Denizbank due to a rise in staff and operating costs relating to international expansion
- Provisions of AED 2,755 Mn increased 149% y-o-y, or 94% excluding Denizbank due to lower writebacks and recoveries
- Net cost of risk increased to an annualized 103 bps
- NPL ratio improved to 4.8% as Denizbank loans recorded at fair value on acquisition date resulted in no addition to NPLs
- LCR of 149.3% and AD ratio of 91.8% demonstrate continuing healthy liquidity post Denizbank acquisition

Key performance indicators (Including Denizbank from 1st Aug 2019)

AED Mn	Q3-19 YTD	Q3-18 YTD	Better / (Worse)
Net interest income	11,122	9,536	17%
Non-interest income	4,419	3,369	31%
Total income	**15,541**	**12,905**	**20%**
Operating expenses	(4,706)	(4,112)	(14%)
Pre-impairment operating profit	**10,835**	**8,793**	**23%**
Impairment allowances	(2,755)	(1,108)	(149%)
Operating profit	**8,080**	**7,686**	**5%**
Gain on disposal of stake in NI and fair value gain on retained interest	4,389	0	-
Share of profits from associates	18	83	(79%)
Gain on bargain purchase	142	0	-
Taxation charge	(145)	(112)	(30%)
Net profit	**12,483**	**7,656**	**63%**
Cost: income ratio	30.3%	31.9%	1.6%
Net interest margin	2.82%	2.81%	0.01%

AED Bn	30-Sep 2019	31-Dec 2018	%
Total assets	675.6	500.3	35%
Loans	429.7	327.9	31%
Deposits	468.2	347.9	35%
AD ratio (%)	91.8%	94.3%	2.5%
NPL ratio (%)	4.8%	5.9%	1.1%

Q3-19 Financial results highlights

Highlights

- Net profit of AED 5,001 Mn for Q3-19 increased 90% y-o-y and 6% q-o-q
- The results include a AED 2.3 billion impact of the Network International transaction
- Core Operating Profit lower by 1% y-o-y and 4% q-o-q due to higher impairment allowances
- NIMs of 2.83% improved 11 bps q-o-q due to the positive impact of Denizbank
- Net interest income improved 29% y-o-y, or 3% excluding Denizbank on asset growth
- Non-interest income advanced 52% y-o-y, or 18% excluding Denizbank on higher core fee and investment securities income
- Costs increased 28% y-o-y, and remained flat excluding Denizbank as the Bank continues to manage costs tightly
- Provisions of AED 1,528 increased 133% q-o-q, or 40% excluding Denizbank due to lower writebacks and recoveries
- NPL ratio improved to 4.8% as Denizbank loans were recorded at fair value on acquisition date resulted in no addition to NPLs
- Coverage ratio strong at 126.6%

Key performance indicators (Including Denizbank from 1st Aug 2019)

AED Mn	Q3-19	Q3-18	Better / (Worse)	Q2-19	Better / (Worse)
Net interest income	4,271	3,307	29%	3,452	24%
Non-interest income	1,743	1,147	52%	1,359	28%
Total income	**6,014**	**4,454**	**35%**	**4,810**	**25%**
Operating expenses	(1,880)	(1,466)	(28%)	(1,430)	(31%)
Pre-impairment operating profit	**4,134**	**2,988**	**38%**	**3,380**	**22%**
Impairment allowances	(1,528)	(353)	(333%)	(656)	(133%)
Operating profit	**2,606**	**2,635**	**(1%)**	**2,724**	**(4%)**
Gain on NI disposal & FV gain on retained interest	2,323	0	-	2,066	-
Share of profits from associates	6	34	(83%)	(15)	138%
Gain on bargain purchase	142	0	-	0	-
Taxation charge	(75)	(30)	(152%)	(36)	(110%)
Net profit	**5,001**	**2,638**	**90%**	**4,739**	**6%**
Cost: income ratio	31.3%	32.9%	1.7%	29.7%	(1.5%)
Net interest margin	2.83%	2.87%	(0.04%)	2.72%	0.11%

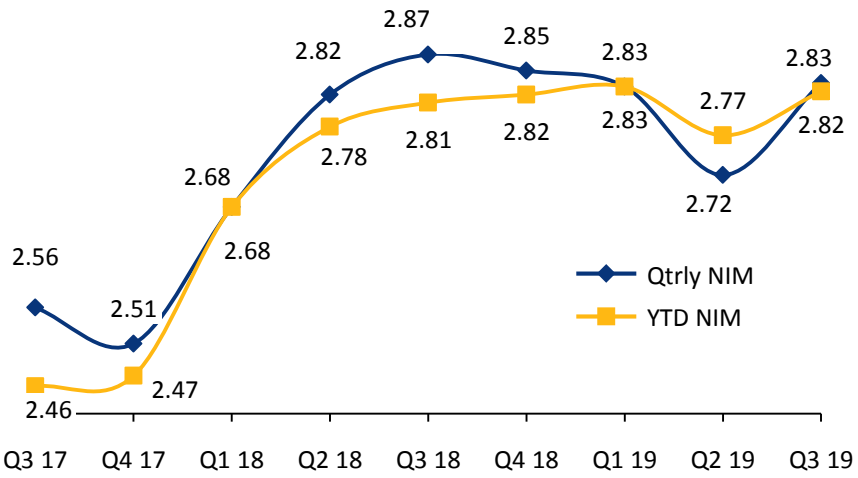
AED Bn	30-Sep 2019	31-Dec 2018	%	30-Jun 2019	%
Total assets	675.6	500.3	35%	537.8	26%
Loans	429.7	327.9	31%	337.7	27%
Deposits	468.2	347.9	35%	366.7	28%
AD ratio (%)	91.8%	94.3%	2.5%	92.1%	0.3%
NPL ratio (%)	4.8%	5.9%	1.1%	5.9%	1.1%

