Emirates NBD

Q2 2012 Results Presentation

June 23, 2012

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Q2 2012 Financial Results Highlights

Highlights

- **Net profit of AED 647 million**, +1% vs. Q1 2012 and -13% vs. Q2 2011
- **Net interest income down 8% q-o-q and 5% y-o-y** to **AED 1,639 million** due to decline in net interest margin
- **Non-interest income declined** by 5% q-o-q and improved by 2% y-o-y; **core fee income grew 4% q-o-q** and **29% y-o-y**
- **Costs improved by 5% q-o-q** to AED 894 million due to cost optimisation initiatives
- Continuation of balance sheet **de-risking** and **conservatism on provisioning** resulted in **impairment allowances of AED 954 million**
- **New underwriting remains modest** with net loans up 2% q-o-q
- **Deposits stable q-o-q** and up 8% during H1 2012
- **Headline LTD ratio at 100%** vs. 105% at Q4 2011

Key Performance Indicators

AED million	Q2 2012	Q2 2011	Change (%)	Q1 2012	Change (%)
Net interest income	1,639	1,731	-5%	1,777	-8%
Non-interest income	860	843	+2%	909	-5%
Total income	**2,499**	**2,574**	**-3%**	**2,686**	**-7%**
Operating expenses	(894)	(826)	+8%	(942)	-5%
Operating profit before impairment allowances	**1,605**	**1,748**	**-8%**	**1,744**	**-8%**
Impairment allowances	(954)	(981)	-3%	(1,101)	-13%
Operating profit	**651**	**767**	**-15%**	**643**	**+1%**
Amortisation of intangibles	(20)	(24)	-17%	(20)	-5%
Associates	21	32	-33%	24	-11%
Gain on subsidiaries	-	(22)	n/a	-	n/a
Taxation charge	(5)	(9)	-43%	(6)	-8%
Net profit	**647**	**744**	**-13%**	**641**	**+1%**
Cost: income ratio (%)	35.8%	32.1%	+3.7%	35.1%	+0.7%
Net interest margin (%)	2.28%	2.53%	-0.25%	2.63%	-0.35%
EPS (AED)	0.10	0.12	-14%	0.10	+1%

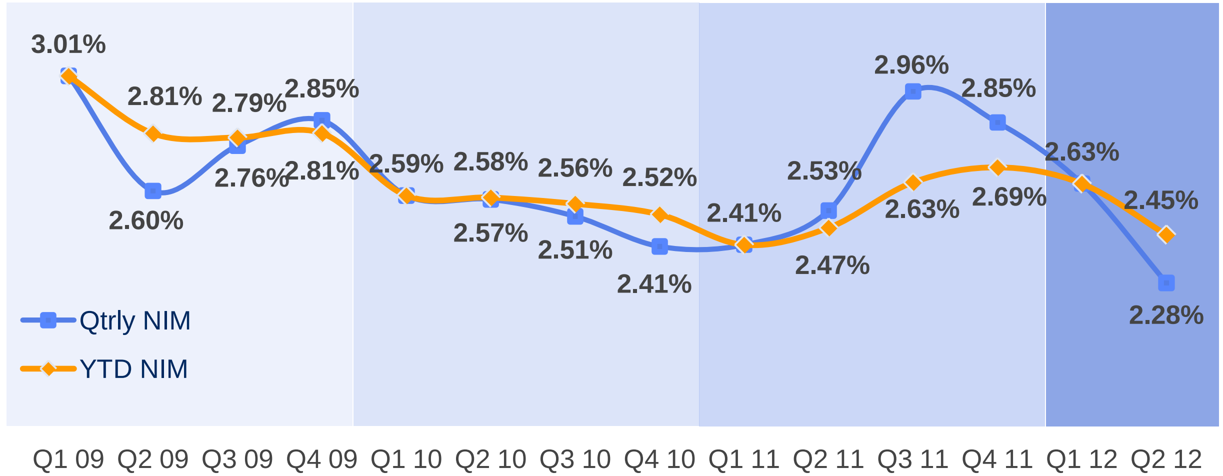
AED billion	30 June 2012	31 Dec 2011	Change (%)	31 Mar 2012	Change (%)
Loans	208.2	203.1	+2%	204.1	+2%
Deposits	208.4	193.3	+8%	208.5	-0%

Net Interest Income

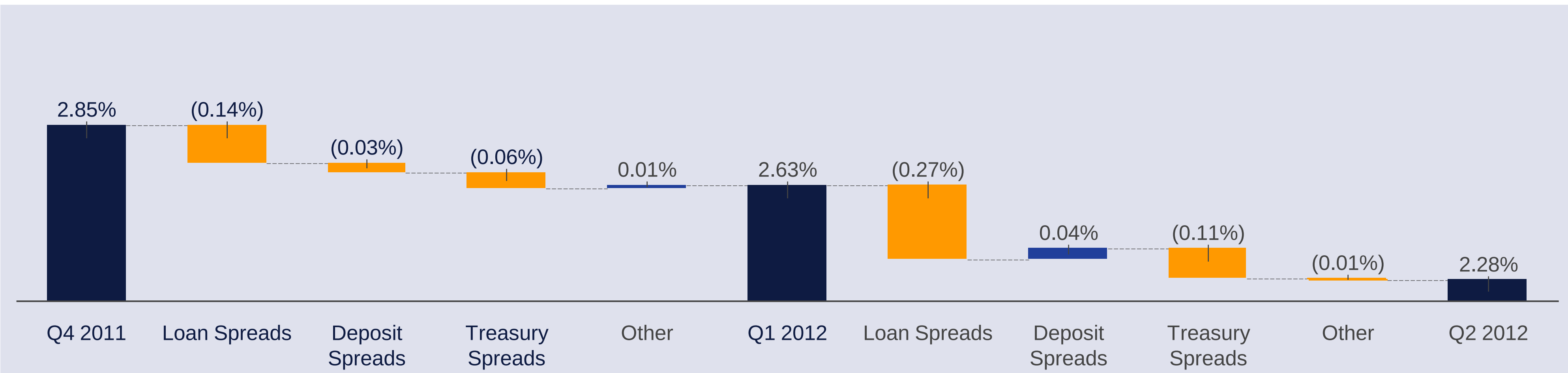
Highlights

- **NIM declined by 35 bps** from 2.63% in Q1 2012 to **2.28%** in Q2 2012 resulting in an 8% q-o-q drop in net interest income to AED 1,639 million
- Q2 2012 NIM reduction driven by:
  - lower loan spreads resulting from price competition and cost of carry on NPLs
  - lower treasury spreads due to impact of medium term debt issuance

