Emirates NBD Q3 2013 Results Announcement
Analyst & Investor Conference Call
Transcript

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Presentation

Operator
Ladies and Gentlemen, welcome to the Emirates NBD Third Quarter 2013 Results Announcement Analysts 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, Operator. Good afternoon, everybody; supporting me in today's call are Surya Subramanian, the Bank's Chief Financial Officer, and Patrick Clerkin, our Director of Global Funding. Together, we will review the operational and financial highlights for the third quarter of 2013. We will be talking through a presentation, which is being made available to you earlier today, after which there will be equal opportunities for you to ask any questions.

I am pleased to report that Emirates NBD has once again delivered a solid set of results with year-to-date Income up 13% to AED 8.7 billion and year-to-date net profit up 34% to AED 2.6 billion.

We have seen a good performance across all business lines, particularly with continuing growth in our retail and Islamic franchise. The changing asset mix, coupled with a more efficient funding and capital structure, has helped boost the net interest margin.

In terms of asset quality and provisioning, I am pleased to report that the experience throughout 2013 has been in line with our guidance. We have boosted provisions to improve our overall coverage ratio by over 2% in the third quarter.

The Bank's liquidity and funding position remains very strong.

We continue to focus on cost control. This is reflected in the year-to-date cost to income ratio declining to 33.6%. On capital, we have seen our Tier 1 ratio climb to 14.9% and our overall capital adequacy ratio increase to 19%.

The Egyptian operation made a full quarter contribution to income and profitability in Q3, and also helps diversify our sources of revenue.

Through our efforts we have made to strengthen the balance sheet over the last number of years, Emirate NBD is well placed to take advantage of the strong continued growth in Dubai, the UAE and the region.

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 now speak through the financial results on slide three.

Third Quarter results reflect a strong top line growth and we crossed AED 3 billion in quarterly revenue for the first time. The Retail business and Islamic franchise continue to be a key driver for this growth. Net interest margin improvement, conservative provisioning and profit on part disposal of Union Properties shares were other key features of this quarter.

Net profit for the quarter at AED 775 million is lower than earlier quarters this year due to conservative provisioning, though it is higher year-over-year by 21%. It is also worth mentioning that Q3 year-to-date net profit at AED 2.58 billion is higher than full year profits for each of the past two years.

Net interest margin for the quarter at 2.83% remains higher than our guidance due to an improved funding mix and lower than anticipated EIBOR. The relative growth of higher margin retail assets has also contributed positively to the opening up of margins. This, coupled with growth in the balance sheet, has helped net interest income grow 30% year-over-year and 18% quarter-on-quarter. Growth in non-interest income is 13% year-over-year, but dropped 12% quarter-on-quarter, consistent with the seasonal trend for lower business demand we normally witness during the summer and Holy month.

Headline loans to deposit ratio is 102.5% and Emirates NBD remains well placed to meet relevant prudential liquidity requirements.

Total costs for the quarter at AED 1 billion includes a full quarter for our Egypt operations and the underlying minor increase is linked to direct sales costs. We are now within our expectations for cost-income ratio.

Provisions for the quarter are higher at AED 1.5 billion, as we continue to de-risk the book in line with our previous guidance to achieve a 55-60% coverage ratio by the end of 2013. We are currently marginally under the lower-end of this band.

We continued to sell down our stake in Union Properties during the quarter and now hold only 15% in the entity as an available-for-sale investment. Consequent to this, we have reported a realised gain of AED 191 million in the quarterly financial statements.

Moving onto slide four on net interest income, net interest margin at 2.83% for the quarter improved significantly by 35 basis points over the previous quarter and is mainly driven by three factors:

1. Our continued success to raise current and savings account deposits
2. Relative loan growth in higher yielding retail assets
3. A generally improved loan spreads on the back of a lower EIBOR

The last of which did not correct as anticipated in earlier quarters as the Fed changed their stance on tapering.

As mentioned in our Q2 call, the newly acquired BNP Paribas Egypt business also contributed positively to the net interest margin with its healthy funding mix.

We now revise upwards our guidance for full-year margins to be in the range of 2.55% to 2.65%.

Slide five on funding and liquidity, loans to deposit ratio rose to 102.5% as we let go of expensive term deposits. The Bank's funding and liquidity position is strong and we remain within our target range of 95-105% for loans to deposit ratio.