Net interest income

Highlights

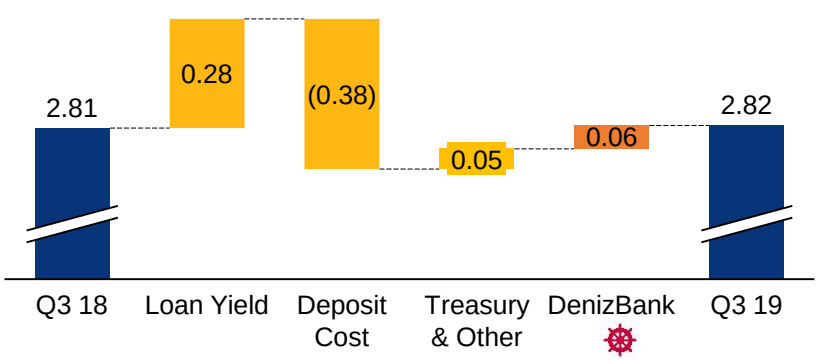
- Q3-19 YTD NIM advanced 1 bp y-o-y to 2.82%, helped by higher margins from Denizbank
- Excluding Denizbank, NIMs declined 5 bps on higher deposit costs
- Q3-19 NIM of 2.83% improved 11 bps q-o-q but declined 8 bps excluding Denizbank
- Loan yields improved 28 bps y-o-y and deposit costs increased 38 bps y-o-y due to higher average EIBOR rates in 2019
- NIM guidance of 2.75-2.85% maintained as full quarter impact of Denizbank will help offset the effect of lower short term interest rates

Net Interest Margin (%)

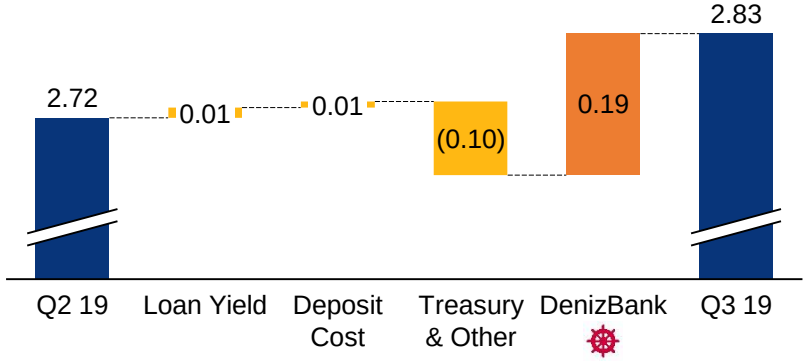


Net Interest Margin Drivers (%)

Q3-19 YTD vs. Q3-18 YTD



Q3-19 vs. Q2-19

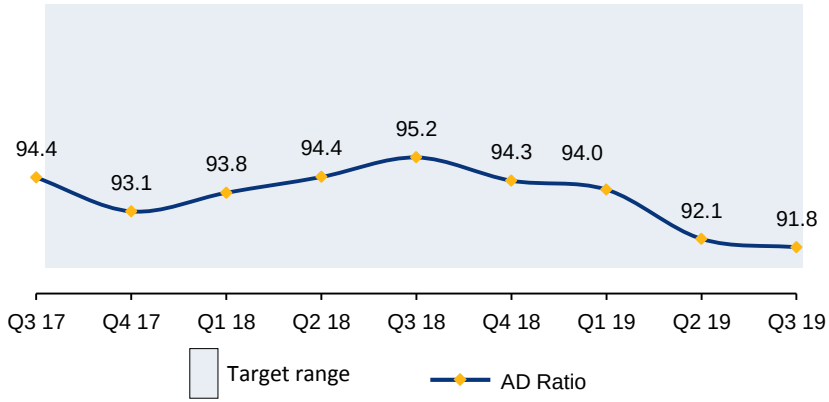


Funding and liquidity

Highlights

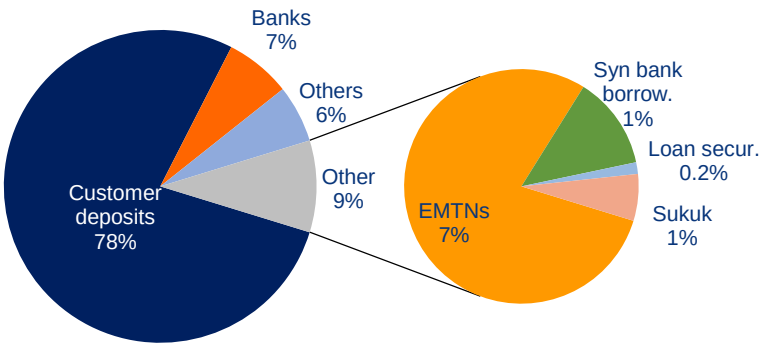
- LCR of 149.3% and AD ratio of 91.8% demonstrates continuing healthy liquidity post Denizbank acquisition
- Liquid assets* of AED 107.3 Bn as at Q3-19 (18% of total liabilities)
- In 2019, AED 12.7 Bn of term debt issued in 9 currencies with maturities out to 20 years, more than fully covering 2019 total maturities
- Debt/Sukuk represents 9% of total liabilities
- Denizbank seeing improved demand and pricing for term funding
- Denizbank debt acquired (AED 3.1 bn) with maturity until 2020

Advances to Deposit (AD) Ratio (%)



