



UAE Banking Pulse Quarter 3, 2017



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q3 '17 edition of the UAE Banking Pulse (“The Pulse”). In this quarterly series, we share results from our research examining the 10 largest listed UAE banks (“top 10”), and highlight key performance indicators of the UAE banking industry. The Pulse aims to help banking executives and board members stay current on industry trends.

All the data used in this report has been obtained from publicly available sources. The methodology for the calculations is discussed in the glossary. Calculation of several metrics has been changed from the previous version to accommodate available information.

We hope that you will find the Pulse useful and informative.

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The information contained in this document is of a general nature and has been obtained from publicly available information plus market insights. The information is not intended to address the specific circumstances of an individual or institution. There is no guarantee that the information is accurate at the date received by the recipient or that it will be accurate in the future. All parties should seek appropriate professional advice to analyze their particular situation before acting on any of the information contained herein.

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Pulse: Increase in ROE due to a decrease in cost of risk and funds as well as NIM expansion

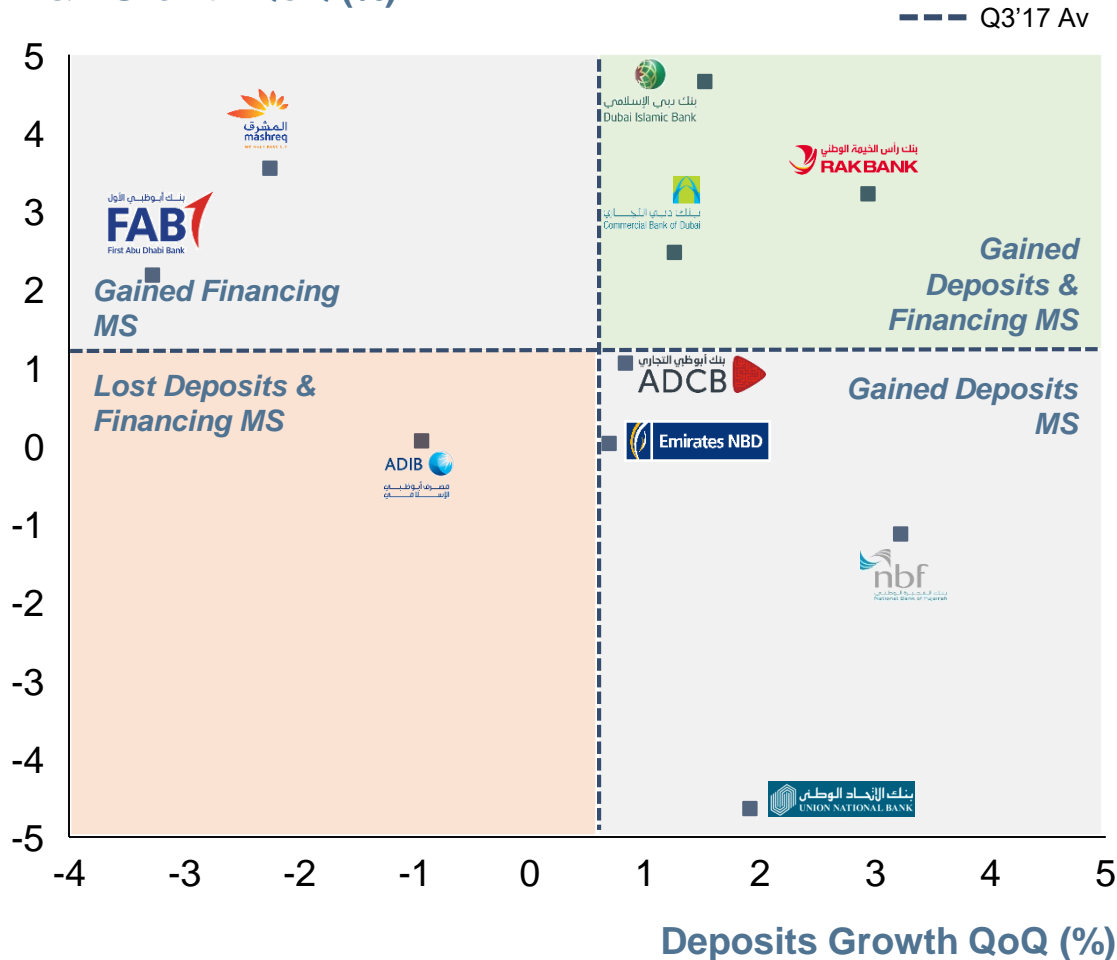
● Improved ● Stable ● Worsened

	Metric	Q2 '17	Q3 '17	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Key Trends This Quarter
Size	Loans and Advances Growth (QoQ)	-0.3%	1.26%						1 Overall, L&A grew more than deposits, hence the slight increase in LDR in Q3 '17
	Deposits Growth (QoQ)	-1.03%	0.61%						
Liquidity	Loan-to-Deposit Ratio (LDR)	90.6%	91.2%						
Income & Operating Efficiency	Operating Income Growth (QoQ)	-1.18%	1.92%						2 Operating income growth and margins increased largely due to an increase in interest income
	Operating Income / Assets	3.58%	3.65%						
	Non-Interest Income / Operating Income	30.9%	30.5%						
	Yield on Credit (YoC)	5.94%	6.02%						3 NIM increased due to lower cost of funds and a higher yield on credit
	Cost of Funds (CoF)	1.44%	1.39%						
	Net Interest Margin (NIM)	2.52%	2.58%						
	Cost-to-Income Ratio (C/I)	32.9%	32.7%						4 C/I ratio decreased further, continuing previous quarter trend
Risk	Coverage Ratio	113%	114%						
	Cost of Risk (CoR)	0.99%	0.93%						5 Cost of risk has decreased, although individual banks show mixed results
Profitability	Return on Equity (RoE)	14.8%	15.1%						6 ROE and ROA have both increased due to an increase in operating income and an expansion of NIM
	Return on Assets (RoA)	1.74%	1.83%						
	Return on Risk-Weighted Assets (RoRWA)	2.30%	2.41%						
Capital	Capital Adequacy Ratio (CAR)	17.8%	18.0%						

