Transcription EMIRATES NBD Analyst & Investor Q1 2013 Results Announcement Conference Call

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Corporate Participants

Rick Pudner
Emirates NBD – Chief Executive Officer

Surya Subramanian
Emirates NBD – Chief Financial Officer

Patrick Clerkin
Emirates NBD – Director of Global Funding

Presentation

Operator
Ladies and Gentlemen, welcome to the Emirates NBD first quarter 2013 Results Announcement Analyst and Investors Call. If we are all ready to begin, I will now pass the call over to our host, Mr Rick Pudner, CEO of Emirates NBD.

Rick Pudner
Thank you. Before we begin discussing the 2013 quarter one results, I would like to briefly address the news that has been circulating in the media recently. At the end of this year, I will complete my tenure as Group CEO of Emirates NBD after having spent more than seven years in this position.

This is in line with the succession planning process at Emirates NBD and my personal and the organisation's strategy for change and transformation. As such, I will continue to serve as Group CEO while supporting the succession preparations that are currently in progress.

As I reflect on the last seven years that I have had the opportunity to lead, and grow with Emirates NBD, I am pleased to say that it has been, and continues to be, an enjoyable and professionally rewarding journey. Together with the Emirates NBD Chairman and Board of Directors, both past and present, the Management Team, and our talented members of staff, we have made significant contributions and achieved remarkable milestones that we can all be proud of. I would like to thank them all for their support and trust.

I am very pleased also to be celebrating Emirates NBD's 50th Anniversary in my final year at the Bank. This is a special occasion that signifies the strength and the stability of Emirates NBD and its well-recognised brand. By the end of this year, I expect to hand over my responsibilities to a new leader. During this transitional period, I will remain committed and fully focused on achieving our targets for 2013. This brings us back to our Q1 results and supporting me in today's call are Surya Subramanian, the Bank's Chief Financial Officer and Patrick Clerkin, our Director of Global Funds, who is joining us for the call today as Ben is currently on leave. Together we will review the operational and financial highlights for the first quarter of 2013. We will be talking through a presentation which has been made available to you earlier today after which there will be, as usual, an opportunity for you to ask any questions that you have.

I am pleased to report that Emirates NBD has once again delivered a robust set of results with a net profit of AED 837 million in the first quarter of 2013, up 31% in comparison with the same quarter in the previous year.

This improvement in profitability was achieved by active management of the various operating levers we have at our disposal. Our performance improvement is across all business lines and while we continue to face loan spread compression during the quarter, we have more than offset this through strong fee income growth. In addition, our focus on cost optimization has resulted in an improvement of operating cost by 5% compared to last quarter and 4% compared to the same period in 2012.

In terms of asset quality and provisioning, the experience in 2013 has been in line with our expectations. On the back of improved market conditions, the impaired loan formation was modest during the quarter and we have continued to boost provisions to improve our overall coverage ratio. There has been no need to take any write-downs on either associates or investment properties.

The quarter also saw a further improvement in our liquidity and funding position as our loan to deposit ratio has improved to 99% compared with 102% at end 2012, and we continued raising medium-term debt at attractive pricing, taking the total raised during the quarter to almost AED 4.5 billion, including AED 2.75 billion of Tier 2 capital. We have also repaid AED 1.3 billion of the subordinated debts during the quarter. The level of cash and Central Bank balances have reached almost AED 31 billion, which represents 11% of our total liabilities and hence we are comfortably placed relative to the evolving regulatory regime.

Finally, while the global economic climate continues to remain uncertain, with our strong financial performance for the opening quarter this year, we aim to continue building on our solid foundations to drive the bank forward while achieving our strategic objectives.

With that, I will hand you over to Surya to start going through the details of the presentation.

Surya Subramanian
Thank you Rick. I will first speak through slide three, which contains the financial results.

We have started the year on a good trajectory with all lines of the P&L showing positive growth over the last quarter. The retail business and Islamic franchise have been a key driver for this growth, with support which was broad-based across other businesses for new underwriting. Balance sheet metrics are also showing signs of turning the corner and we will speak more about this later in the presentation.