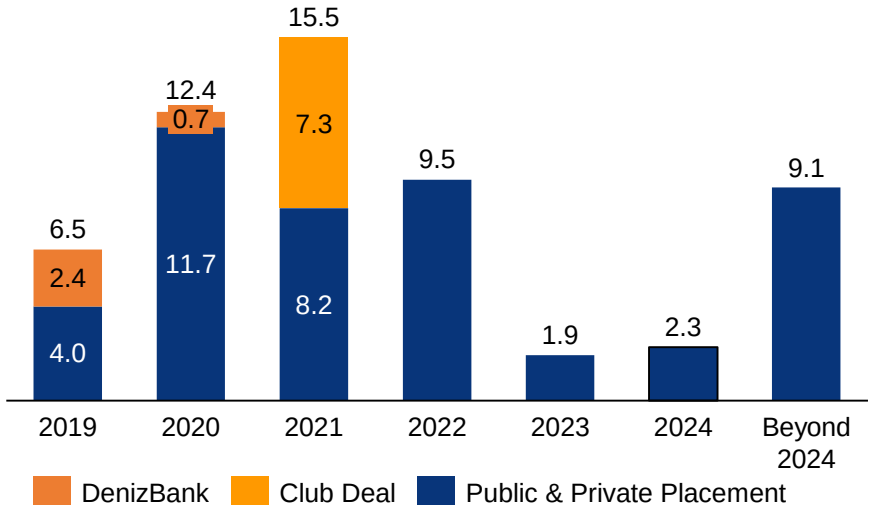
Composition of Liabilities/Debt Issued (%)

Liabilities (AED 602.1 Bn) Debt/Sukuk (AED 57.1 Bn)



Maturity Profile of Debt Issued (AED Bn)

Maturity Profile of Debt/ Sukuk Issued AED 57.1 Bn



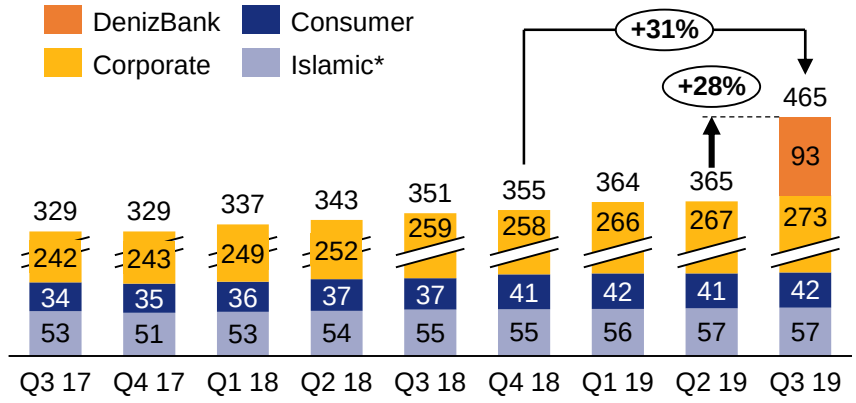
*Including cash and deposits with Central Banks but excluding interbank balances and liquid investment securities

Loan and deposit trends

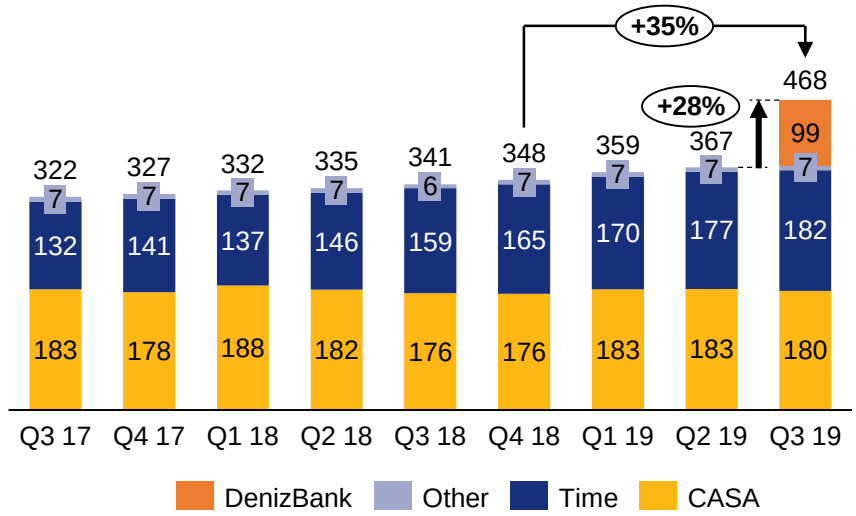
Highlights

- Gross loans excluding Denizbank grew 5% since start of the year with growth across all operating segments
- Corporate lending grew 6% (27% including Denizbank due to growth in agriculture, manufacturing, services, transport and communication sectors) since year-end
- Consumer lending grew 1% (98% including Denizbank due to growth in personal loans and credit cards) since year-end
- Islamic financing grew 4% since year-end due to growth in manufacturing, personal and trade sectors
- Denizbank acquisition increased gross loans by AED 93 bn and customer deposits by AED 99 bn
- CASA deposits represent 44% of total group level deposits.
- Domestic CASA engine remains strong at 50%

Trend in Gross Loans by Type (AED Bn)



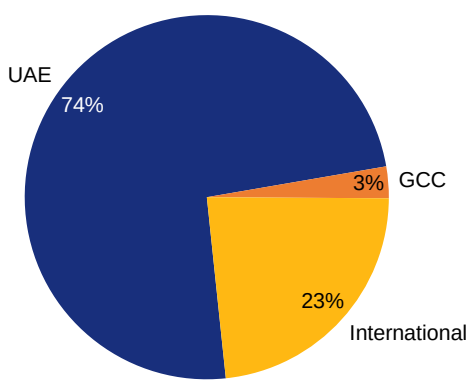
Trend in Deposits by Type (AED Bn)



