EMIRATES NBD Q3 2016 RESULTS ANALYSTS & INVESTOR CONFERENCE CALL
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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Emirates NBD 2016 Third Quarter of 2016 Results Announcement Analyst and Investors Call. If we are all ready to begin, I will now pass the call over to our host, Mr Shayne Nelson, Group CEO of Emirates NBD.

Shayne Nelson

Thank you operator. I'd like to welcome you all to the Emirates NBD conference call for the third quarter of 2016. Supporting me today, as per usual, will be Surya, the Group's CFO, and Paddy, our Head of Investor Relations, and together we will review the operational and financial highlights for the first nine months of 2016. We refer you to the results presentation, which was made available earlier today, after which you'll have the opportunity to ask questions.

We go to slide three first. Macro themes have largely resisted as the year progressed. Outlook for global growth remained subdued and was recently revised down to 3.1%. The slowdown in advanced economies offset by picking up in emerging economies. Consequently, market sentiment of emerging economies has improved. The Dubai and UAE remain resilient, supported by economic diversification and large sovereign wealth buffers. With oil prices remaining range bound, business sentiment has continued to tick up in the third quarter of 2016, as reflected in the UAE PMI and Dubai economy tracker readings. A number of key Expo 2020 projects have also been announced and we expect the infrastructure spend to underpin non-oil economic growth in the UAE. Key things for UAE and regional banks continue to be liquidity and credit quality. Liquidity conditions have tightened in the third quarter and this was reflected in the UAE system-wide AD ratio, which reached 104.7% in August, the highest level since July 2012. As for credit quality, the micro SME sector continues to face challenges. Some other sectors have remained in the spotlight, particularly the cash flow position within the regional contracting industry.

Our financial statements show that our exposure to such regions and sectors is limited, and we continue to monitor the situation closely. Against this backdrop, we were able to report a solid set of results for the first nine months of 2016. Net profit improved 8% year-on-year, underpinned by income growth and an improved cost of risk. Credit quality continues to improve in 2016. The impaired loan ratio has strengthened further to 6.4%, while the coverage ratio rebounded to 120.8%. We continue to actively manage our stock of legacy NPLs and believe there is further scope for improvement in credit quality. The bank's advances to deposit ratio finished the quarter at a five-year low of 92.8%. The main liquidity position remains very strong, bolstered by a highly diversified stable deposit base, coupled with our ability to access market funding at competitive rates.

In the first nine months of 2016, we raised over $5 billion of term funding. This comfortably covers maturities of both 2016 and 2017. Our strong retail franchise has enabled us to grow our local current and saving account balances, which now make up 55% of total deposits. Earlier this month, Capital Intelligence upgraded Emirates NBD's financial strengths and long-term foreign currency ratings. This follows Moody's upgrade in June of Emirates NBD's long-term rating to A3. These upgrades recognise the bank's improved and resilient financial profile.

On the innovation front, we have recently rolled out several initiatives to announce our online and mobile banking services. As part of the bank's innovation agenda, we opened our new concept branch earlier this month, a futuristic banking space aptly named Bank of the Future that showcases our next generation of digital banking capabilities.

Overall, I'm satisfied that despite the challenging global environment, we've delivered a satisfactory performance. Income growth has been challenging, as loan growth has largely been offset by margin contraction. We have addressed this through cost reduction and risk management, and we'll continue to seek improved efficiencies. We have a solid balance sheet, a prudent business model, and focused strategy. This allows us to take advantage of growth opportunities in our preferred market and confidently face any challenges that present themselves.

I will now hand over to Surya to go through some of the details.

Surya Subramanian

Thank you, Shayne. I will take you through slides four and five on the financial results. Net profit for the group was AED 5.4 billion in the first nine months of 2016, 8% above the profit posted in the previous year. The increase in net profit was driven by a 1% rise in income and a 22% reduction in impairment allowances. These together more than offset a 10% increase in expenses. Revenues for the first nine months at AED 11.3 billion grew 1% over the year. Net interest income grew by 1%, as the 7% loan growth helped offset a contraction in margins. Revenues in quarter three were down 4% compared to the previous quarter due to a 13% decline in non-interest income. We experienced lower gains from the sale of properties coupled with lower business volumes from foreign exchange and derivatives during the Q3 holiday period.