Net profit for the quarter at AED 837 million is significantly higher than earlier quarters and reflects a year-over-year growth of 31% and quarter-over-quarter growth of 34%.

Net interest margin for the quarter at 2.39% is in line with our guidance and remains the function of an interplay between competitive loan margins and an improved mix of deposits. Growth in non-interest income at 19% quarter-on-quarter and negative 3% year-on-year is the result of our earlier advised efforts to grow non-credit risk based revenue and further details follow later in the presentation.

Headline loans to deposit ratio improved to 99% and Emirates NBD remains well placed to meet relevant prudential liquidity requirements. Total costs for the quarter at AED 909 million have been well managed and are within our expectations for cost-to-income ratio, and reflects an improvement both year-on-year and quarter-on-quarter. Provisions remain in line with our previous guidance to de-risk the book.

Slide four on non-interest income. Net interest margin at 2.39% for the quarter dropped by eight basis points over the previous quarter and is mainly driven by contracting loan and treasury spreads, offset by an improved funding mix. Margins continue to be driven mainly by a competitive loan market and our ability to raise current and saving account balances. The impact of lower margins on net interest income is, however, muted by broad-based growth in the balance sheet. We retain our guidance for full year margins to be in the range of 2.40% to 2.30%.

I take you now to slide five on funding and liquidity. The bank's strong funding and liquidity position is a source of competitive advantage in a period of margin contraction. Our private placements and public offerings continue to be well received by the market. As Rick mentioned, Emirates NBD's liquid asset position is strong and at AED 31.9 billion has grown in line with deposits to cover 11% of total liabilities due. The debts shown maturing in 2013, our short-term private placements, as already indicated in previous calls, and we received healthy enquiries for rollover and fresh placements, which together with our ability to opportunistically tap debt markets, helps us shift the focus to growing the asset book and building new revenue streams.

During the quarter, Emirates NBD successfully raised a benchmark Tier 2 issue of $750 million, tightly priced at 4.875%, which are 390 basis points over mid swaps, and this helped us repay AED 3 billion portion of the Ministry of Finance Tier 2 capital in early April, as well as retire an earlier subordinated debt issue of AED 1.3 billion during the quarter.

As mentioned in previous calls, we have no target to raise funds or capital this year, but will do so as and when the market allows an opportunity for us to benefit from rates and liquidity.

I will take you now to slide six on loans and deposit trends, we continue to see growth in good quality underwriting for our retail, SME, and Islamic assets, and some fresh underwriting primarily for trade finance and syndicated loans in our large corporate book. Our expectation for 2013 remains at continued asset growth percentage in the middle single digits. Current and savings account growth excels, and this now supports our stable funding base at 46% of total deposits.

With that, I hand you over to Paddy for further analysis.

Patrick Clerkin
Thank you Surya. On slide seven you we see that headline non-interest income declined by 3% year-on-year but improved 19% quarter-on-quarter.

Looking at the components of this, we see that core fee income grew by 1% year-on-year and grew by 16% quarter-on-quarter. Several points to note from the graph in the bottom right on are that fee income, including those from loan syndications and debt capital market transactions, improved over the quarter from AED 279 million to AED 334 million. Emirates NBD Capital has been involved in many of the recent benchmark deals to come from the MENA region and has established itself as a significant force in the capital markets, as reflected in their position in the league tables.

Although income from foreign exchange and rates is down year-on-year, we have seen it improve over the preceding two quarters. This tends to be more cyclical and is affected by customers' propensity to hedge as well as quieter periods such as summer and the holy month of Ramadan.

Income from investment securities and property tends to move quite a bit. Income from Investment securities was AED 124 million last quarter. Although lower than the AED 177 million we recorded in Q1 2012, it is significantly ahead of the AED 52 million reported in the preceding quarter.

Moving onto operating costs and efficiency on slide eight, I am pleased to report that the cost to income ratio improved from 35.9% in 2012 to 34.6% in the most recent quarter.