Net Interest Margin (%)



Net Interest Margin Drivers (%)

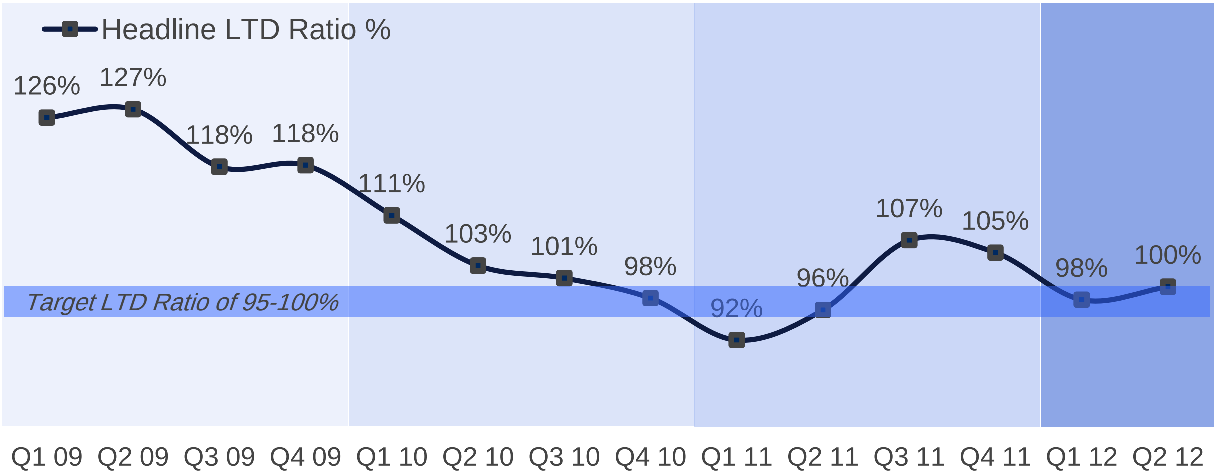


Funding and Liquidity

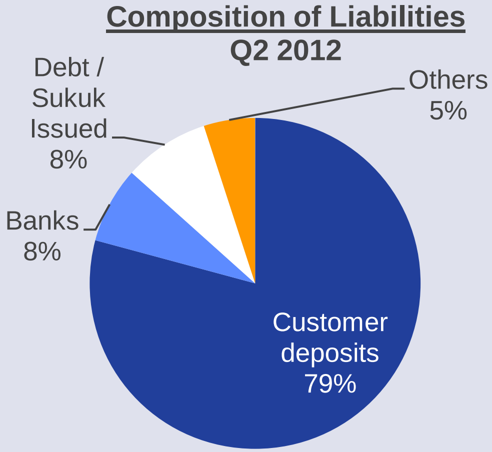
Highlights

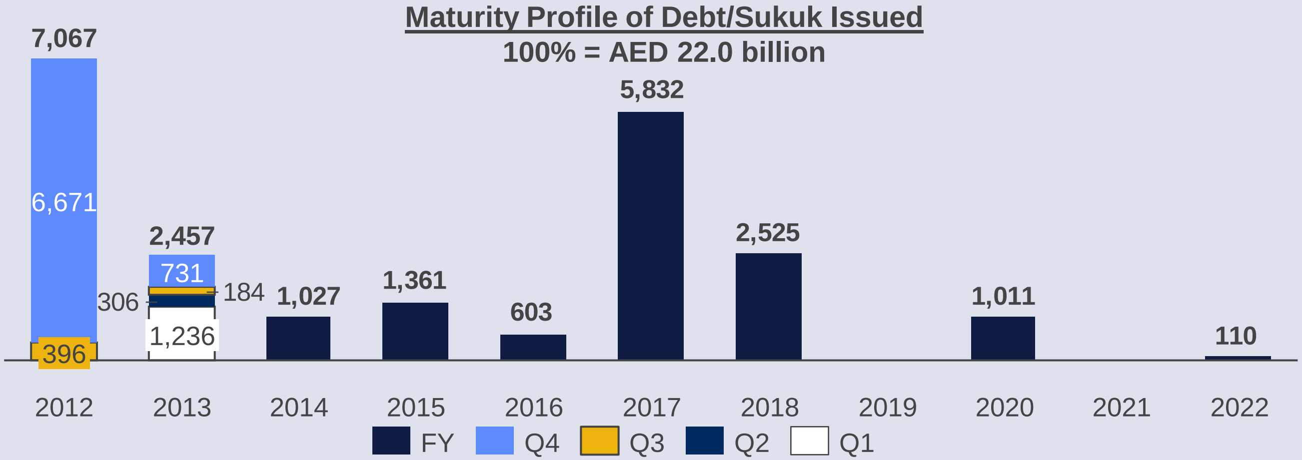
- Headline **LTD ratio of 100%** at Q2 2012
- The **LTD ratio is being managed** to the **target range of c.95%-100%**
- **Liquid assets** (excl. Investments) **of AED 48.8 billion** as at 30 June 2012 (16% of total assets)
- **Debt maturity profile** well **within** existing **funding capacity**
- **Issued AED 8.8 billion** medium term debt in H1 2012

Loan to Deposit Ratios (%)



Liquid Assets and Maturity of Debt Issued (AED million)