Total cost for the first nine months of 2016 at AED 3.7 billion increased by 10% over the previous year on the back of late-2015 growth in anticipation of the increased business volumes and this has since been contained in light of the new economic reality. Costs did improve by 1% over the previous quarter, as cost control measures implemented earlier in the year start to take effect. Provisions for the first nine months are AED 2.2 billion, which is 22% lower than in 2015. This represents an annualised cost of risk of 93 basis points. So far in 2016, the bank's recovery unit was able to either write back or recover over AED 2 billion of impaired loans. This helped improved the NPL ratio to 6.4% while the coverage remains very healthy at 120.8%. Our headline advances to deposit ratio at 92.8% remains within our management target range and I will discuss this in a later slide.

Moving onto slide six on net interest income, we saw a decline in margins during 2016. This was due to a competitive environment making it challenging to pass on the higher cost of funding onto the loan book. Deposit spreads improved quarter-on-quarter as our healthy mix of current and savings account balances helped offset higher EIBOR rates and fixed deposit costs. Deposit spreads declined marginally year-over-year due to higher fixed deposit balances. Treasury spreads declined quarter-over-quarter as excess liquidity was deployed at comparatively lower yield. This also caused a decline in spreads year-over-year, but the effect was partially offset by cheaper term funding and a positive contribution from investments. We have maintained our net interest margin guidance for 2016 in the range of 2.55% to 2.65%. While we see continuing challenges to pass on the higher cost of deposits, our efforts to lock in fixed deposits now will allow us to be selective in the use of term deposits during the current quarters.

The next two slides demonstrate the strong liquidity position of the bank across multiple funding sources. On slide seven, we have the loan and deposit trends. We see the healthy deposit profile of the banks. Over the years, we have grown deposits by 8%. Current and savings accounts grew by a further 2% during the quarter and now represents 55% of total deposits. In the UAE, we have seen a system-wide AD ratio creeping up, as competition from regional banks for deposits has increased. To ensure the bank maintains a healthy position, we proactively locked in longer-term fixed deposits. This exercise should ensure that the bank is not exposed to any spikes in funding costs in the coming quarters. We also see on this slide that loan growth slowed to 1% in the third quarter. Although retail lending grew by 7% during the quarter, the corporate and Islamic books delivered a more modest growth. We maintain our guidance for full year loan growth of mid to high single digits.

Slide eight on funding and liquidity, our advances to deposits ratio at 92.8% at the end of Q3 is the healthiest it has been in the last five years, despite the system-wide AD ratio being at its weakest level, as we mentioned earlier, at 104.7%. Emirates NBD remains well placed to meet relevant prudential liquidity requirements. We also took advantage of favourable market conditions during 2016 to enhance our structural liquidity. We have grown the bank's long-term funding ratio to 12% of total liabilities. This was achieved through issuing AED 9.8 billion of private placements, AED 3.7 billion Sukuk and tap rates by Emirates Islamic and a AED 6.2 billion club deal, the largest ever dollar club deal issued by a Middle Eastern financial institution. In total, we raised AED 19.7 billion of term debt so far in 2016, which covers maturities not only for the balance of 2016, but for most of 2017. This enables us to approach the capital markets opportunistically for any further issuance and to do so only when it is right both for ourselves and our investors.

Slide nine on capital adequacy shows that during the third quarter of 2016 Emirates NBD's Tier 1 ratio improved slightly to 18% and the capital adequacy ratio held steady at 20.5%. The increase in Tier 1 capital from retained earnings more than offset the modest increase in risk-weighted assets. We expect, as with previous years, for profit generation to grow the capital base. At this stage, and given the bank's strong profit generation, we have no plans to raise any Tier 1 or Tier 2 capital.

With that, I hand you over to Paddy to take you through the next few slides.

Paddy Clerkin

Thank you, Surya. Slide 10 shows that total non-interest income for the first nine months of 2016 grew 1% year-on-year on the back of higher quarterly income. Quarterly income improved by 2% year-on-year, driven by an increase in credit card volumes and higher foreign exchange and derivative income. This offset a modest decline through trade finance, brokerage, and asset management fees. Over the quarter, core gross fee income declined 8% due to lower business volumes during the holiday period. Property income declined 67% year-on-year on lower property disposals. There were some large disposals of investment properties in 2015 that were not completed this year. Total inventory reduced from AED 1.7 billion at the beginning of the year to AED 1.6 billion at the end of September. Although property sales from inventory are lower, current sales continue to generate profit for the group. Investment security income is 64% higher this year. This increase relates mainly to the sale of all of Emirates NBD's holdings in Union Property shares earlier in the year.