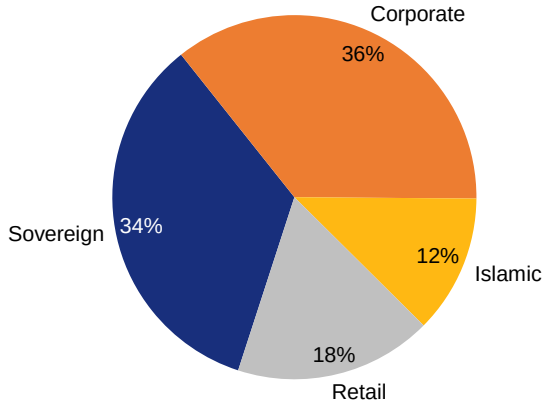
* Gross Islamic Financing Net of Deferred Income

Loan composition

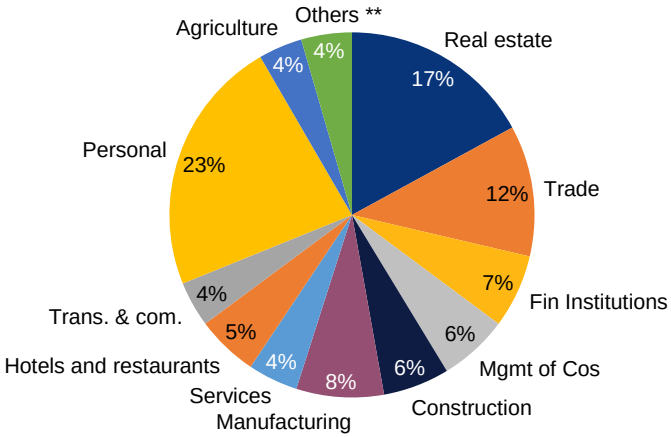
Total Net Loans (AED 429 Bn)



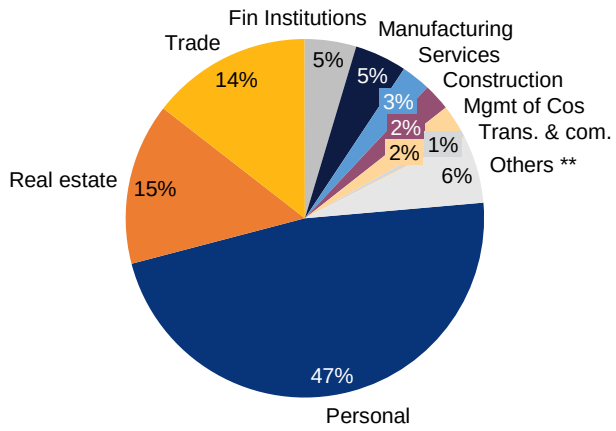
Gross Loans (AED 465 Bn)



Gross Corporate and Retail Loans (AED 249 Bn)



Gross Islamic Loans* (AED 59 Bn)



*Islamic loans gross of deferred income
**Others include Mining & quarrying (and Agriculture for Islamic Loans)

Non-interest income

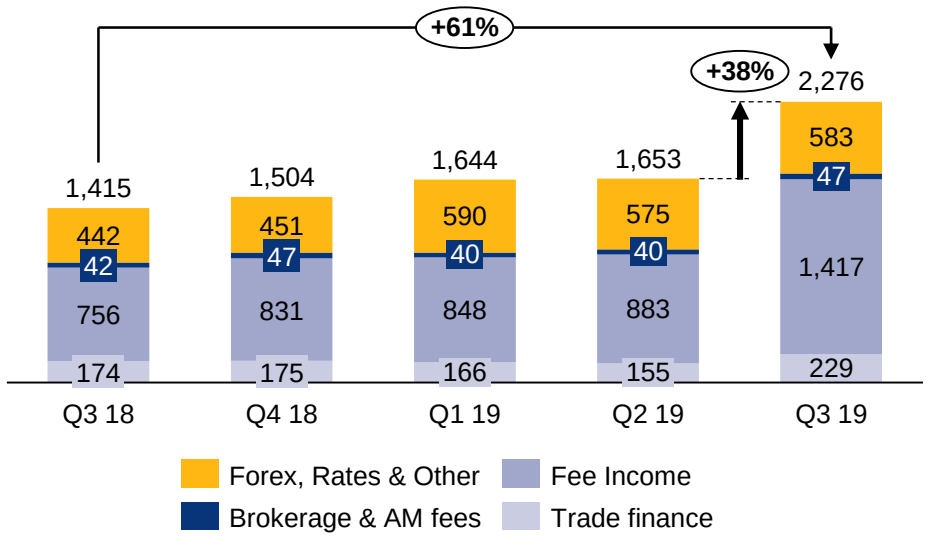
Highlights

- Core fee income increased by 26% y-o-y due to higher foreign exchange and credit card related income
- Investment Securities Income improved y-o-y due to higher gain on trading securities as a result of changing interest rates
- Total non-interest income advanced 31% y-o-y, or 20% excluding Denizbank on higher core fee and investment securities income

Composition of Non Interest Income (AED Mn)

AED Mn	Q3-2019 YTD	Q3-2018 YTD	Better / (Worse)
Core gross fee income	5,573	4,314	29%
Fees & commission expense	(1,215)	(861)	(41%)
Core fee income	**4,358**	**3,453**	**26%**
Property income / (loss)	(68)	(70)	2%
Investment securities & other income	129	(13)	1096%
Total Non Interest Income	**4,419**	**3,369**	**31%**