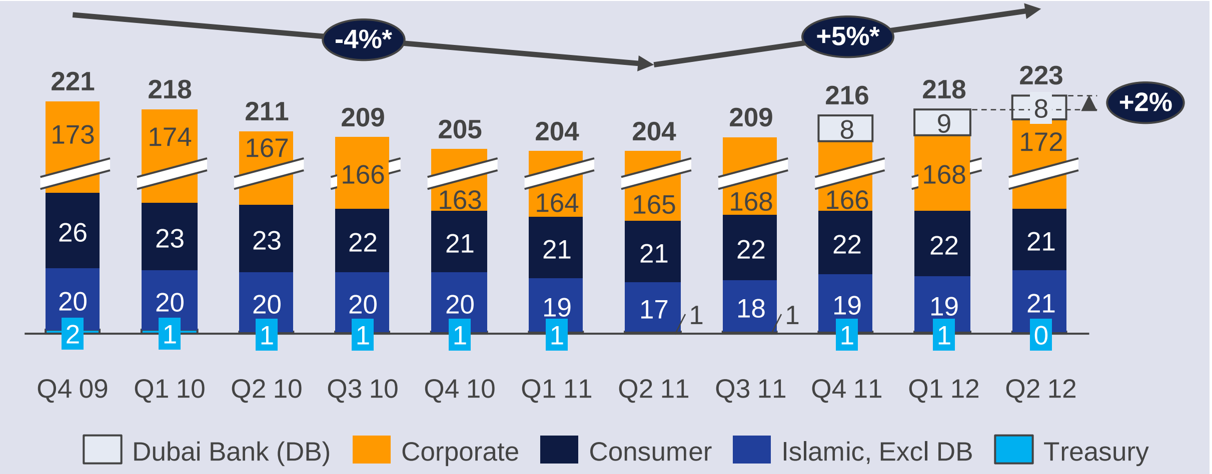


Loan and Deposit Trends

Highlights

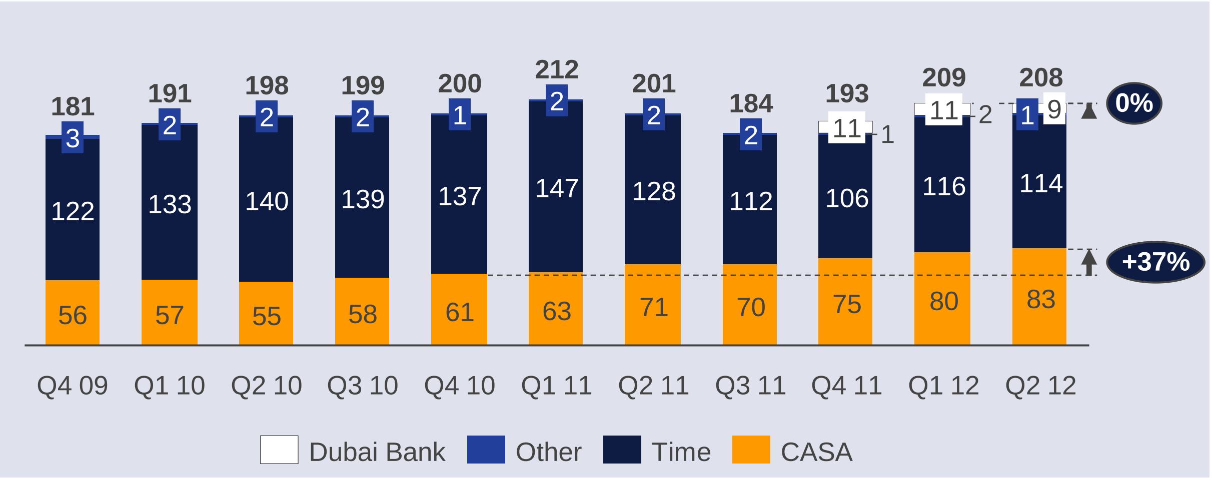
- **Signs of modest pickup in new underwriting from H2 2011:**
  - Annualised decline in gross loans of 4% from Q4 2009 to Q2 2011
  - Annualised organic growth in gross loans of 5% from Q2 2011 to Q2 2012 (excl. Dubai Bank Impact)
- **Balance sheet optimisation initiatives successful in improving deposit mix:**
  - CASA organic growth of AED 22 billion from end-2010 (excl. Dubai Bank Impact)
  - CASA % age of total deposits 42% at Q2 2012 vs. 31% at end-2010

Trend in Gross Loans by Type (AED billion)



** Annualised CAGR, excluding impact of Dubai Bank in Q4 2011*

Trend in Deposits by Type (AED billion)