Moving onto costs on slide 11, we see that up until the end of last year, costs continued to grow in anticipation of increased business volumes. This has since been contained in the light of lower growth expectations going forward. As a result of cost reduction measures implemented earlier, we have seen costs decline for three consequence quarters. The cost to income ratio rose by 1.1% in Q3 to 33.7%

and cost improvements were more than offset by lower non-interest income due to reduced business volumes during the holiday period. The year-to-date cost-to-income ratio was 32.7% for the first nine months of 2016 and it's within our desired target range of 33%. If you strip out one-offs, the cost-to-income ratio would have been 33% exactly. We insist here that the bank will benefit from further cost control measures implemented earlier and we will look to maintain the cost-to-income ratio within the 33% range.

Moving onto credit quality on slide 12, as was mentioned earlier, the NPL ratio improved by 0.2% in Q3 to 6.4%. Impaired loans reduced to AED 20.1 billion at the end of Q3, as we had over AED 2 billion of write backs in the first nine months of 2016. This along with the routine provisioning helped increase the coverage ratio to 120.8%. As with previous quarters, we do not give formal guidance on hard targets for NPLs. Our recovery unit continues to work on the existing stock of NPLs and are hopeful that they will be able to build upon the success delivered in earlier quarters. Provisions for the first nine months of 2016 are AED 2.2 billion, which is 22% lower than the previous year, and this represents a 93 basis point cost of risk, which is lower than 116 basis point cost of risk observed in 2015. Total portfolio impairment allowances now stand at AED 7.4 billion or 3.2% of credit risk-weighted assets and this comfortably exceeds the 1.5% Central Bank requirement.

On slide 13, we see that retail banking and wealth management revenues declined by 1% over the quarter. Net interest income declined marginally in Q3, as was expected during the holiday period. Loans grew by 12% and deposits by 18% during the year with this engine helping deliver further growth in the CASA deposit base.

The retail bank continues to lead the way in digital banking with the launch of Emirates NBD Pay, a contactless payment service via mobile phone and a first for the region. They also launched smartPASS, which enables customers to authorise physical banking transactions via a soft open on their mobile phones and the bank also launched Bank of the Future, showcasing potential innovative product and service concepts for the future. Islamic banking delivered a 12% growth on income during the quarter. During 2016, financing receivables grew by 8% and customer accounts grew by 5%. In Q3, EI were able to raise another $250 million five-year Sukuk through a tap on their $750 million Sukuk issued in Q2. On the back of strong demand, the cost of the tap 50 basis points lower than the original Sukuk. EI have announced a rights issue in order to augment their capital position and this is expected to complete before year-end.

Wholesale banking on slide 14 shows that revenue declined by 9% during the quarter, as fee income feel in Q3 due to lower business volumes during the holiday period. Deposits declined by 5% during 2016, reflecting continued efforts to reduce the average cost of funding by maintaining liquidity at optimum levels. The focus on 2016 continues to be on enhancing the quality of the customer service and share of wallet. This could improve cross-sales of Treasury and investment banking products, and increased cash management and trade finance penetration.

Treasuries income declined by 31% in Q3, but showed impressive growth year-on-year. Sales revenues saw strong growth due to higher volumes in interest rate hedging products, foreign exchange and fixed income sales. Trading and investment revenues continue to improve, as the credit and FX trading delivered a strong performance despite volatile market conditions. As Surya mentioned, the global funding unit have raised AED 19.7 billion of term funding via private placements the EI Sukuk issue and a $1.7 billion club deal.

With that, I hand you over to Shayne for the closing remarks.

Shayne Nelson

Thanks, Paddy. In summary, despite the first nine months of 2016 having its own challenges, we were able to deliver an 8% improvement in net profit, underpinned by income growth and improved cost of risk. We expect loan growth to be modest for the remainder of 2016. We have seen the benefits of the cost control measures earlier starting to effect with the costs falling for three consecutive quarters. Liquidity pressures businesses in the region, but Emirates NBD has taken several proactive measures to minimise the impact on any future pressures. The bank's AD ratio is the healthiest it has been for five years.