We have successfully integrated Dubai Bank into the Emirates NBD platform. As a result of this integration, not only has the Group benefited from economies of scale through a larger branch network, but a lot of the fixed costs, such as system costs, integration costs, and one-off costs for rebranding of branches, has largely gone away. There was a one-off integration charge for Dubai Bank in Q4 of 2012 of AED 48 million, which was not repeated in Q1. The increase in staff costs observed in the first quarter reflects increments given to staff as well as the associated increase in provisioning for end of service benefits. These will be managed, as with any other cost, within the longer-term cost to income ratio target range of 34-35%.

Now moving on to credit quality on slide nine, provisioning and NPL trends during Q1 remain comfortably within our previous guidance. The NPL ratio fell by 0.1% over the quarter, from 14.3% at the beginning of the year to 14.2% at the end of March. The main changes in impaired loans were a net increase from 10.1 to AED 10.6 billion on the core corporate book and a decline from 4.9 to AED 4.7 billion on the Islamic book.

Whilst we did see some new loans being categorised as impaired loans, we also saw some loans now performing again and we have been able to re-categorise these as performing.

We continue to be very conservative in our approach to provisioning. This quarter we took a net impairment charge of AED 888 million, driven mainly by specific provisions in relation to the Group's corporate and Islamic financing portfolios. This further improved our coverage ratio by 2% to 51.4%. The coverage ratio on the underlying NPL portfolio improved during the quarter by 3% to 73%.

Our total portfolio impairment allowances now stand at AED 3.7 billion or 3% of credit risk-weighted assets, and this exceeds the 1.5% Central Bank requirement by AED 1.9 billion.

Slide 10 on capital adequacy shows that Emirates NBD's Tier 1 ratio declined from 13.8% at the beginning of the year to 13.5% at the end of Q1. Over a similar period the total capital adequacy ratio declined from 20.6% to 19.7%.

The decline in Tier 1 was primarily due to a dividend payment of AED 1.4 billion and this was partly offset by profit retention.

The decline in Tier 2 was due to both the amortization of the Ministry of Finance Tier 2 notes and the calling of two issues of callable sub-debt. These were partly offset by a new issue of $750 million 10-year non-call 5 sub-debt. As in previous years, we do expect profit retention to replenish the capital ratios throughout the remainder of the year.

I am pleased to report that the new Tier 2 debt issued is materially cheaper than the cost of the called sub-debt, had it not been called. This new Tier 2 debt is also cheaper than the Ministry of Finance Tier 2 debt partly repaid earlier this month, so overall the capital restructuring has been income positive. We continue to look at all opportunities available to Emirates NBD in terms of improving the absolute amounts and efficiency of our capital structure.

With this, I hand you over to Rick to run through the remainder of the presentation.

Rick Pudner
Thanks Paddy. Just on page 11, a snapshot of the divisional performances. We continue in the wholesale bank to focus on realigning the portfolio and ensuring an enhanced future customer service quality and increasing share of wallet through cross-selling of treasury, investment banking products, increased cash management and trade. Revenue declined 5% quarter-on-quarter and 5% year-on-year, but good signs in terms of non-funds income increase is behind some of those numbers. Loans rose by 8% from the end of the first quarter 2012, as new underwriting more than offset the normal loan repayments, which is a positive sign, and deposits grew robustly by 10% from the end of the first quarter last year.

The Consumer Banking and Wealth Management continued to improve its position during the quarter. Revenue was robust, up 9% quarter-on-quarter, 6% year-on-year, deposits grew 4% quarter-on-quarter and 11% from the end of 2012, a lot of that in current account and savings accounts, which is very positive from our perspective.

Loans grew 4% quarter-on-quarter and 14% from the end of the first quarter last year, driven by growth in the personal loans, credit cards, and SME segments particularly. The bank has also added 11 ATM machines during the period; we kept our branch count stable as we continue to promote our channel optimisation strategy.

On page 12, global markets and treasury increased their revenue to a positive AED 112 million in the first quarter 2013 from a negative 20 million in fourth quarter 2012, driven by lower negative net interest income drag and higher investment income. The tightening of spreads in the regional credit markets produced opportunities for the trading desk, which resulted in a good first quarter. Treasury sales enjoyed a good quarter, as volatility returned to FX market, which saw some hedging interest from clients.