Non Interest Income

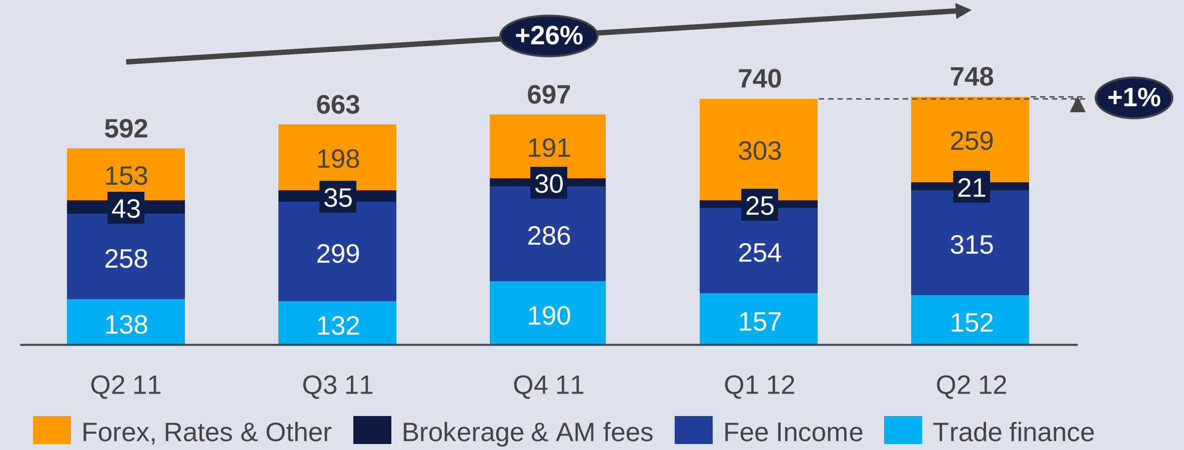
Highlights

- **Non-interest income declined** by 5% q-o-q and **improved 2% y-o-y**; impacted by non-core items:
  - Lower investment securities income in Q2 2012 of AED 127 million relative to previous quarter
  - AED 160 million non-recurring Treasury gain in Q2 2011
- **Core fee income improved 4% q-o-q** and **29% y-o-y**, key trends being:
  - improvement in banking fee income (+24% q-o-q and +22% y-o-y)
  - mixed trends trade finance income (-3% q-o-q and +10% y-o-y)
  - mixed trends in forex, rates, derivatives and other income (-15% q-o-q and +69% y-o-y)
  - decline in brokerage and asset management fee income (-16% q-o-q and +50% y-o-y)
  - Dubai Bank contribution to core fee income AED 10 million in Q2 2012 and AED 15 million in Q1 2012

Composition of Non Interest Income (AED million)

AED million	Q2 2012	Q2 2011	Change (%)	Q1 2012	Change (%)
Core gross fee income	748	592	+26%	740	+1%
Fees & commission expense	(20)	(29)	-33%	(39)	-48%
Core fee income	**728**	**563**	**+29%**	**701**	**+4%**
Property income / (loss)	5	(3)	n/a	14	-65%
Investment securities	127	123	+3%	194	-34%
Non-recurring Treasury gain	-	160	-100%	-	n/a
Total Non Interest Income	**860**	**843**	**+2%**	**909**	**-5%**

Composition of Core Gross Fee Income (AED million)

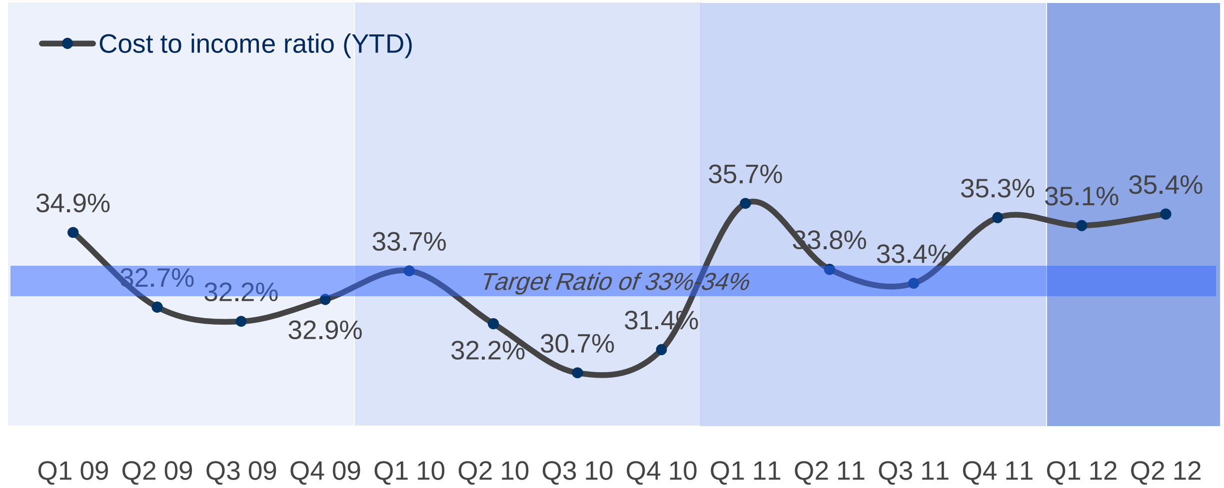


Operating Costs and Efficiency

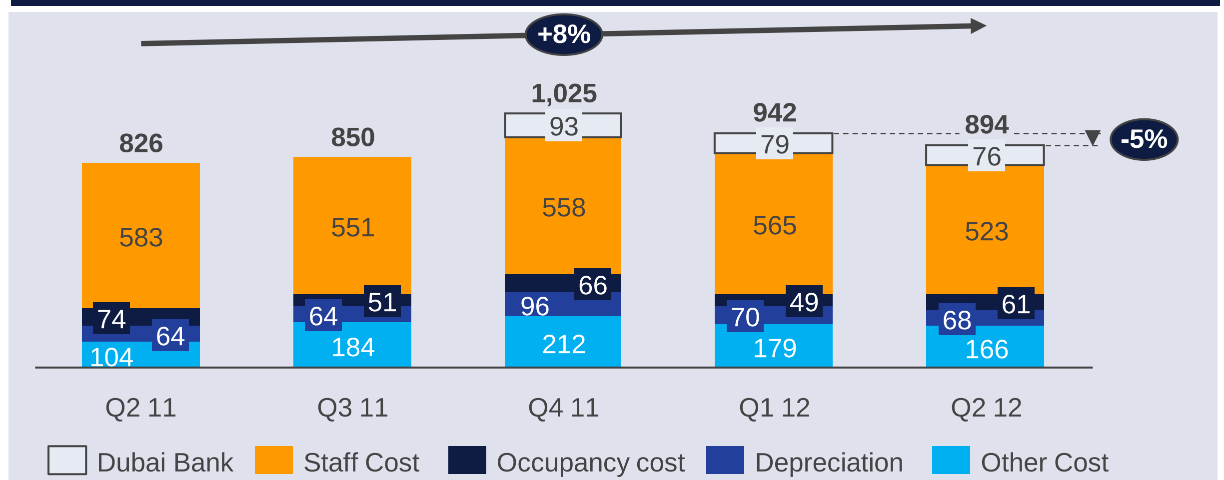
Highlights

- **Costs improved by AED 48 million or 5% q-o-q** to AED 894 million in Q2 2012 resulting from:
  - AED 42 million reduction in staff costs
  - AED 13 million reduction in other costs
  - partly offset by AED 12 million increase in occupancy costs
- The **cost to Income ratio** will be **managed** to the longer term **target range of c.33%-34%**