Credit quality continued to improve in 2016, as reflected by the improved impaired loan ratio and the increased coverage ratio. Whilst we have seen increased delinquencies in the micro and SME segment, which has prompted Emirates Islamic to take additional provisions, the group's protocol continues to improve as recovery from our existing stock of legacy impaired loans more than offset any new NPL formation. We remain diligent for any impacts from regional liquidity on the construction sector, as our exposure to those regions and sectors is limited and we continue to monitor the situation closely.

The bank's balance sheet is strong and profitability remains resilient. The retail bank continues to lead the way in digital banking. The UAE economy continue to grow, albeit at lower levels than previous years, thanks to the larger non-oil industry. With our strong balance sheet, we are well placed to meet the opportunities and challenges that will present themselves in the coming quarters. With that, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

We have our first question from Chiradeep Ghosh from SICO Bahrain. Please go ahead.

Chiradeep Ghosh - SICO Bahrain

My first question is related to the operating expenses. I see that you have taken now a lot of measures to capture the retail banking experience. I want to understand whether the expenses are front loaded or that is like will we see expenses coming down related to this digital banking business, which you have one, or it will continue to remain at this level? That's my first question. The second one I am just trying to get a sense of your provisioning, which you have booked in this quarter. Considering that presently the NPL ratio seems to have calmed down a bit and you haven't got some kind of high adequacies in this quarter. Why did your provisioning go up in this quarter compared to maybe the last quarter, just to get a sense of this?

Shayne Nelson

I will take them in the order you have asked them. The spend on digital is clearly an area of focus for us, which is a non-staff spend. Some of the stuff that is coming down is relating to the sales stuff we had as business volumes coming off. They have also moved onto other industries as we see generally in the banking industry as well. We will continue to remain committed to spending on digital, but we're not talking huge sums of money. We are talking and always within our cost-to-income target range of 33% where we will face both investments and current spending within that range. In terms of provisioning, the dynamic is different. As you know, for retail and SMEs, typically these are 100% provided within 180 days, so you would get the impairment charge during the year, but it doesn't affect your non-performing loan ratio, and currently what we are seeing is a higher incidence of impairment charge glowing through the micro SME and retail segments, whereas the recoveries that are coming from the legacy desk we had on corporates during the global financial crisis and years after that.

Chiradeep Ghosh - SICO Bahrain

Just a very quick follow-up quarterly, what would be roughly your exposure today, SME and the micro sector and facility of your loan book?

Surya Subramanian

We haven't disclosed those numbers specifically, but for the whole market, we are talking… I think yesterday in the newspaper I saw one of the other banks that the report had mentioned about a AED 5 billion impact as a result of what is happening in the micro SME space and you'd notice that we have been quite prudent in that space in the last few years, so our proportion of that is very limited and it's all absorbed within the numbers that you see.

Operator

Our next question comes from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik - EFG Hermes

A quick question: what's your outlook for NIM for the fourth quarter or what factors do you think would shape NIM going into the fourth quarter of this year. My second question is on Emirates Islamic bank. What was the purpose of the rights issue? What will the additional capital be used for? My third question is on… can you give us some broad level guidance for 2017, more specifically on loan growth, what factors could drive loan growth going into 2017?

Surya Subramanian

I will take the question on NIM and Shayne will take the question on Emirates Islamic, but just a quick comment on 2017. As is our part practice, we will give you guidance for 2017 with our year end call in January, so just do bear with us for a while, but some of the macro themes that we talk about now we expect to continue into next year as well. On NIMs, it's really a squeeze between the competitive market for good quality loans on the long hand, and the higher cost of deposits, given the recent liquidity situation. We obviously tried to make the optimum spread that we can between these two moving forces. Our guidance for the full year remains unchanged from 2.55% to 2.65%. Currently, we are just marginally below the lower end of that but there are some positives getting into next quarter. There is always the positives unknown, uncertain the US rate rise which as you know from the shape of our book we stand to benefit from that. Currently, I think market funders will say that a 66% chance of a rate hike in December, some people are always talking about more rate hikes next year, and these will all play into better NIMs for us, but we'll have to wait and see how the Fed reacts to some of the data that is coming in their market and the global market. For 2016, we maintain 2.55% to 2.65%. We do expect some upside in quarter four as we have maintained our liquidity measure as I mentioned at 92.8. We have some flexibility in terms of how we play that between now and the end of the year. The rest of the market is clearly over-lent with

104.7% system AD ratio, so those are some of the factors that give us confidence. We will stay within range, possible at the lower end of that range.