Trend in Core Gross Fee Income (AED Mn)

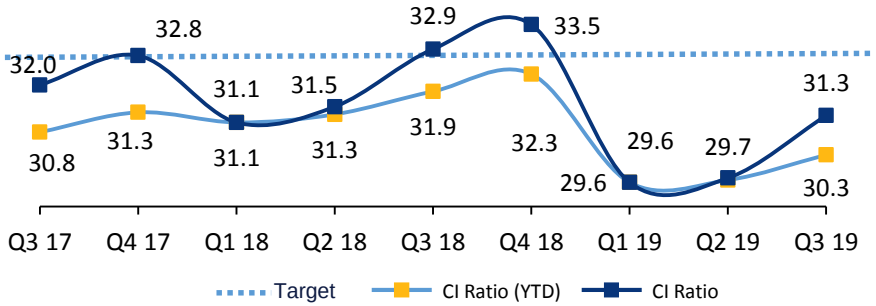


Operating costs and efficiency

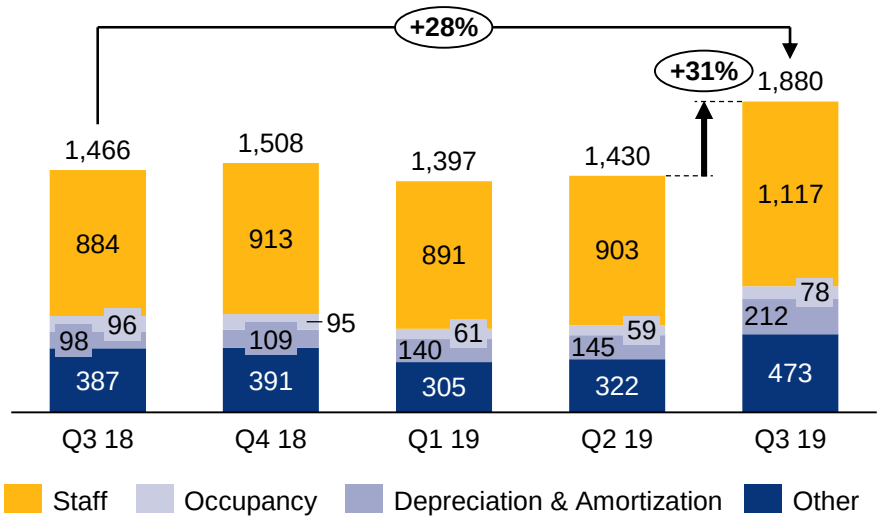
Highlights

- Q3-19 costs were AED 1,880 Mn, a 31% q-o-q and 28% y-o-y increase due to a rise in staff and operating costs relating to international expansion
- Excluding Denizbank, quarterly costs increased 3% q-o-q and remained flat y-o-y as the Bank continues to manage costs tightly
- The cost to income ratio at 30.3% is within guidance however the Bank remains firmly focused on cost controls as we face pressure on income due to falling interest rates

Cost to Income Ratio (%)



Cost Composition (AED Mn)