The Islamic Banking revenues improved 37% year-on-year, reflecting what Surya said in terms of a lot of the drivers of this quarter, and by 34% quarter-on-quarter to AED 320 million in the first quarter 2013. This is net of customers' share of profits. Financing receivables increased by 11% to AED 23.7 billion from the end of the first quarter last year. Customer accounts reduced by 12% to 25.3 billion from the end of the first quarter 2012 and as at the end of the first quarter 2013, branches totalled 49, while the ATM and SDM network totalled 171 machines, so very positive from the Islamic Banking.

Page 13 is a pictorial snapshot of our strategic building blocks and I will go straight onto page 14 to just sort of summarise what those are. The strategy in terms of our priorities for 2013 is to continue to focus on delivering an excellent customer service experience, building a high-performing organisation through the initiatives as you see on the right hand side. I'm not going to go through those in detail.

Driving our core business, you've heard a little bit about what we've been doing in wholesale banking, we continue to build up. We've talked about the CASA book through the strong retail franchise, focusing on the SME businesses as well and wealth management. Running an efficient organisation, we continue to focus on both the cost side, but also on the productivity side of those equations and that's working very positively. Driving the geographic expansion, which is ongoing organic growth in the existing areas of where we are in terms of Saudi Arabia, UK, Singapore, but also the integration focus for this year of the BNP Paribas operations in Egypt post completion of that deal.

Our summary of the economic outlook on page 15. In 2012, the UAE economy continued to display resilience in GDP of 3.7%. That was underpinned by a rising oil output and modest private sector expansion. That is continuing in terms of the strength and growth witnessed in Dubai's traditional trade, logistics, tourism and retail sectors, and signs of green shoots in the Dubai property market, which we've seen over the last few months.

2013, the external environment still remains a challenge in the context of the recessionary risks in the Eurozone, below trend US growth rates, and an expected slowdown in Asia, but we still remain firmly of the belief that the UAE remains well positioned to enjoy a robust GDP growth this year of 3.8%, driven by solid expansion in the non-oil sectors, offsetting the expected stabilisation in oil production.

In Dubai, the growth is expected to be slightly faster overall, to accelerate to 3.9% in 2013 from an estimated 3.2% last year, as we have seen in terms of manufacturing, tourism, hospitality, and non-oil foreign trade continuing to benefit from the strengthening regional consumption and investment environment. Emirates NBD is well placed to take advantage of the expected acceleration in Dubai's growth. Our capitalisation and liquidity continued to be extremely strong, as you've just heard, offering us resilience and also the flexibility for future opportunities. We continue to significantly de-risk and strengthen the balance sheet, and it is offering us a strong platform for the future growth opportunities. We have a clear strategy in place and it's focused on relentless execution of this strategy.

On page 16, just a brief summary, net profit improved significantly to AED 837 million in the quarter. The top line income trends were stable, the cost-to-income ratio has improved to 34.6%. Our NPL coverage has improved. Capitalisation and liquidity continues to be extremely strong, offering us that resilience and flexibility. We have made significant progress in the elements of our strategy that I've just summarised on the previous slide. The outlook is that we are well placed; we have a clear strategy in place to take advantage of the improving growth outlook.

With that, that concludes the presentation. Operator, I'd like to open it up back to participants' questions, so please, operator, would you go ahead?

Question and Answer Session

Operator
Thank you Mr Pudner. We will now begin the question and answer session. If you wish to ask a question, please press 01 on your telephone and wait for your name to be announced. If you wish to cancel your request please press 02. Once again, press 01 if you have a question.

Our first question from Nisreen Assi from Arqaam Capital; please go ahead.

Nisreen Assi
Thank you so much for this presentation. My first question is regarding loan growth, so what's your expectation for the rest of the year for loan growth

and what factors are you expecting to be catalysts for that growth? The second question would be about margins, so where do you see margins progressing over the year, especially after they were slightly squeezed in the first quarter?