Shayne Nelson

I think the regional liquidity is impacting NIMs for all banks, and if you look at Saudi where it is, they're probably now the low to mid 90s and Qatar's would be around about 115? 115% and if you speak about the UAE, I'm sure NBAD will come out with results around the late 80s in their advances to deposit ratio, where low 90s, and if you think the system is 104.7% average that means that quite a few banks grow at that, so we foresee some competition in the last quarter for deposits. I think this is one of the reasons why we have refunded, so that we're not under pressure in the last quarter. On Emirates Islamic, that question, it is really reflective of the growth they have had in their balance sheet and in loans in particular over the last few years, and the capital ratios are starting to get tight too, we need to put in more capital to facilitate further growth there. Given the capital position of the Group as a whole, it is obvious for us to have a rights issue rather than any other form of capital raising.

Operator

Our next question is from Jagadishwar Pasunoori from Franklin Templeton. Please go ahead.

Jagadishwar Pasunoori - Franklin Templeton

Thanks for taking my call. My question is based on this corporate banking profitability. Your loans grew by 5% year-to-date before its decline 5% year-to-date, which should have helped your profitability but the wholesale banking revenue declined by 9% quarter-over-quarter, but in nine months it went down and net interest income went down 12%. Can you please let me understand, are you able to improve your asset deals in line with EIBOR, or how is your cost of funds going on there? Is it the worst over and NIMs compression in the corporate segment will continue? Can you please help me understand this?

Surya Subramanian

There are a couple of factors at play here. One, in quarter three we always face the seasonality in terms, especially for non-funded interim in terms of trade foreign exchange, derivatives etc, which goes very quiet and we always expect to see quarter four and quarter one higher than quarter two and quarter three. That is the story that always plays out. It is fair to say that there is a squeeze in the margin, generally, across the…

Shayne Nelson

Actually, the issue is worse as we had Ramadan, Eid, summer, another Eid, so the number of working days effective for most staff was reduced significantly, as it was right across the region. Just the economic activity and closing down deals was actually far more difficult in the third quarter.

Surya Subramanian

As far as loan spreads were concerned, the higher cost of deposits clearly affect the wholesale banking business, because margins do tend to be thinly priced in that business, as opposed to retail, so you're looking at lower single-digit margins, generally, in the good quality wholesale banking business, whereas good quality retail, on average, across all the product sets would take you closer to the high single digits, very low double digits, so any rise in deposits affects disproportionately the wholesale banking business as you compare results.

We obviously run a commercial bank with a mixed balance sheet. There is a retail business, which is deposit heavy, and there is a corporate business that is deposit light, and we as a bank manage our NIMs at a total level, clearly depending on where market rates are, one segment or the other would benefit from internal transfer pricing rates. And that is something that we have to manage internally, although we are mindful of external market prices per product, because we also need to follow benchmarks that exist out there.

As a bank, we expect margins to remain challenging because the cost of liquidity will drive deposit costs up, but as I said earlier when Shabbir asked, we will give you further guidance on 2017 in January.

Jagadishwar Pasunoori - Franklin Templeton

My question is if – please correct me if I am wrong – so you reprice corporate banking loans every three months and six months based on EIBOR or LIBOR. So EIBOR has gone up by 40 bps, so I was wondering, were you able to increase the cost for your customers. That is one question. Is the competition eating into there? That is one question. The second question is…

Shayne Nelson

You're asking about four questions here, so let's get the first one done first. What I would say as a general observation is that most loans in the market, not just Emirates NBD, but most loans in the market for corporate banking are based at EIBOR +90. If you look at where EIBOR is and how much that has increased as a base for 90 days, against deposits, there is a mismatch. EIBOR has not increased at the same pace as large corporate deposits have, which banks need to fund their book. Across the industry, I believe you're going to see a significant impact of that, so EIBOR as a mechanism is not reflecting the true cost of deposits, because it is based on interbank. And the capacity to pass on those to corporates on a margin is limited, yes, to reprice them. If you lock them in, you have already given them an offer for three years, five years, whatever it is, the margin is quoted. It is only when they refinance that you can actually adjust the pricing or overdrafts you could immediately, but besides that, you could only reprice when you renegotiate that loan, because the margin is set. You have quoted the margin within your offer letter. One of the problems we're seeing across the industry in corporate banking is that EIBOR is not reflecting that cost of liquidity that banks have to now pay for in the term deposit space.