Our liquid asset position is strong and, at AED 33.7 billion, has grown in line with deposits to cover 11% of total liabilities due.

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. The last quarter has not quite provided us that market access but we continue to raise medium-term funds via the private placement market and have also been successful to raise some of these in the form of eligible Tier 2 capital.

Loans and deposit trends shown in slide six; we have now seen consistent loan growth momentum for a few quarters across Retail, SME and Islamic assets. Trade Finance and syndicated loans in our large Corporate book, which grew in earlier quarters, were quiet across the summer months.

Consumer lending, which is up 6% quarter-on-quarter and 22% year-over-year across all product lines, is a bright spot and, as mentioned earlier, has helped open up net interest margins.

Current and savings accounts have grown by a remarkable 30% for the nine months of this year and now supports our stable funding base at 52% of total deposits.

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

Patrick Clerkin
Thank you, Surya. On slide seven, we see the total non-interest income improved by 13% year-on-year and declined by 12% over the quarter. The quarterly decline was mainly due to seasonal factors. This third quarter included the summer month and the Holy month of Ramadan. Traditionally, we do see a lower volume of foreign exchange and property transactions in the summer months.

Core fee income declined 7% quarter-on-quarter and improved 20% year-on-year. Of the four main sources of core fee income, namely Forex and rates, brokerage and asset management, fee income and trade finance, all categories showed growth year-on-year and all, except Forex and rates, showed an improvement quarter-on-quarter. Forex and rates income declined quarter-on-quarter for the seasonal effect already mentioned.

Investment Banking fee income continues to grow, as we Emirates NBD Capital ranked number five globally for US Dollar Sukuk issuance for 2013 year-to-date.

Emirates NBD Capital also has a growing presence in regional loan syndications.

Property income declined slightly over the quarter, as the sale of property held as inventory was just under 80% of the volume sold in Q2. The continued gains on the sale of properties held as inventory reflects the current robustness of the real estate market in Dubai.

Moving onto operating costs and efficiency on slide eight, I am pleased to report that the cost to income ratio has continued to improve from 33.3% in Q2 to 33% in the most recent quarter. We also observed a 0.3% reduction in the year-to-date cost to income ratio.

Costs did increase in absolute terms by 7% over the quarter and, if we strip out the costs associated with the Egyptian operation, then costs in Q3 increase by only 2%. Staff costs were unchanged over Q2 and the quarterly rise is attributable to an increase in customer-related IT spend. We continued to remain very vigilant in controlling costs and the cost to income ratio will be managed within the longer-term target range of 34-35%.

Moving onto credit quality on slide nine, we are well on course to meet our 2013 guidance targets on NPLs and coverage ratios. We had previously given guidance of finishing 2013 with an NPL ratio of between 14 and 15%, and a coverage ratio between 55 and 60%; the NPL ratio increased by 0.2% over the quarter from 13.9% at the end of Q2 to 14.1% at the end of Q3.

Impaired loans have increased by AED 1.2 billion from 34.7 to AED 35.9 billion in Q3. AED 1.1 billion of this increase is in Islamic impaired loans, with a small increase in core corporate impaired loans, and a small decrease in retail impaired loans. The increase in Islamic impaired loans primarily relates to one property-related corporate. The underlying real estate of this entity is not in a prime area of Dubai and so it has not benefited from the same uplift that other Dubai-based property companies have seen. We are taking a conservative approach to this particular credit in anticipation that it may struggle to fulfil its obligations in 2014 and beyond.

As Surya mentioned, we continued to be very conservative in our approach to provisioning. This quarter we took a net impairment charge of AED 1.5 billion, driven mainly by specific provisions in relation to the Group's Corporate and Islamic Financing portfolios, and this further improved our coverage ratio by 2.1% to 54.8%.

Over the longer-term, we expect to continue to grow this coverage ratio through a sustained, conservative approach to provisioning. We remain encouraged by the positive level of write-backs that we are seeing in the impaired loan portfolio. In Q3, we were able to write back just under AED 0.2 billion of loans, which were spread across the various business lines. Our total portfolio impairment allowance stands at AED 3.9 billion or 2.5% of credit risk-weighted assets, and this comfortably exceeds the 1.5% Central Bank requirement.