Cost to Income Ratio (%)



Cost Composition (%)

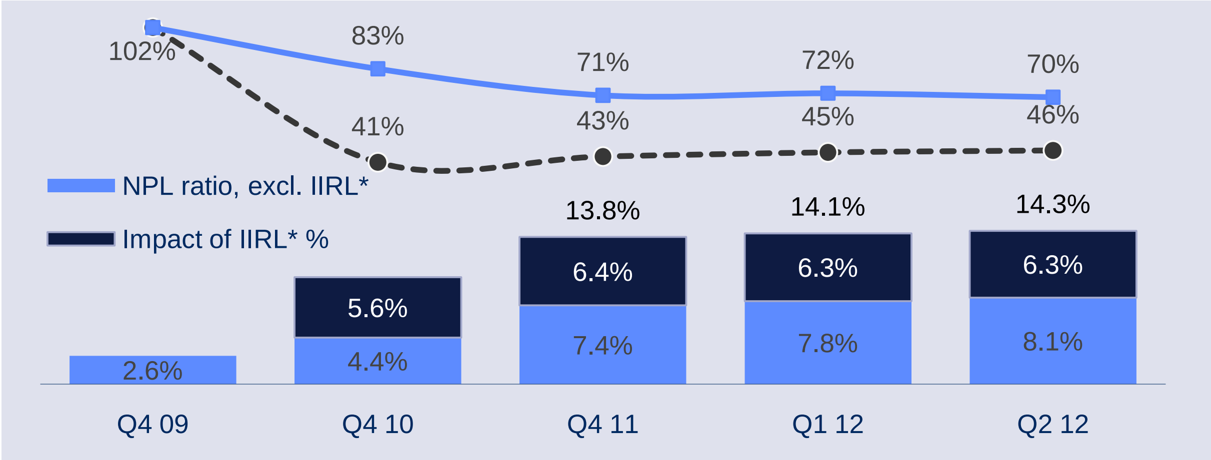


Credit Quality

Highlights

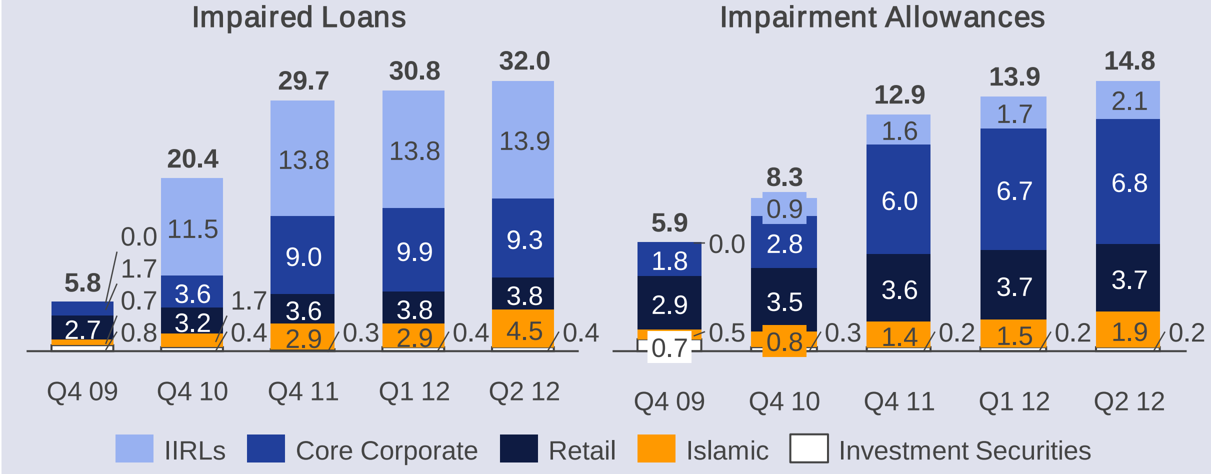
- **Q2 2012 impairment charge** of **AED 955** million driven mainly by specific provisions of AED 744 million and AED 467 million made in relation to the corporate and Islamic financing portfolios respectively
- Total **portfolio impairment allowances** amount to **AED 3.65 billion** or 2.52% of credit RWAs
- Management **targets for impaired loan coverage ratios:**
  - 80%-85% on underlying NPL portfolio
  - 55%-60% on overall impaired loans to be achieved by 2013
- Target coverage ratios to be achieved through **more conservative** provisioning for and recognition of impaired loans

Impaired Loan & Coverage Ratios (%)



** IIRL = Interest Impaired Renegotiated Loans at Q2 2012 comprises D1 (exposure AED 9.3 billion ; provision AED 597 million) and D2B (exposure AED 4.6 billion; provision AED 1.47 billion)*

Impaired Loans and Impairment Allowances (AED billion)