Jagadishwar Pasunoori - Franklin Templeton

One last question, are there any floors on your corporate deposits impacting your – increasing the cost of loans for your customers?

Surya Subramanian

It does vary from customer to customer. Some customers do have floors and floors, of course, work both ways, sometimes it is in your favour, sometimes it works against you, but overall, it is not a particular issue for the consolidated balance sheet.

Operator

Our next question is from Gunjan Gupta from Al Majid Investment. Please go ahead.

Gunjan Gupta - Al Majid Investment

Thank you for the call. I have two questions. My first question is relate dot how ENBD is positioning itself against this merged new big entity of NBAD and FGB. My second question is related to, does ENBD have any exposure to Saudi?

Shayne Nelson

On the merger, I have long said that my view has been that there are too many banks in the UAE and that economics of scale in banking is very important, and therefore, merging of entities makes a lot of sense, especially as we look forward and we're starting to invest in more digital capabilities, you need size to actually be able to spend the same sort of money that we have been spending. I think from a market perspective, it absolutely makes sense for players like FGB and NBAD to merge.

Having said that, it is not an easy thing to do, merge two substantial banks and we have been through that with Emirates International and National Bank of Dubai and it does take time, so we obviously there is some opportunity while they get their merger organised for us to try and take market share, but I am sure they will be defending as well as they can.

Okay, on Saudi, we don’t comment on exact exposure, but if we look at it, our GCC exposure to non-UAE is about 3.2% of loans. It is not very large, so total loans of 3.2% is our non-UAE GCC exposure.

Operator

Our next question is from Ali El Abdou from the National Investor. Please go ahead.

Ali El Abdou - the National Investor

I have two questions, actually, one on the corporate companies. Are you seeing any stress on the corporates, on the big corporates mainly? My second question on the Emirates Islamic Bank, actually, the provisions have doubled. Can you explain or shed light further on that sense. The capital increase, is it going to be subscribed fully by ENBD? Thank you.

Shayne Nelson

On corporates, we have an early alert process that we adopt across our whole group and I would have to say on the corporate side, our problem loan formation is very low. Our early alert process is pretty good at identifying stuff that is deteriorating and it remains well under control. We are not seeing significant stress on our large corporations.

On Emirates Islamic provisions, if you looked at where they were a few years ago how much they have grown, they have grown significantly, and part of that growth was in SME, not just marge SME but SME as a whole, and that has now come back with that growth. We have seen some increased provisioning coming through there, and we are managing that quite diligently and proactively. As a percentage of the overall bank, it is pretty miniscule.

On the actual rights issue of Emirates Islamic, we own 99.92% of the rights, so we wouldn’t launch it unless we were going to take our share. I think it will be highly successful.

Ali El Abdou - the National Investor

The thing is, my question is because due to the fact that you have higher provisions, so in order to increase the capital on the bank and trying to optimise the tier 1.

Surya Subramanian

You should realise that on a consolidated basis it makes no difference whether the capital is in Emirates Islamic or it is the Group, because it would be the same total.

Operator

Our next question is from Aybek Islamov from HSBC. Please go ahead.

Aybek Islamov – HSBC

I just have one simple question. If I look at your liabilities, your Islamic customer deposits are down since December and your commercial deposits are up, so I just want to understand what is happening, why Islamic deposits are down and the commercial space where you are collecting deposits from in terms of geographies, from present deposits. I just want to understand the funding flow. Thank you.

Shayne Nelson

It is pretty simple actually, it is managing deposit costs. It is as simple as that.

Aybek Islamov – HSBC

Okay, so Islamic deposits are quite expensive, so you are letting them go. Is that the case?

Shayne Nelson

We had some expensive Islamic deposits on our books, but we let them go, yes.