Surya Subramanian
Paddy, at this point, I might add that we are now near the end of our two-year guidance window for NPL and coverage that Management had shared in 2011. Going forward, post 2013, Management will target an NPL Ratio of 12% and an improved coverage ratio of 80% over the next couple of years.

Patrick Clerkin
Thank you, Surya.

Moving onto slide 10 on capital adequacy, it shows that Emirates NBD's Tier 1 ratio improved by 0.4% over the quarter from 14.5% at the end of Q2 to 14.9% at the end of Q3, and over a similar period, the total capital adequacy ratio improved from 18.5 to 19%.

The improvement in Tier 1 was primarily due to retained profit as well as a 1% reduction in risk-weighted assets. The improvement in Tier 2 capital was due to the issuance of Tier capital via private placements. We are seeing appetite from investors for Tier 2 private placements, so we will consider this as a very efficient way of replacing the remaining Ministry of Finance Tier 2 debt, which subject to regulatory approval we will look to retire in the coming quarters.

We embarked on a capital management exercise at the beginning of the year and we have been successful in transforming the capital structure to be more capital efficient and cost effective.

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

Rick Pudner
Thanks, Paddy.

Slide 11 provides details of our recently acquired Egyptian business. I am pleased to confirm that the transfer of the 4.8% minority interest is now complete. Cultural, system and policy integration is on-going and proceeding as expected against our integration plans. I am also pleased to report that despite a challenging political and economic environment, the Egyptian business has continued to perform well, contributing AED 201 million of revenue and AED 79 million net profit to the Group results since its consolidation with the Group on 9th June.

Moving onto the divisional performance on page 12, the Wholesale Bank continues to focus on customer service quality and share of wallet, with increased cross-sell of Treasury and Investment Banking products and increased Cash Management and Trade Finance penetration.

Revenues are up 10% year-on-year and since the beginning of the year, we have seen loan growth of 6% and deposit growth of 2%.

On the Consumer Banking and Wealth Management side of the business, revenues continue to grow, increasing by 5% quarter-on-quarter and 22% year-on-year.

As mentioned previously, we have seen good loan growth in this part of the business with loan volumes up 8% quarter-on-quarter and up 20% since the beginning of 2013. Retail business tends to be relatively more profitable and growth in this part of the business has helped improve the net interest margin, as Surya mentioned.

On slide 13 we can see that Treasury's income showed a marginal improvement in Q3, increasing to AED 116 million from AED 104 million in Q2 2013.

Net interest income improved due to increased hedging income, as the Bank took advantage of a recent rise in swap rates to hedge some positions. This offset Treasury's lower non-funded income from the trading desk, as it faced challenges in Q3 due to market volatility caused by the US Fed's decision to defer action on quantitative easing.

Islamic Banking showed strong revenue growth, up 67% year-on-year.

Financing receivables were largely unchanged since the start of the year, but customer account balances rose 5% since the end of 2012.

On slide 14 on the economic outlook, we have revised up our 2013 GDP forecast for the UAE to 4.4% on the back of higher oil output as well as strong expansion in the non-oil sector.

Dubai continues to expand in the trade and hospitality sectors and we see continued recovery in real estate and business services.

Emirates NBD, with its strong capital and liquidity base, and its conservative approach to recognizing and providing for impaired loans, is well placed to take advantage of the strong continued growth in Dubai and the UAE.

On slide 15, in summary, I am pleased to report year-to-date total income up 13% to AED 8.7 billion and year-to-date net profit up 34% to AED 2.6 billion, helped by increasing volumes and an improvement of the net interest margin to 2.56%.

We have also raised our provisions to AED 3.4 billion year-to-date, increasing the coverage ratio by over 5% since the start of the year.

Costs remain well under control and capital and liquidity have remained very strong.

Emirates NBD is well placed and has a clear strategy in place to take advantage of the improving growth outlook.

With that, I would like to open the lines for any questions as usual. Thank you, Operator.

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 0 if you have a question.

Our first question comes from Shabbir Malik, from EFG-Hermes, please go ahead.