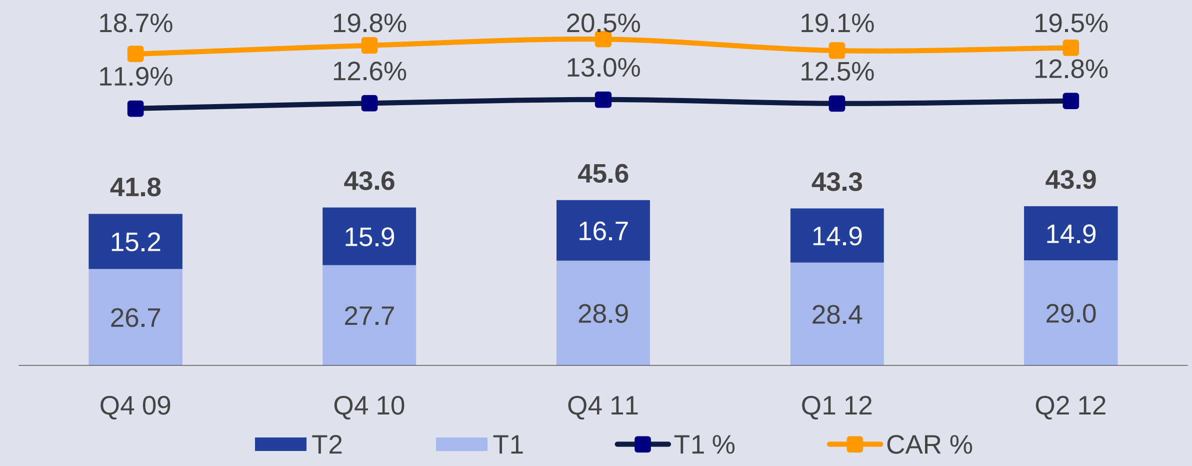


Capital Adequacy

Highlights

- **CAR improved 0.4% q-o-q to 19.5%** and T1 improved 0.3% q-o-q to 12.8% resulting from an increase in **Tier 1 capital** by AED 0.6 billion in Q2 2012 due to net profit generation for the quarter

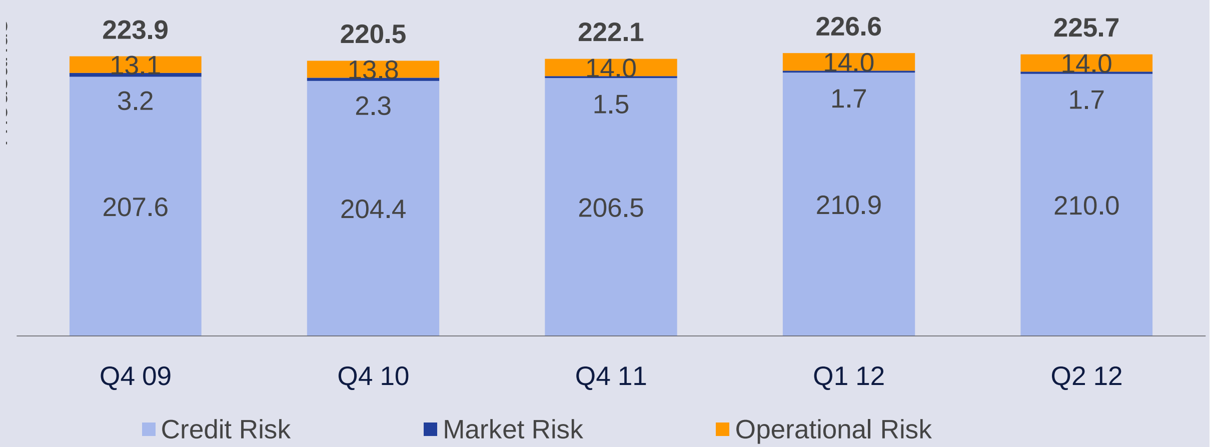
Capital Ratios - Basel II (AED billion)



Capital Movements (AED billion)

31 Dec 2011 to 30 Jun 2012	Tier 1	Tier 2	Total
Capital as at 31 Dec 2011	**28.9**	**16.7**	**45.6**
Net profits generated	1.3	-	1.3
FY 2011 dividend payable	(1.1)	-	(1.1)
Interest on T1 securities	(0.1)	-	(0.1)
Change in general provisions	-	0.7	0.7
Amortisation of MOF T2	-	(2.5)	(2.5)
Capital as at 30 Jun 2012	**29.0**	**14.9**	**43.9**

Risk Weighted Assets – Basel II (AED billion)

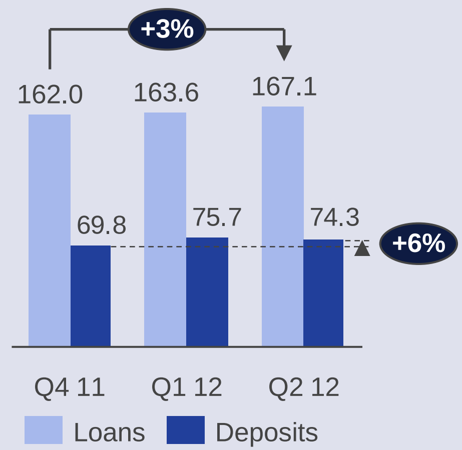


Divisional Performance

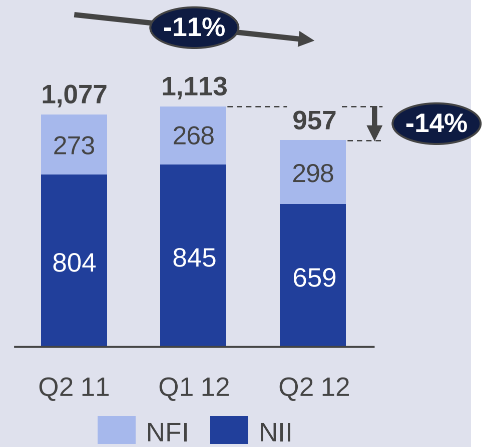
Wholesale Banking

- **Key focus** during Q2 2012 was on continued strategy re-alignment to ensure enhanced future customer service quality and share of wallet, increased cross-sell of Treasury and Investment Banking income and increased Cash Management and Trade Finance penetration
- **Revenue** declined 14% q-o-q and 11% y-o-y resulting from lower net interest income due to asset spread compression
- **Loans** rose by 3% from end-2011 as new underwriting more than offset normal loan repayments
- **Deposits** grew by 6% from end-2011