Rick Pudner
Okay. Well, I'll answer – It is Rick here, I'll answer the first question. In terms of our expectation and we've said GDP growth we're assuming would be around about 4%, inflation at around 2.5, so the nominal GDP growth of 6.5, so that's the environment that we think we're operating in for the rest of the year. We're expecting to see loan growth overall for this year in the sort of 5% range, given that kind of also our track record over the last year has been very positive, as you've seen through the loan balances, so if you assume a 5% increase for 2013. Surya, do you…?

Surya Subramanian
Thanks, Rick. I will take the second question on net interest margins. When we did the year-end call a couple of months back we did guide the net interest margin lower between 2.40% and 2.30%. For the first quarter we are still pretty much there within that range at 2.39%. The forces at play are clearly competitive pressures on loan margins. On the other hand, we are continually through our ALCO process improving the funding mix both in terms of its stability and in terms of the weighted average cost of those funds to the bank. You did hear me say that current and savings account now constitute 46% of the total deposits, that was 43% at year-end and much, much lower if you go back a year or two. Also, it is a function of the size of the balance sheet. I will have you remember that in Q1 of last year, margins were 2.63%, so in that sense if you compare it with quarter one of last year margins have dropped almost by 24 basis points, although when you look at the net interest income itself, it has only moved from 1.77 billion down to 1.74 billion and that is really a function of the growing balance sheet.

Rick Pudner
Just to add, you asked which sectors we are seeing the loan growth or looking at the loan growth going forward. I think it is going to be contributed by both retail and corporate, but the retail areas particularly in the personal loans, cards, auto loans, SME and private priority banking

areas, and in the corporate areas primarily in the traditional sectors such as trade services, manufacturing with a focus on the midmarket and business banking. We are seeing, obviously that there is still continuing deleveraging in certain sectors of the economy, property related is still going through a bit of deleveraging, but those are the areas we see the growth in for the rest of the year.

Nisreen Assi
If I may add one more question, so do you have any plans for international expansion after the BNP Paribas acquisition?

Rick Pudner
We have mentioned in presentations before from a strategic point of view we would like to see 20% of revenue from outside the UAE within the next, say, five years. The BNP acquisition is a start in the right direction, obviously that is not going to fill the gap, so we have got to continue expanding also organically in Saudi Arabia, in Singapore, even in the UAE, in the UK etc, and still look for further opportunistic inorganic opportunities. It is a continuing of the same. I think Egypt is a very good statement, I think to be a major player in the Middle East going forward, you have to be in the UAE, Saudi and Egypt and we are now in the UAE, Saudi and Egypt, so that is a very good platform for further growth. We continue to look for opportunities.

Nisreen Assi
Thank you so much.

Operator
Thank you, the next question is from Naveed Ahmed from Global Investment House. Please go ahead.

Naveed Ahmed
Good afternoon, thank you for the presentation. I have a few questions. I will just spell them out first and then we can take them on. The first one is a change at the helm of affairs is followed by a change in strategy. Can Emirates NBD at this moment in time hint at what the strategy is going to be. Is it going to be more aggressive or are we looking at something of a

continuation of deleveraging in 2014? My second question is guidance for the NPL ratio, how have things changed in 2013? And the status of one of the portions of Dubai Holding, which is noted as D2B I guess in the presentation. My third question is regarding an observation that I made in the financials, especially the 2012 year-end financials, is regarding the Tier 2 capital is going down. I believe you paid 2.5 billion in 2012 and another 2.5 billion in the first quarter o 2013. Even though the Tier 2 capital which is eroded by the hybrid capital in the Tier 2 calculation is going down, the Ministry of Finance deposits are unchanged. Is it that the Ministry of Finance deposits are being reclassified or declassified from the Tier 2 status and they are being retained, or am I looking too much into this? Is there nothing else?

Rick Pudner
Is that it, the list?

Naveed Ahmed
That is it, for now yes.