Shabbir Malik
Thank you very much; this is Shabbir Malik from EFG-Hermes. I have a couple of questions. In terms of your NIMs, do you expect the level of NIMs in the third quarter to sustain in the fourth quarter or do you see the drag from the low EIBOR rate flowing into the asset deals? My second question is on the carrying value of Union Properties, you say you sold it down to 15%; I just would like to know what is the carrying value of that 15% is on your books. Finally, in terms…what kind of loan growth are you looking at for 2014, especially given that the large exposure rules are expected to be finalised and issued by the end of this year, so given that background, what kind of loan growth are you expecting for the Bank and which sectors do you think would be contributing to your loan growth? Thank you.

Rick Pudner
Thanks, Shabbir. I will take – it's Rick here; I will take the third one first and then pass over to Surya for the other two. In terms of loan growth expectations, we're forecasting a GDP growth for the UAE next year around about 4.4%. We're forecasting inflation to be around about 3%. We would see our loan growth estimates to be in the region of 6-7% for the year, and obviously that's across the board, and the sectors obviously that are doing well in Dubai will probably generate most of that loan growth in the sense of logistics, trade, tourism etc, but also on the retail side; as we've said, we've seen strong retail credit growth, which will also be a contributor, but overall, I think we're estimating a 6-7% growth in loans.

Surya Subramanian
Shabbir, I will take the other two questions – this is Surya – on NIMs and the carrying value of UP. I will start with net interest margins. There are four factors, or I would say five factors, to the opening up of the NIMs in this quarter. Two are a bit difficult to predict. Last quarter, we talked about the lower EIBOR, we expected it to tighten this quarter, but that did not happen, because the Fed changed their stance. It is anybody's guess when the Fed will eventually taper, and if they do, how much they will taper, and what impact it will have on EIBOR, so we could have a continuation of that benefit. Equally, it could disappear.

A second part that is a bit volatile is we did put on some hedged positions to take advantage of rates in quarter three. That has worked in our favour. For competitive reasons, I will clearly not tell you in what tenors and for what amounts these are, but you could expect some of it to continue in quarter four for sure.

The other parts of the puzzle are more sustainable. We have been talking about improving the funding mix for quite a long time and almost for over two years now, current and savings accounts, as a proportion of total deposits, continues to grow. It now is 52%. Obviously, for every percentage pointed growth it means it is replacing more expensive fixed deposits that will continue to open margins.

Also, this quarter what we are sharing with you is that the relative rate of growth of retail assets, both across the conventional and Islamic windows is stronger than the rate of growth of corporate assets, and retail, consumer assets, SME assets by definition are giving us a higher yield, so that opens up the margins, hence I chose my words carefully, when I said, 'Opened up the margins.'

The Egypt business has always been strong. When we shared our quarter two results with you, we did show a slide that showed their net interest margin at 4.4%. That is higher than our margin, but because the balance sheet is much, much smaller than ours, it probably creates an effective uplift of about 5 basis points to our margins.

The last piece of the puzzle, of course, is the equation on loan margin contraction as we get through the cycles in the economy and that again, is controlled by market forces. We do not control that. Nonetheless, putting all this together, we are more hopeful of margins being sustained in quarter four, at least at the year-to-date level, which is currently at 2.56. We are guiding it will be anywhere between 2.55-2.65 for the fourth quarter.

Moving onto the carrying value of UP, we do not disclose the carrying value of UP in our financial statements, neither in the interim, nor in the yearend financial statements. However, I will make your job a little bit easier, because if you take the trouble to go through all the DFM disclosures we made, the last transaction was made, if I am not mistake, on the 21st August, and that is when we came down to 15%, so the accounting for available for sale kicks in on the 22nd August, so you can just take the valuation that existed on the 22nd August, any delta post that date to the valuation on 30th September would be accounted for as part of 'other comprehensive income,' the fair value reserve movement in 'other comprehensive income.' Beyond that, I am unable to give you any further information.

Does that answer your question Shabbir?

Shabbir Malik
Yes, thanks.

Rick Pudner
Thank you.

Operator
Thank you. The next question is from Markus Fiala from Fius Capital, please go ahead

Markus
Hi gentlemen, thank you very much for hosting this call. As an advisor on both your debt and equity to our investors, I have a few questions about the composition of the balance sheet and the loan book. The first one – I will direct this one towards Surya, and maybe Surya you would be kind enough to give us the feedback. Is the growth in the Wholesale Banking around the loan to the ultimate parent?