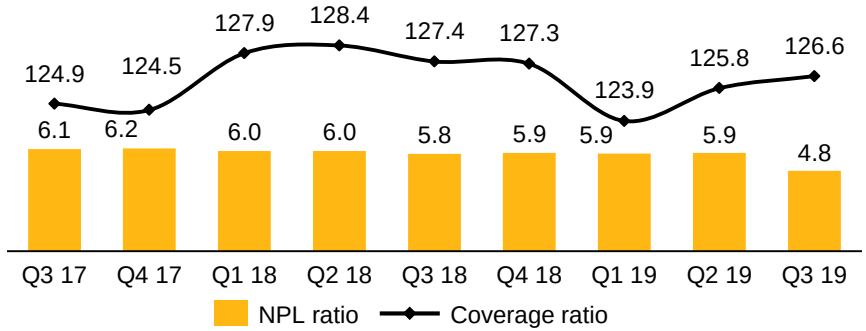


Credit quality

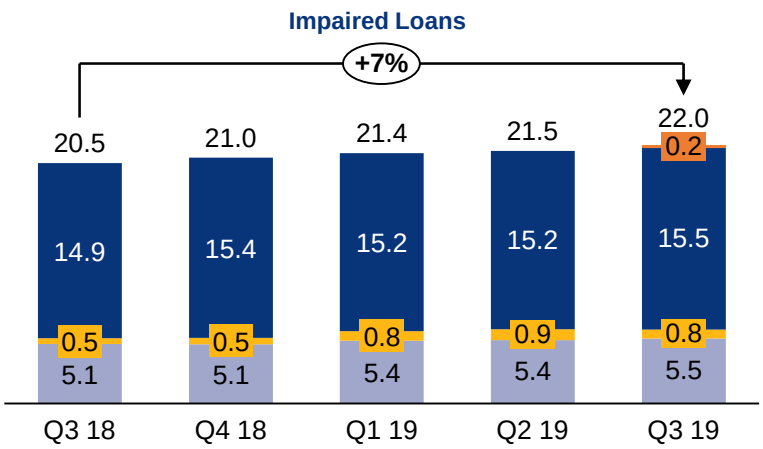
Highlights

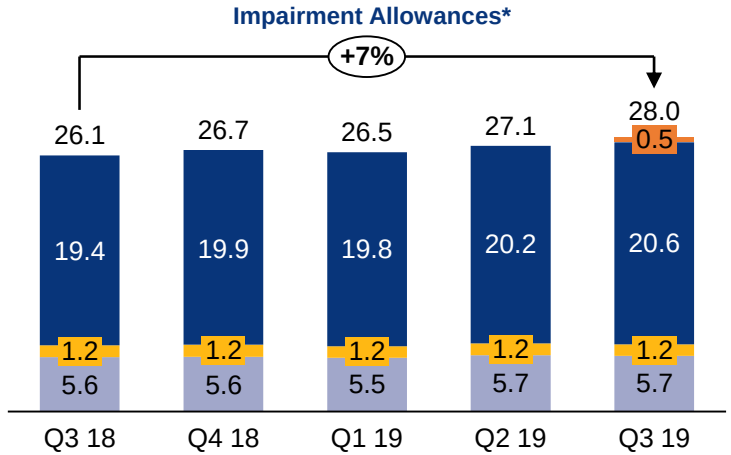
- NPL ratio improved to 4.8% in Q3-19 as Denizbank loans recorded at fair value on acquisition date resulted in no addition to NPLs
- Cost of risk increased to 103 bps from 63 bps in 2018 on higher net impairment charge of AED 2,755 Mn including the impact of Denizbank and reflecting the slowdown in regional and international markets
- AED 796 Mn of write backs & recoveries in the first nine months of 2019 compared to AED 1,381 Mn in 2018
- The coverage ratio remained strong at 126.6%
- Stage 1 & 2 ECL allowances amount to AED 8.4 Bn* or 2.2% of CRWA

Impaired Loan & Coverage Ratios (%)



Impaired Loans and Impairment Allowances (AED Bn)





DenizBank | Core Corporate | Retail | Islamic

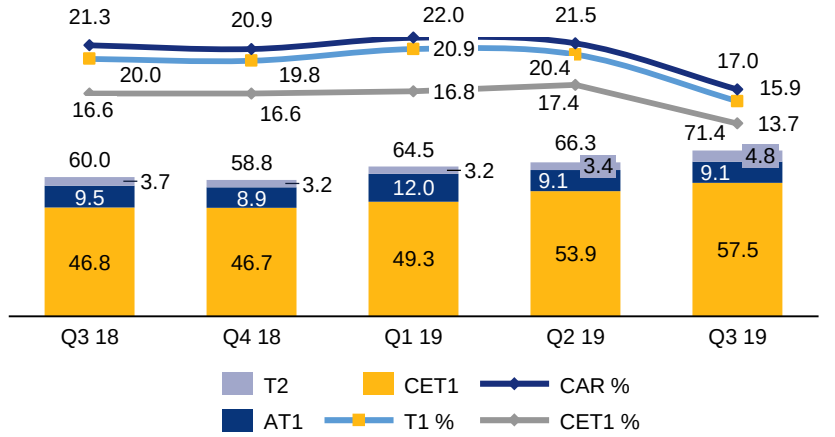
*Impairment allowances exclude the pre-acquisition impact of Denizbank (Total of AED 7.9 bn)

Capital adequacy

Highlights

- In Q3-19, capital ratios declined on growth in RWAs from Denizbank
- Capital ratios remain above the minimum regulatory requirements of 11% for CET-1 ratio, 12.5% for Tier 1 ratio and 14.5% for CAR ratio
- Proposed rights issue of up to $1.75 billion equivalent will strengthen capital ratios by 1.5% approximately
- 'Other' adjustment of AED 1 bn relates to acquired intangibles of Denizbank's core deposits, customer relationships and brands
- Increase in T2 due to increased eligibility of reserves based on 1.25% on CRWA

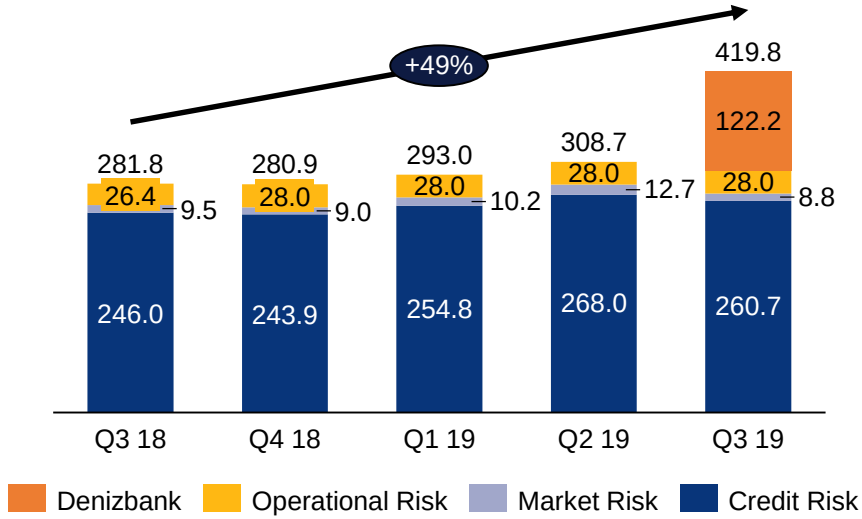
Capitalisation



Capital Movements table

AED Bn	CET1	Tier 1	Tier 2	Total
Capital as at 31-Dec-2018	**46.7**	**55.6**	**3.2**	**58.8**
Net profits generated	12.5	12.5	-	12.5
T1 Issuance	-	3.7	-	3.7
Repayment of Tier instruments	-	(3.7)	(0.1)	(3.8)
Interest on T1 securities	(0.5)	(0.5)	-	(0.5)
Amortisation of T1	-	(0.4)	-	(0.4)
Other	(1.2)	(0.6)	1.7	1.1
Capital as at 30-Sep-2019	**57.5**	**66.6**	**4.8**	**71.4**