Rick Pudner
I will take the first one in terms of change of CEO, does that mean a change in strategy. We have got a very robust strategy. We have had this strategy for a while, I think you have been updated on a number of quarters on the progress of our thinking and what we have done in terms of evolution over the last years, but the consistency here is that the Board of Directors is the same Board of Directors, remains in place, is fully supportive of the Emirates NBD strategy that has been discussed with the Management team, so I would not see a major radical change in strategy. We know we have to go in terms of geographic expansion as one pillar. We know we have to really fine tune our core businesses, as I said we have done a lot of work over the last year in revamping, refocusing, re-segmenting our Wholesale Banking Business, getting the parts of the Wholesale Bank very much more efficient at referring businesses to each other and I think you have seen that certainly in the Investment Bank for example, in the growth of the Private Bank, all feeding off cross-referral business, so that is working well. Our Retail Bank is working well, our distribution capabilities we fine-tuned again, looking at, as I said, channel optimisation. There is a lot of this – in terms of – strategic initiatives. We will continue that is a course of logic in terms of what we

need to do to really fine tune our organisation. I do not see a radical change.

Surya Subramanian
Naveed, I will take the other two questions, and I will start with your question on the guidance on NPLs and what is happening with D2B.

first the guidance on NPLs, at the year-end call we did say we would wait until quarter three of this year to give you fresh guidance for the following two years, so the guidance for this year remains as originally shared with you about a year and a half back in the range of 15-16% for NPLs. Last year the guidance was in the range of 14-15, we ended up at 14.3% at the lower end of that range and that was primarily due to a large recovery in quarter four, which you will remember from the quarterly call. Had that recovery not happened, we would have been at the higher end of the range. With the recovery happening we ended up at the lower end of the range. It could well be by the end of the year we are at the lower end of the 15-16% range, but it is too early to say, let’s see how the year goes by.

I will give you a sense of what happened in quarter one though, because the ratio moved from 14.3-14.2. We did have new NPL formation of close to a billion. equally we had recategorisation, and I use the word recategorisation because what happened in Q4 was a repayment, but what happened in quarter one of this year was recategorisation of about 600 million of debt, where customers made good, all the past due instalments, interest, etc, brought their debt current, or provided additional security to enhance the credit, and hence we were able to bring them back into the performing category.

We are beginning to see these movements; I would say post-Q3 of last year. We have not had the major repayment in the Corporate Bank, however repayments in the Retail, SME, and Islamic Banking portfolio for what was previously considered NPLs continues to grow, although these are small absolute numbers. We are also looking at people who are being more active in restructuring conversations, now that their collateral values can give them a better negotiating position with the change in the property market. For the moment we retain our guidance. We will clarify further on the guidance in quarter three, as well as hopefully give you some future guidance for the following two years.

In terms of D2B, there has been no movement during the quarter. We had assessed it as at last year end and decided it was prudent to top up provisions. We are now close to, I would say, 54% coverage on that particular name. We reassessed it this quarter, and did not believe it warranted further provisions, but restructuring conversations are ongoing, as you know on certain large names in the market. We will reassess this at the end of quarter two and so on.

In terms of coverage though, although you didn't ask about it, I do want to reiterate, we continue to improve coverage, both on the total NPL portfolio as well as on the NPL portfolio excluding the Dubai Inc names.

On the Tier 2 question, I think you are looking at two separate issues out here, Naveed. First, what happened last year was just the amortisation of the capital eligibility. The funds themselves were not repaid. While we had the money still with us, it ceased to be eligible as capital for 20% of the corpus. As each year goes by in the residual five years, you add another 20% to it, so as at the end of this year, as in March, another 20% knocks off eligibility. The funds themselves were not repaid until early April and that is why when you look at the financial statements the balance owing to the Ministry of Finance remains unchanged, although the capital eligibility changed. When you look at the next set of financial statements you will see the balance drops by 3 billion.