Aybek Islamov – HSBC

The deposits you are raising, are they coming in at a lower cost, probably no, right, so you have to pay them up still in the commercial space.

Shayne Nelson

We wouldn't let the more expensive ones go to raise more expensive ones.

Operator

Our next question is from Naresh Bilandani from J.P. Morgan. Please go ahead.

Naresh Bilandani – J.P. Morgan

This time last year there was much news around Iran's opening and it being beneficial to Dubai, and I know while this may be still early, have you seen some level of benefits whether it is in the form of creator or some other channels starting to flow into the domestic economy, and if that has impacted your P&L in some form. Just if you have been able to assess the size of this opportunity into your medium-term budgets. That is my first question, and the second one was, you were recently involved in the bidding for an asset in Egypt, which I believe went to one of your regional competitors. Is there a likelihood that there will be – there is a likelihood that there will be more assets that will be coming into the Egyptian market, possibly from the public sector. In this light, can you please share some criteria that you typically keep in context while selecting an M&A target and what would be your strategy in this regard in Egypt? Thank you.

Shayne Nelson

If we take Iran. Theoretically with Iran under the JCPOA, we can do business in non-US dollars. The reality around Iranian trading is quite different. The big issue around commencing trade with Iran, I will be pretty honest with all the analysts here is US clearing banks, and it really revolves around if you want to clear dollars, you obviously need US dollar clearers, like J.P. Morgan. No US clearer has given – that I know of – has given permission for banks around the world that deal with them to deal with Iran. No bank in their right mind is going to put their US dollar clearing at risk for some Iranian transactions. We have seen no benefits at our banks from Iran because we are doing no business with Iran, and as far as I am aware, I have not seen any benefit into the UAE nor the Dubai economy. We have had a lot of talk about transactions that are happening there, but from our bank's perspective, we have seen zero of them.

On Egypt, yes we did bid for Egypt. We were one of the two bidders and we did a thorough due diligence on it. for us, the bank that we bid for needs to be in the geography that we're interested in, which for us we have said before we were interested in Middle East, North Africa, East Africa, Turkey. This obviously fitted into that criteria and we also have to make sure that we buy for value. Obviously, what we thought was value and what the other bidder thought was value was quite different and they won it. We are quite disciplined about how we focus on our acquisitions and the criteria we set, but I certainly wouldn't tell you exactly what this is, because then the whole world would know and all the competitors would know.

Naresh Bilandani – J.P. Morgan

Thank you. on the second question please, historically in my understanding of the Egyptian market, the public sector banks have had issues on asset quality which may not immediately be of interest to you, but should one of these banks come to the market, could we see Emirates NBD being involved in that acquisition, and I am just trying to understand for your future growth in Egypt, where exactly does M&A driven growth fit into that profile?

Shayne Nelson

I think we see M&A, for example, in Egypt as a way to accelerate where we would like to be within the market. We would like to be much bigger in Egypt than we currently are. We can do that organically or inorganically. If we see the right bank at the right price, we would be for it. That is what we saw with Barclays. It was a nice clean bank, and our due diligence… the client base, we thought this is actually a pretty good trip for us both on the corporate and on the retail side, plus it also was management accretive, so we saw some good things in that. For us it was just about price. Given where the FX reserves, the currency are and how we modelled the currency depreciation etc, we bid much lower than the winner. From our perspective, Egypt remains an attractive market for us, yes, it has got some plans, that is pretty obvious at the moment, but we believe medium to long-term, it will be a very attractive market for us and we remain interested in either organic or inorganic growth if the deal presents itself that fits right.

Operator

We have a question from Jose Paul from United Securities. Please go ahead.

Jose Paul - United Securities

I just have a quick question. You mentioned that business volumes due to the holidays, the two Eids and Ramadan were very slow in Q3. Do you expect a pick up and this is why you are conferring that your NIMs will stay between 2.55 and 2.6 in spite of a worsening trend. Thank you.

Surya Subramanian

The comment on volumes more directly impact non-interest income, which is fees linked to transaction services, and it does impact NIMs a little, but less so because the accrual book remains relatively flat. What guides the NIM for the rest of the year is really a mix of whether we continue to see tightening liquidity conditions in the market or not, where EIBOR goes, where US rates go, and any further recoveries that gives release of interest in suspense in the book from the bad debt book. All these will pitch in to give you the positives and negatives on the NIM, more than just the pickup in volumes, because for the accrual book, any pick up in volume in balance sheet really will pay for itself next year rather than in one quarter.