Surya Subramanian
Do you want to rattle off all your questions Markus and then I will take them in order, sometimes answers are interrelated.

Markus
Okay, I will do that.

1. Is the growth in the Wholesale Bank related to the loans to the ultimate parent?
2. The growth of the loan to the ultimate parent is now 43% of your total loan book, how are you addressing that and what percentage of revenues is this as part of the firm's revenues.
3. That may be a very difficult one to breakdown, but an interesting one to know nevertheless is your exceptional revenues this term due to the revenues from this specific loan?
4. Have the rating agencies given you any guidance on what percentage of your loan book, balance sheet can be leant to your ultimate parent before it starts giving issues?

Surya Subramanian
Okay, let me start with the last question on rating agency guidance. The rating agencies do publicly share their rating rationale and some of them do talk specifically about concentration risk that we have to Dubai and Dubai related entities. Nobody has talked about any specific comment on loans to the ultimate parent in their public rationale.

As far as loans to the ultimate parent are concerned, we do disclose it in our related party transactions and to a large extent, we have said before a major part of any economy here is the State, and as the economy moves the demands of the State move, and as a major bank in the region, we participate in that movement. We do not disclose the income that we earn from this parent, but we do say that all transactions with related parties are at arm's length and commercial basis, so if you do go back to the year-over-year delta and attribute, any commercial rate to it, you would also realise that we have significant other earnings streams unrelated to what we earn out of the balance sheet growth in the related party.

The last question on growth in the Wholesale Bank balance sheet, is it only the ultimate parent, the answer is no, we do have trade and syndicated loans growth and Rick wants to…

Rick Pudner
Just as I said Markus in the presentation, the profitability, the revenue increases come from a wide section of the book and it is the retail and Islamic Bank as well that have shown strong growth in SME and personal customers. I think I mentioned the thing that revenues in the consumer bank and the wealth management area have grown 22% year-on-year, which is significant because of the retail and wealth management contribution to the revenue split now is also significant.

In terms of the services loans as well, for example, have climbed from 17.8 billion to 20.4 billion, so we're seeing good growth coming through in what you would obviously look at as the growing sectors of the Dubai economy again.

Markus
Okay, but with the wholesale book net-net taking out the loan to the ultimate parent being smaller than it was last quarter, so quarter-on-quarter negative growth, where is the payback coming in the Dubai economy then, against the large…

[All talking]

…you have or the wholesale loans you have.

Surya Subramanian
I think if you go back to my comment for the large Corporate book, it is not correct to compare quarter-on-quarter as far as quarter three and quarter two are concerned…

[All talking]

Markus
…annual if you like, then those are even more pronounced if that is what prefer, Surya.

Surya Subramanian
This quarter happened to be summer and the period of Ramadan, but if you look at it on a broader basis, if you look at our financial disclosures, for example Note 5, which is on page 11 of the interim financial statements, a trade for example which was at 7.4 billion at the end of 2012 is now at 10.3 billion. That is independent of what we are talking about here. Manufacturing allocations have gone from 6 billion to 6.3 billion, mining and quarrying a small number, has gone from 232 million to 351 million, so we do see broad-based growth, and this was a term we had used even in last quarter, we do see broad-based growth and yes, related party exposure has also grown in line.

Markus
…sale book, is that correct, because if we're just looking at the numbers you do for the wholesale book, I am getting very confused, Surya, that it shows me that net-net on a year-on-year basis, if we go to the beginning of the year to avoid the Holy Month and summer, it is showing a decline in the composition and the size of the wholesale book, if you take away the loan to the ultimate parent, and that is what I am trying to understand. I do understand that in a sector-to-sector it may grow, but that could be – as Rick pointed out – from the SME sector. You don't break that down…

Surya Subramanian
Exactly.

Markus
…in composition, because as we know in the SME sector, over times there is a higher default rate, and it means that the ultimate provisioning may have to increase in the future. I am just trying to get my head around this to really understand it, so help me.

Surya Subramanian
If you're looking at slide 12 in the presentation, which shows the loans and deposits of the Wholesale Banking sector, you're absolutely right. Some of the economic activity that I gave you also comes from the SME sector, and unfortunately we do not breakdown the economic activity sectors by the business units, so you don't see that cross-metrics.