Balance Sheet Trends
AED billion



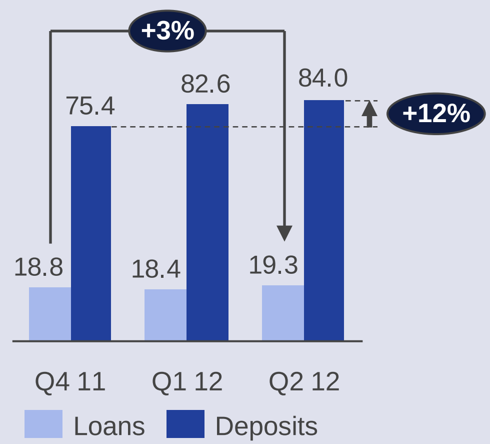
Revenue Trends
AED million



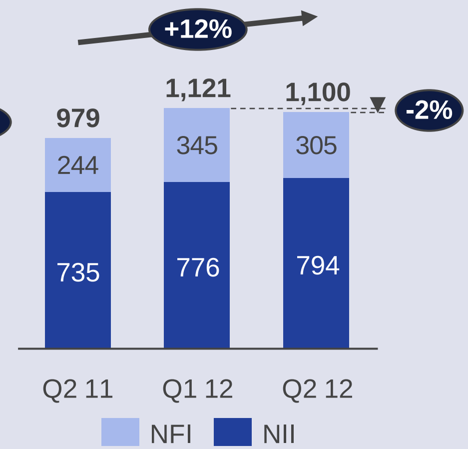
Consumer Banking & Wealth Management

- CWM continued to improve its position during the quarter
- **Revenue** declined 2% q-o-q but grew 12% y-o-y
- **Deposits** grew 2% during Q2 2012 and 12% during H1 2012
- **Loans** grew 5% during Q2 2012 and 3% during H1 2012 driven by strong growth in the SME segment
- **Channel optimisation strategy** being pursued to enhance efficiency across all distribution channels, resulting in a net reduction of 3 branches and 25 ATM/SDMs during Q2 2012 to 105 and 580 respectively

Balance Sheet Trends
AED billion



Revenue Trends
AED million

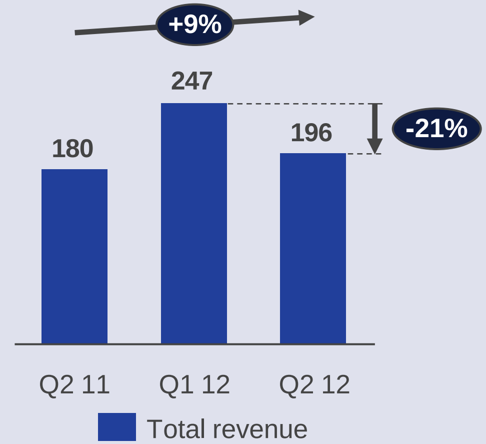


Divisional Performance

Global Markets & Treasury

- **Revenue** declined 21% q-o-q but improved 9% y-o-y to AED 196 million in Q2 2012
- **Treasury sales** recorded a good performance during Q2 2012 as the low interest rate scenario encouraged some clients to lock in rates through vanilla hedge structures; revenue from fixed income sales improved during Q2 2012
- The **foreign exchange flow business** performed well during the quarter due to volatility in the foreign exchange markets; in addition, the business was able to capture short windows of trading opportunities in the Euro zone which aided foreign exchange income

Revenue Trends
AED million

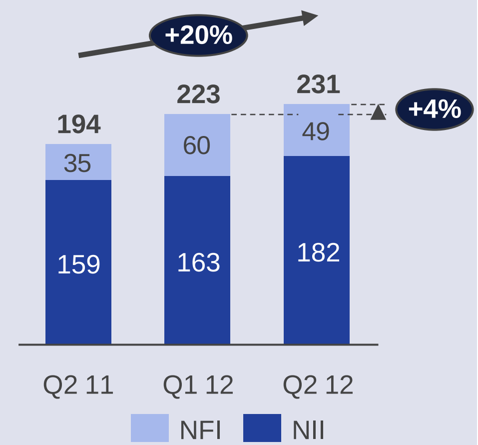


Emirates Islamic Bank

- EIB **revenue** improved 4% q-o-q and 20% y-o-y to AED 231 million in Q2 2012 (net of customers' share of profit), primarily due to growth in net funded income
- **Financing receivables** rose 3% to AED 14.6 billion from end-2011
- **Customer accounts** increased by 9% to AED 19.9 billion from end-2011
- As at Q2 2011, EIB **branches** totals 35 while the ATM & SDM network totals 105

Balance Sheet Trends
AED billion

Revenue Trends
AED million



<u>Note</u>: Stand-alone Financial Statements for Emirates Islamic Bank may differ from these results due to consolidation adjustments

Strategic Imperatives

1 Optimise Balance Sheet and Capital allocation	2012 Objectives	Evidence of Success in H1 2012
	▪ Maintain **headline LTD ratio within 95% - 100%** target range ▪ Continue to focus on **liabilities growth** including CASA and long term FDs ▪ Target raising **medium - long term funding** at acceptable pricing ▪ **Increase lending activity** to select sectors i.e. consumer finance, mid corporate & SME, and large corporate sector in Dubai and Abu Dhabi ▪ Continue to **streamline and consolidate subsidiaries** and decide on further **divestment opportunities**	▪ **Headline LTD ratio** of 98% in Q1 2012 and 100% in Q2 2012 from 105% in Q4 2011 ▪ **Strong CASA growth** of 11% or AED 8.8 billion during H1 2012, particularly in Retail banking, bringing Group wide CASA:FD portfolio mix to a healthy 42:58 ▪ In addition **launched "Deposit Carnival "** to attract additional funds with ongoing promotion across all key media ▪ Raised **AED 8.8 billion medium – long term funding** at attractive pricing ▪ **Consolidated Private Banking, Asset Management and brokerage** under a newly created "Wealth Management" unit to realise further synergies and cross-fertilise between the units