Jose Paul - United Securities

Just on the question, in fees and income this year, operating expenses went up quite a bit just on the wholesale side. Any particular reason for that, commission expense 20%. Thank you.

Surya Subramanian

When you are looking at the fees and commissions, these are offset within the non-interest income line itself as opposed to the operating expense. You are referring to the non-interest income or the operating expense?

Jose Paul - United Securities

Non-interest income, just the fees and commission expense there.

Surya Subramanian

There have been some further investments we have done, some relationships we have, but these will normalise. The net is always on a positive trend if business volumes keep growing, so it is more of a one-quarter issue we believe. Let's see where quarter four volumes pick up.

Operator

Our next question is from Sadeep Filiaz from FM Partners-DUET Group. Please go ahead.

Sadeep Filiaz - FM Partners-DUET Group

Hi there. My question is regarding Expo 2020, just to understand where you stand in terms of bidding for this project. Since you already have significant exposure to GRE, I was wondering do you have more headroom to actually bid for Expo 2020 projects.

Shayne Nelson

With Expo 2020 projects, I think it depends on if it is GRE related or whether it is an independent. For example I will give you, even if it was a GRE, there will be a contractor underneath it, yes, so we would have the capacity to be funding the contractor that wins the bid from the GRE. You can work down the value chain as much as lending directly to the GRE itself. Yes, we think we will get some business out of it. the exposure to the GREs that we have got is declared, so it is pretty much full, and what we do is to get the velocity of capital, we churn that exposure, and we continue to do business with GREs as deals come up, it is just that we churn it.

Sadeep Filiaz - FM Partners-DUET Group

Just another question on GRE, I want to understand the definition of GRE. Would Emaar, for example, be a part of GRE or no?

Shayne Nelson

No, Emaar is not classified as a GRE. In fact, one of the other definitions is any company that is rated as investment-grade is also not… if you had a GRE that is rated as investment-grade, it is not a GRE in the Central Bank exposure.

Operator

We have a question from Ambreen Jiwani from Ghobash Trading & Co. Please go ahead.

Ambreen Jiwani - Ghobash Trading & Co.

My first question is regarding Emirates Islamic's provisions and I would like to know if this is a peak or if this continues for longer. My second question is related to IFRS 9 and if there have been any developments on that. The third is one Basel III, if there are any new guidelines on that.

Shayne Nelson

On the Emirates Islamic, I suppose it is difficult to say if it is the peak or not the peak, because that depends on how the market develops. Certainly, we believe we have it under control, but again, as I said, it is a pretty small proportion of our book, so it is material to Emirates Islamic, but to the Group as a whole, it is pretty immaterial. I will leave all the technical questions on IFRS 9 etc to Surya.

Surya Subramanian

Thank you, Shayne. On IFRS 9, the mandatory application date is 1 January 2018. Most people would need to show comparative results for 2017, so sometime during 2017, the industry would need to get its data sorted out. The Central Bank is working through the UBF to work with all the banks to do this analysis, and it is pretty much a similar story for Basel III as well, where there is an implementation date coming after two years and the Central Bank and the UBF is working together on definitions, on understanding the impact. Certainly for Emirates NBD, we have said before, we do not expect a major impact to the financials from IFRS 9 or Basel III, because most of the things that change compared to the old standards and the old guidelines are not really relevant to our business model. Definitely for IFRS 9, we are in a different stage in the credit cycle for the bulk of our business in Emirates NBD as opposed to the shift between IS 39, which is an incurred loss model to IFRS 9, which is an expected loss model.

Operator

We have no further questions.

Shayne Nelson

If there are no further questions, I would like to thank you all for joining us here today and your participation and I will hand you back to the operator to provide you details with any follow-up questions that you may have and end the call. Thank you very much.

Operator

For further questions, please contact our Investor Relations Department whose contact details can be found on the Emirates NBD website, and for results press release. A replay of this call will also be available on the Emirates NBD website next week. Ladies and gentlemen, today's call is now concluded. Thank you all for your participation.

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