In what we have disclosed, certainly, the first quarter has not…quarter two, quarter three as I said is affected by the summer months, but end of last year to now, we show that the total loan book has grown by about 10 billion in the Wholesale Bank, and in our disclosures in the related party transactions, we show you that loans to the majority shareholder has grown from 76-86, which is also 10 billion, so you are right…

Markus
72-86.

Surya Subramanian
We can do the reconciliation offline, because there are different views here, but…

Markus
I understand where you're coming from, thank you very much, I appreciate that. Just, do you have internal guidance at Management level, or at ExCo level where you're comfortable running on a percentage against the overall loan book, the specific loan to the ultimate parent. Is there a level where you guys no longer feel comfortable?

Surya Subramanian
Well, we have Board Risk Guidelines for everything we do by asset class, by sector, by counterparty and these are discussed in the quarterly Board Risk Committee meetings, as well as the periodic main Board and Audit Committee meetings.

Markus
Okay, thank you. Rick, thank you very much for doing a great job, taking our investment up in Emirates Bank, we really appreciate it and we wish you all the best in the future.

Rick Pudner
Thank you very much, Markus.

Operator
Ladies and gentlemen, if you wish to ask a question please press 01 on your telephone keypads. We have a question from Rahul Shah from Deutsche Bank. Please go ahead.

Rahul Shah
Yes, good afternoon gentlemen, and thanks for the presentation. I had a question on the new forward guidance for asset quality, and in particular the provisions coverage. Just doing some numbers, if you're targeting 80% coverage in a couple of years' time, then unless you're assuming significant reductions in your Dubai World and Dubai Holding Expo…other than the maturity timetables that have been previously communicated, it does look as if you will be targeting for the NPL piece more than 100% coverage. I think in the past you have always argued that your current coverage levels are adequate, so I am just wondering why you're going from a 55% coverage ratio today to 80% in two years.

Surya Subramanian
Rahul, we will take it in two stages. The guidance for this year is between 55-60. We have ended quarter three at 54.8, so at the yearend we will be somewhere between those numbers. The guidance going forward to take it to 80 is still broadly in line with the statement we have made earlier that there is continual tail risk in the long-dated restructures that we have in our books, and the need to take it up to 80 and hence the term 'next couple of years' rather than a very specific statement like we did earlier. Earlier we gave you a hard close of 55-60 by 2013, now we are talking about taking it up to 80% over the next couple of years, even as we watch how some of these long-dated restructures perform.

Having said that, you rightly alluded to it, coverage will improve if some loans are repaid, and that is not just about Dubai World and Dubai Holding, there is still enough portfolio of other loans, if repaid, could take the coverage up as well.

Patrick Clerkin
Yes, just one other point to make, Rahul. If we allow for collateral, the coverage ratio is over 100% as of now.

Rahul Shah
Yes, I am just trying to square the comment that you have reiterated that current coverage is sufficient with collateral with the intention to raise the coverage ratio quite aggressively to 80% over the next few years.

Surya Subramanian
Well, at the same time, there are also people concerned we are not adequately covered, isn't it, when you look at our peer group, so we have to hold a balance between where the peer group is, understanding of course that their risk profile is different from ours. I am not suggesting we are going to go overnight from 60-80; hence, I chose my words carefully when I said 'next couple of years.' We will be able to explore this more next year in terms of what that timeline will be and how the graduation will be.

Rahul Shah
No, I think that is fair. Thank you very much.

Rick Pudner
Thanks, Rahul.

Operator
Thank you. The next question is from Saeb El Zein from Spinnaker Capital. Please go ahead.

Saeb Elzein
Yes, hi, good afternoon and thanks for the presentation. It is Saeb El Zein from Spinnaker Capital. Very briefly back to the related party loan if I may, obviously, it is increasing, you are mentioning that it is increasing at a commercial rate, which is not disclosed, but are there any plans, would you think that it will be partly repaid in due course, is there a stated maturity, or it will continue to obviously rolled and accumulated?

Rick Pudner
There is no…I mean, obviously when we said before in terms of the Board Credit and Committees etc. monitoring these exposures, we obviously remain currently comfortable with

the level of exposure to the related parties, but obviously this has been used to finance a lot of the infrastructure spend of Dubai that has been going on over the last few years and that will continue in terms of future growth of Dubai.