However in the mean time, a few other things are changing clearly. The risk weighted assets that we have; we have continued to improve capital efficiency on the book. We do not publish risk weighted assets every quarter, but if you compare 2012 year-end financial statements with 2011 year-end financial statements, you would realise that risk weighted assets have dropped marginally. In Q1 again they picked up slightly, so this also affects the overall capital ratio. Clearly, as Paddy mentioned, the dividend payout affects us in the quarter we pay dividend. Last year we paid out dividend in quarter two, so quarter one did not see that effect. This year we paid out dividend in quarter one, so you see the effect in quarter one, but the delta is something we are used to making up with profit retention as the quarters go by, and we do – as we said in the call earlier – we will be opportunistic about improving the funding mix, the absolute level of capital, the relative level of capital, and the cost of capital, depending on what the market offers us.

Naveed Ahmed
I believe that answers all the questions that I have, thank you.

Operator
Thank you. The next question is from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik
Thank you very much for this presentation and this call. I have a few questions. The first one is on NPL coverage. Once the bank reaches the 60% NPL coverage that you are targeting, what happens next? What happens in 2014? What do you think would be the level of provisions in the next year? Secondly, there was a statement that you are targeting international revenues to reach 20% of your total revenues in five years. At what level is it standing at now? In terms of the capital gain in the first quarter, I just wanted to get more details on what kind of investments were these gains made on. Were these fixed income or were these equities?

Surya Subramanian
Shabbir I will first request Rick to respond to the question on international, then I will take the NPL and the capital gain question.

Rick Pudner
Yes to restate that, that is the strategic view, 20% revenues from outside the UAE. We were at 3% prior to the Egyptian acquisition which adds another 5, so taking us up to 8%, so obviously there is still a gap of theoretically 12% of revenues. Obviously revenues hopefully will climb all over the world, not just from outside. That intuitively means that we have got to work very hard in the organic areas, like building our business further in Saudi Arabia, in Singapore, in the UK and expansions further in the UAE in terms of Abu Dhabi for example, but it also means that there is potentially a need to make another acquisition to fill that gap and that is a continual part of the strategy that we have been following for the last few years in terms of reviewing opportunities in the region, as and when they occur.

We are at 8% now, so we have got a gap of 12% to fill, and that will probably be filled in a combination of organic and inorganic growth.

Surya Subramanian
Shabbir I will take the question on NPL first. As I said earlier when Naveed asked, we are not yet at a position to give you guidance as to what happens after this year. Our target is to reach that 55-60% by the end of this year. Having said that, one of the main reasons why that coverage is low, including the Dubai Inc entities, as you would remember, is the so called interest-only provision on one very large name that we call D1, and with an exposure of 9.3 billion and a current provisioning of 529 million, that skews the overall average both on the NPL ratio and on the coverage.

Having said that, while we have retained that as a non-performing loan and report it as such, there are some other banks within this jurisdiction, within the UAE, both local banks and some very major foreign banks with large exposures to this name who have already reclassified these as performing. If we were to do that then talking about 60% would be a bit irrelevant, because we would be well above that coverage and we would need to reassess what it means on a restated basis.

Finally on the subject of capital gains, made up of two components, the first is what we make on investment securities and CDS as we label it, and the second is properties related income. If you go to slide 7 of the presentation we do show you the split there. I will talk about the property income first. This is primarily from the portfolio we swapped with Union Properties a while back, and we are on the course, as we wanted to get this portfolio off our books within a period of three years. As the market picks up our ability to do this also improves. Now that could come and go over the next few quarters as we run down this portfolio. It is a function of how fast we run it down in a particular quarter, and what the market price is in that particular quarter.

On the investment securities income, the CDS portfolio is more of history, there is very little left in it. We walked out of I think close to a year back. What is remaining are investment securities, and it is composed of two lines, one our legacy portfolio that we are running down on an exit mode. Some of these have been acquired 15/20 years back and continues to be in the money. Some of these were acquired in the heydays of the crisis and were adequately provided in 2009/2010, if you look at the 2009/2010 financials for some very deep provisions against those, so you could end up getting some recoveries even though we may sell it below original cost. That, as I said, is a function of the rundown portfolio and what we have on some of our legacy strategic investments.