Strategic Imperatives

2 Drive Profitability	2012 Objectives	Evidence of Success in H1 2012
Drive Profitability	▪ Revenue growth – Increase **cross-sell** and bolster **fee based business** within the Consumer Banking and Wealth Management segment; e.g. FX, bancassurance, investments, etc. – Extend **key account management model** across wholesale banking segment; e.g. drive treasury sales and investment banking services to existing corporate relationships – Roll out **sales effectiveness program** across branches and direct sales force ▪ Cost management – Continue to focus on cost and operate in a **target cost income ratio of 33% to 34%** – **Efficiency gains** through **merging operational activities into Tanfeeth**, and **centralising procurement** activities	▪ **CWM fee income up 30%** in H1 2012 vs. H1 2011 ▪ Developed a **strategic plan and roadmap for the wholesale bank** to transform into a regional powerhouse; The strategic plan involves a large scale transformation of the wholesale banking unit encompassing among others: – Detailed Key account planning which will be extended across all key accounts over 2012 – 2013 – Enhancement of our transaction banking capabilities – Renewed focus on offering leading investment banking services – Increased investments in treasury and expanding our solution offerings – Vigorously pursuing international expansion plans – Development of superior credit processes – Enhancement of operational efficiencies ▪ Run a Group wide **cost optimisation program**; Q2 2012 cost base AED 48 million and AED 131 million below Q1 2012 and Q4 2011 respectively

Strategic Imperatives

3	2012 Objectives	Evidence of Success in H1 2012
Enhance Support Functions and Strengthen Platforms	▪ **Continue to upgrade and enhance IT platforms** – undertake implementation of the lean transformation initiative which was initiated in 2011 ▪ **Further enhance the scope of Tanfeeth** by migrating additional banking support and back office processes ▪ **Further enhance the customer service proposition** through focused initiatives to be undertaken by Group Service Quality / "Tamayyuz" ▪ **Implement Core banking and Private banking systems in KSA and Singapore** (PB only) in addition to enabling online banking	▪ **Lean transformation in second wave** with focus on IT portfolio rationalisation to focus on IT developments on key strategic priorities and optimise return on IT investment ▪ **Expanded Tanfeeth (our shared services provider) scope** with on-boarding of the **Operations and Call Center** at the beginning of the year ▪ **Completed the integration of Emirates NBD's HR Services, Finance & Accounting and Collections back office units** into Tanfeeth and started the integration of Emirates NBD's Trade Finance operating unit ▪ **Customer service excellence program** rolled-out across all branches and key processes reengineered. Major improvements include – NPS (Net promotor scores) in branches increased by 60+ % – Service requests in major process like cheque book delivery and issuance of liability letters reduced by 60% and 80% respectively ▪ **Development of Group wide Business Process Management (BPM) program** aiming at process streamlining and automation to realise further efficiencies end to end from branches to back office and enhancing the customer experience

Strategic Imperatives

3	2012 Objectives	Evidence of Success in H1 2012
Undertake Measured Investments in Growth Areas	▪ **Exploit domestic opportunities** – **Continue to enhance domestic distribution network** through selecting, and implementing the most optimal channel mix – Push for **regional leadership in private banking** through increased capacity and market penetration – Focus on **building SME asset book** by leveraging improved infrastructure and increased credit appetite – Further **grow our market share in Abu Dhabi** ▪ **Exploit international opportunities** – Undertake **organic expansion initiatives in current international locations,** e.g. setup SME business in KSA – Continue **small scale international expansion**, e.g. representative offices in target markets – Identify and pursue meaningful **international acquisitions** in select target markets, e.g. KSA, Turkey, etc.	▪ **Optimised distribution set-up** – Further optimised branch set-up (elimination of duplication) – Continued to enhance online banking offering – Launched enhanced mobile banking for EIB, next version for Emirates NBD due in Q4 ▪ **Enhanced the international footprint with launch of China Representative Office** in Beijing in May

Outlook

- During H1 2012 the UAE economy continued to display resiliency and modest growth with oil output rising 4.1% and modest private sector expansion
- Continued **strength** and growth witnessed in **Dubai's traditional** trade, logistics, tourism and retail sales **sectors** and signs of **green shoots in the Dubai property market**
- For the remainder of 2012 the **external environment remains challenging** in the context of weaker expected global growth resulting from recessionary risks in the Eurozone, downgrades to US growth and an expected slowdown in Asia
- Nevertheless, the **UAE remains well-positioned** to enjoy modest GDP growth of 3.0% in 2012 underpinned by rising oil production and continued modest private sector expansion
- **Despite a cautious and uncertain outlook, Emirates NBD is resilient and well placed** to take advantage of growth opportunities in selected areas
  - Capitalisation and liquidity continue to be extremely strong, offering resilience and flexibility for the future
  - Significantly de-risked and strengthened balance sheet offers strong platform for capturing future growth opportunities
  - The Bank has a clear strategy in place and is focused on relentless execution

Summary

- **Net profit growth of 1% q-o-q to AED 647 million**
- **Top-line trends** impacted by **margin compression**, but **core fee income generation continued to improve** with 4% growth q-o-q
- **Operating expenses improved 5% q-o-q** and will be managed to a longer term cost income ratio target of 33%-34%
- **NPL formation and provisioning trends** in line with expectations
- **Capitalisation and liquidity** continue to be **extremely strong**, offering resilience and flexibility for the future
- The **outlook remains challenging** but Emirates NBD has a **clear strategy** in place to take advantage of of selected growth opportunities

Investor Relations
PO Box 777
Emirates NBD Head Office, 4th Floor
Dubai, UAE
Tel: +971 4 201 2606
Email: IR@emiratesnbd.com

Ben Franz-Marwick
Head, Investor Relations
Tel: +971 4 201 2604
Email: bernhardf@emiratesnbd.com

Shagorika Cairae
Senior Analyst, Investor Relations
Tel: +971 4 201 2620
Email: cairaed@emiratesnbd.com

Emilie Froger
Buy-Side Manager, Investor Relations
Tel: +971 4 201 2606
Email: emilierf@emiratesnbd.com

Emirates NBD