At what levels this will go to, at the moment, we don't have a view.

Saeb Elzein
Okay, thanks for this and thanks for the presentation.

Rick Pudner
You're welcome.

Operator
Thank you. We have no questions for the moment.

Rick Pudner
Operator, can you prompt again?

Operator
Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypads. We have a question from Saeb Elzein from Spinnaker Capital. Please go ahead.

Saeb Elzein
Yes, again it is me Saeb from Spinnaker.

Rick Pudner
Yes Mr El Zein, how are you?

Saeb Elzein
Good, good, thanks. Going ahead into the Expo 2020, would you…probably you might have done some simulation, but obviously looking forward, which you might not want to comment on, in case Dubai wins, would you expect your loan growth to pick up relatively substantially?

Rick Pudner
I think you're talking across the board Mr Elzein, I mean obviously when we're looking at what the plans for Expo 2020 in terms of capital spend, we're looking, I think, there is forecast of about AED 32 billion to spend in terms of creating the Expo 2020 site etc. There

is going to be, I think, a lot of ancillary business that comes with that, I think in terms of confidence levels as well, those will pick up and I would expect to see a right-across-the-board increase in loan demand as we move through the next five years.

Yes, we're looking at the numbers here, looking at job creation, the Expo 2020 is estimated to create about 200,000 new jobs directly and most of the Expo related building is likely to occur in the next four to five years before the Expo, so from sort of 2015 onwards we would expect activity levels in those sorts of areas to increase, so yes, generally in a nutshell we would expect activity to show good increase if Dubai wins the 2020.

Saeb Elzein
Given the liquidity levels and Emirates will be in a position to participate 2015 onwards in the loan growth and that will boost your loan growth potentially.

Rick Pudner
Absolutely, and we're fully…as we said, we're in a strong capital position, strong liquidity position, our balance sheet is in good shape and I think we're very well prepared to take advantage of that potential growth as and when it comes.

Saeb Elzein
Okay, excellent. Thank you very much.

Rick Pudner
Thank you.

Operator
Thank you. The next question is from Murad Ansari from EFG Hermes. Please go ahead.

Murad Ansari
Hello, sorry, this is Murat Sahi from EFG Hermes, so I just had a very quick question, I just wanted…would it be possible for you to share with us the amount or the magnitude of impact that the hedging income had on your margins or your net interest income this quarter.

Surya Subramanian
Well, as I said for competitive reasons we don't want to talk about exactly how much it contributed, but it is assumed within the Treasury spread which is made up of the lower EIBOR and the benefit of the hedging and that is disclosed in our presentation pack.

Murad Ansari
All right, thank you.

Rick Pudner
Thanks.

Operator
Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypads.

Rick Pudner
If there are no further questions, operator, I think we can cut it.

Operator
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 on the Results 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, operator. Before we end this session, I would like to acknowledge that Ben is on the call. Over the last five years, Ben has set up the Emirates NBD IR function, which is now viewed as a benchmark for investor relations within the region. The analyst community has consistently given us feedback that Ben is considered a very reliable, transparent, and knowledgeable source of information. As we have mentioned previously, Ben has decided to relocate to London and we are very sorry to see Ben go, and I would like to use this opportunity to thank Ben for his efforts, and Ben, if you want to say a few words please come in.

Ben Franz-Marwick
Hi, it is Ben here. Thanks very much, Rick, I really, really appreciate that. From my side, I just wanted to say that it was truly a pleasure and a privilege being part of the Emirates NBD family for the last five years and I am certainly leaving with many fond memories. I should also add that whatever progress or success we may have achieved in investor communications would certainly not have been possible without both Rick's and Surya's consistent support and commitment to investor relations, as well as obviously the dedication

and hard work of my colleagues across the Bank, in particular the IR Team and the wider Finance community, and finally, to the investors and analysts on the call, it has really been a real pleasure knowing you and interacting with you over the last few years and no doubt our paths may cross again in the future.

Thank you all and goodbye.

Rick Pudner

Thanks, Ben, and good luck from all of us and thank you everybody for joining the call and we will obviously be in touch in the next quarter.