Risk Weighted Assets

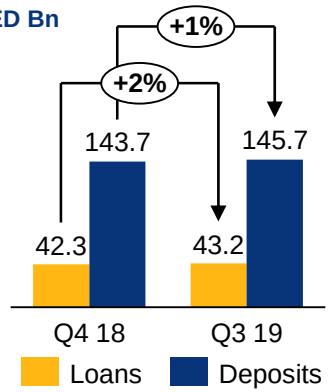


Divisional performance (Excluding Denizbank)

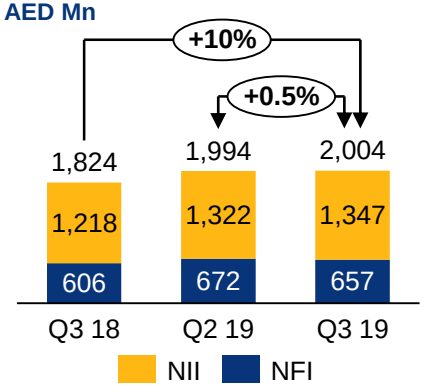
Retail Banking & Wealth Management

- Revenue increased 10% y-o-y led by higher net interest income from liabilities and fee income driven by cards, loans and FX
- Liabilities grew by 1% backed by enhanced customer promotions and new product launches
- Customer advances increased 2% during the year supported by strong acquisitions of personal and auto loans. New card sales were up 21% over the previous period
- Liv, remains the fastest growing retail banking proposition in the UAE reaching a base of over 300,000 customers
- The bank announced the creation of E20., a digital business bank entrepreneurs and SMEs

Balance Sheet Trends
AED Bn



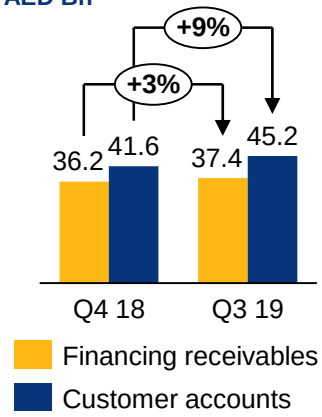
Revenue Trends
AED Mn



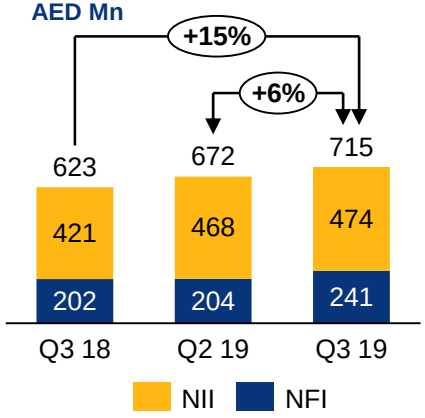
Emirates Islamic

- Revenue increased 15% y-o-y led by a 13% increase in funded income
- EI's total assets reached AED 62.7 billion at the end of Q3 2019
- Financing and Investing Receivables increased by 3% to AED 37.4 billion since the start of the year
- Customer accounts increased by 9% to AED 45.2 billion over the same period
- CASA balances represented 63% of total customer accounts compared with 66% at the end of 2018
- EI's headline Financing to Deposit ratio stood at 83% and is comfortably within the management's target range

Balance Sheet Trends
AED Bn



Revenue Trends
AED Mn

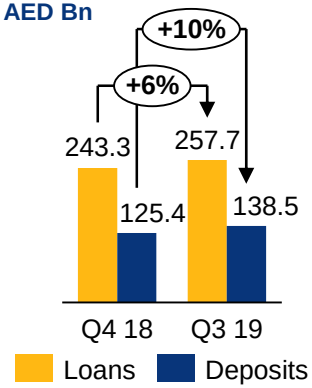


Divisional performance (Excluding Denizbank)

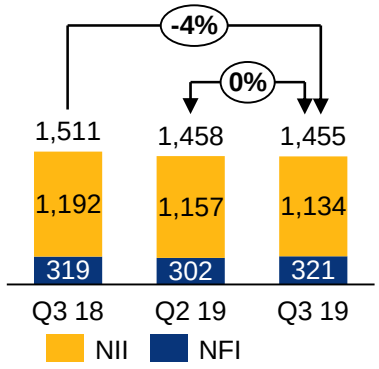
Wholesale Banking

- Wholesale Banking revenue slightly lower q-o-q and down 4% y-o-y as lower margins more than offset a growth in fee income
- Net interest income lower 2% q-o-q mainly due compression in margins partially offset by growth in lending activity
- Fee income of AED 321 million increased 6% q-o-q due to higher lending related fees and increased investment banking activity
- Loans grew 6% during the year with strong momentum in lending activity and growth in the Bank's core and short term lending business
- Deposits were 10% higher reflecting the Bank's aim to maintain liquidity at an optimum level