I have always maintained a bank of our size will have these kinds of movements. I hesitate to call them one-off because they do tend to repeat, just that the repetition is not uniform, number one, and number two it takes an effort sometimes to rebuild the portfolio that would generate that income. The closest guidance I can give you to what is still in the book at any point of time is for you to go back to our year-end financial statements, or some of even the quarterly financial statements to see where the fair value reserves and the movement in other comprehensive income, where they take it. If you do an analysis of that you will know what is on the book as at the reporting date, but clearly that is a moving number depending on valuations, exit positions, and new bookings.

Shabbir Malik
Just if I may, one more thing, so is there scope for a large drop in provisioning in 2014?

Surya Subramanian
We have not yet gone to give you a profit guidance or provision guidance for 2013, I wouldn't jump into 2014.

Shabbir Malik
Thank you very much.

Operator
Thank you. The next question is from Vikram Vishwanathan from HSBC. Please go ahead.

Vikram Vishwanathan
Hi gentlemen, thank you very much for the presentation. I was wondering if you could provide us an outlook on your Egyptian operations, particularly in

terms of 1) balance sheet 2) net interest margins 3) credit quality, in the near term, meaning the next one or two years.

Rick Pudner
Vikram, we are still in the final stages of completing the transaction. The transaction should be finalised we believe in the next two weeks certainly by mid May, so until that point we are not able to give any sort of guidance as to future plans and strategies in Egypt. Suffice to say obviously from our press release in terms of when we acquired the bank, or when the transaction was accepted by the vendors you have the details of what we bought. It is pretty clear in terms of the assets that are there, the current branch network etc. I am afraid we can't say anything further on that until such time as we have completed the transaction, and then we would be very happy to sit down with you and talk about Egypt in more detail.

Vikram Vishwanathan
Perfect, thanks.

Operator
Thank you. We have no further questions for the moment. We have a question come through from Rahul Shah from Deutsche Bank. Please go ahead.

Rahul Shah
Good afternoon, thanks Rick, Patrick, Surya for the presentation. I had just the one question. Surya I think you mentioned that the bank was seeing broad based growth, but when I look at the loan disclosures, it does appear that pretty much all the loan growth at the moment is coming from related parties. I just wanted to get a sense in terms of the 5% loan growth guidance that you have given, what is your assessment of how that related party lending figure will look like? Thanks.

Surya Subramanian
Rahul in terms of the growth, yes there has been some growth in the related party, but if you would look at it, there is also growth in Trade, there is growth in the Retail, there is growth in Islamic Retail, so that is why I say it is

broaden based, because in the past related party continued to grow but some of the other areas of Corporate hadn't grown as much. We have also seen new underwriting in these areas, and you will get to see the effects of that probably in future quarters as well.

In terms of our guidance, we do not make any distinction between what grows and what doesn't, it is more of a statistical average, but we would hope to grow in all the good areas of the economy.

Rahul shah
Thank you.

Operator
Ladies and gentlemen if you wish to ask a question please press 01 on your telephone keypads. The next question is from Sanyalakshna Manibhandu from NBAD. Please go ahead.

Sanyalakshna Manibhandu
I would like to know whether you took out any hedging strategy when you took on the Tier 2 capital, so that when you basically payback, do you recognise any gains from that hedging strategy?

Surya Subramanian
First of all if we do hedge or don't hedge those are internal competitive positions, but when we do hedge there is no concept of a gain, because the whole idea of a hedge is to offset a risk that is on the book, if it qualifies for a hedge under the accounting standards. That itself will not give rise to the volatilities that you see in the income statement.

Sanyalakshna Manibhandu
Thank you.

Operator
We have no further questions for the moment. There are no further questions. This concludes today's Q&A session. For any further questions

please contact our Investor Relations Department, whose contact details can be found on the Emirates NBD website and under Results, the Press Release. A replay of this call will also be available on the Emirates NBD website tomorrow. Ladies and gentlemen, at this point we will be handing the call back to Mr Rick Pudner for his closing remarks.

Rick Pudner
Thank you very much everybody for your participation today. We look forward to again updating you at the half-year period and thank you for your questions, bye-bye.