Balance Sheet Trends
AED Bn



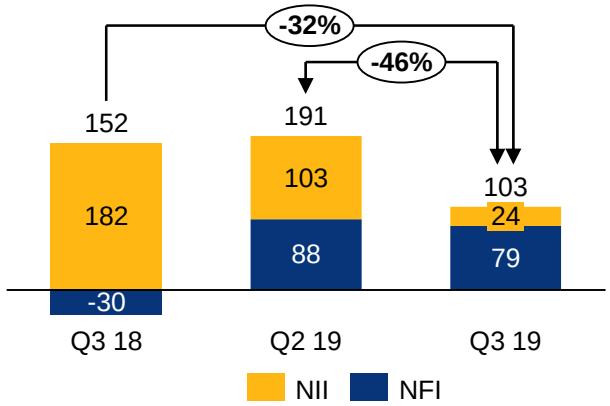
Revenue Trends
AED Mn



Global Markets & Treasury

- GM&T revenues decreased 32% y-o-y and 46% q-o-q mainly due to lower NII from declining interest rates over the period
- NFI increased significantly y-o-y as the Rates and Foreign Exchange desks contributed by taking advantage of volatility in their respective markets, with marginal reduction q-o-q
- The Global Funding Desk raised AED 12.7 billion of term funding through private placements with maturities out to 20 years
- The desk successfully raised a US$ 1 billion Perpetual Tier 1 issue in the first nine months of 2019

Revenue Trends
AED Mn



Acquisition of DenizBank

Highlights

- Emirates NBD acquired 99.85% shares in DenizBank on 31st July 2019
- Purchase consideration of AED 9,950 million paid in US$ ($2.7 billion equivalent)
- The difference between the fair value of assets acquired and purchase consideration is a gain on bargain purchase of AED 142 million
- Fair value of assets and liabilities was determined by an external expert
- Acquired intangibles comprise core deposits, customer relationships and brands
- Negative goodwill represents the difference between purchase consideration and fair value of assets acquired

Financial Impact on Acquisition

AED Mn	AED Million
Book value of assets	10,677
Fair value adjustments	(1,599)
Intangibles	1,029
- Customer relationships	*376*
- Core deposit intangibles	*277*
- Brands	*375*
Fair value of net assets acquired	**10,107**
Represented by:	
Purchase consideration paid in cash	**9,950**
Gain on bargain purchase (Negative Goodwill)	142
Non Controlling Interest (NCI)	15
Total	**10,107**

DenizBank Business Overview

Business Overview

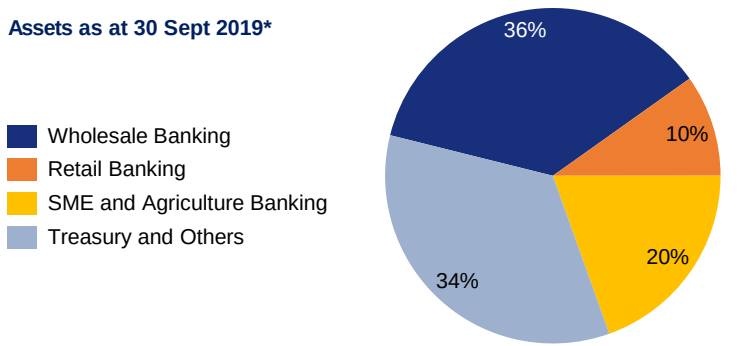
- DenizBank is the fifth largest private bank in Turkey
- Wide presence through a network of 752 branches and 2,800+ ATMs
- Operates with 708 branches in Turkey and 44 in other territories (Austria, Germany, Bahrain)
- Servicing around 13 million customers, through 14,000+ employees
- Financially sound with robust profitability and a healthy balance sheet
- Full service commercial banking platform of Corporate banking, Retail banking and Treasury

Financial Highlights

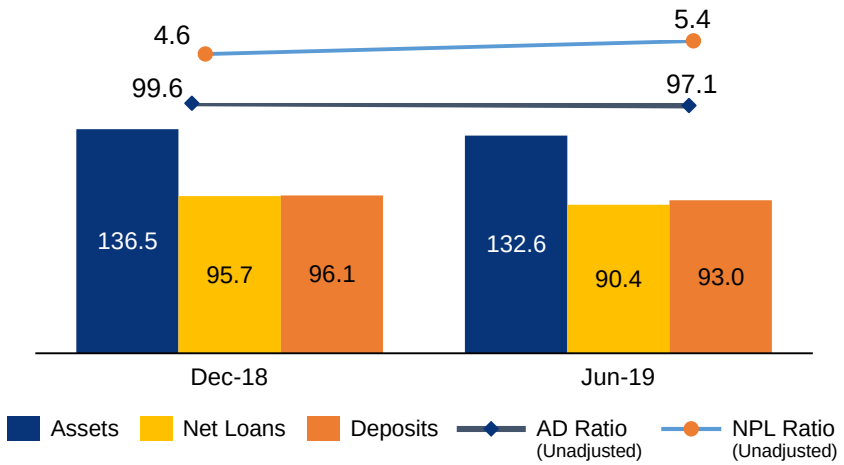
AED Mn**	Aug-Sep 2019 YTD*	H1 2019	FY 2018
Net interest income	869	2,461	5,242
Non-interest income	387	1,065	1,272
Total income	**1,256**	**3,526**	**6,514**
Operating expenses	(414)	(1,351)	(2,491)
Pre-impairment operating profit	**842**	**2,174**	**4,023**
Impairment allowances	(608)	(1,520)	(1,994)
Operating profit	**234**	**654**	**2,030**
Taxation charge	(36)	(129)	(256)
Net profit	198	525	1,774
Cost: income ratio	33.0%	38.3%	38.2%
Net interest margin	3.98%	3.34%	3.18%

Segment breakdown

Assets as at 30 Sept 2019*



Financial Highlights (AED Bn**)



*Financial numbers post acquisition (1-Aug-19) include the Group's fair value adjustments
**Metrics converted to AED using spot / average exchange rate for balance sheet / income statement



Get in touch.

INVESTOR RELATIONS

Emirates NBD Head Office I 4th Floor

PO Box 777 I Dubai, UAE

IR@emiratesnbd.com

Tel: +971 4 609 3046