Note 1: QoQ stand for quarter over quarter
 Note 2: Growth in loans & advances and deposits was presented QoQ instead of YoY
 Note 3: Quarterly income was used in the calculation of operating income growth
 Source: Financial statements, Investor presentations, A&M analysis

1 Overall, L&A and deposits for the top 10 increased

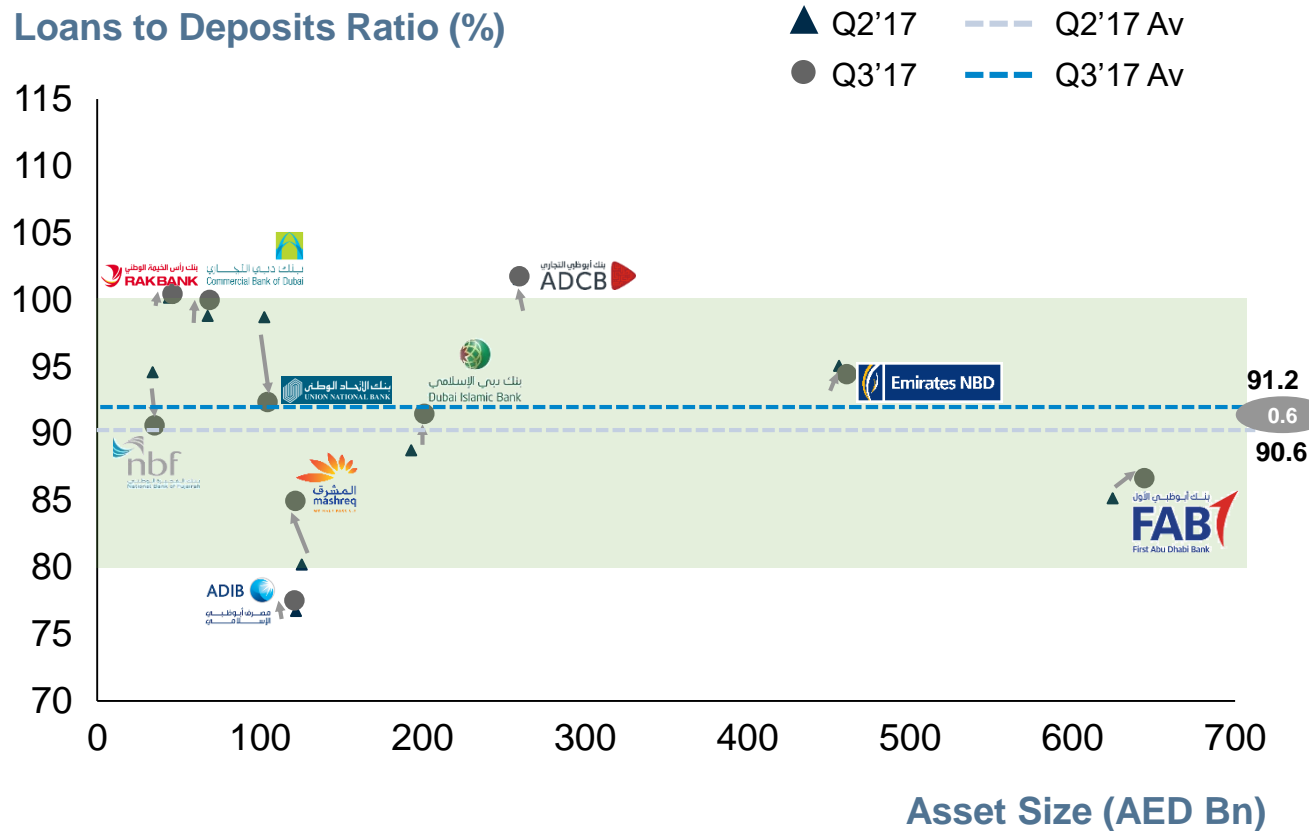
L&A Growth QoQ (%)



- Overall L&A grew at 1.26% while deposits grew at 0.6%
- Five of the top 10 grew their L&A market share and seven banks grew their deposits market share
- DIB, CBD and RAK significantly outgrew the market in both L&A and deposits
- UNB showed the biggest decline in L&A while ADIB showed a decline in both L&A as well as deposits

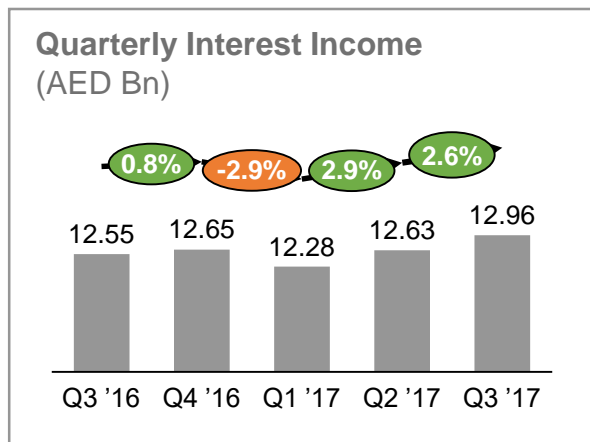
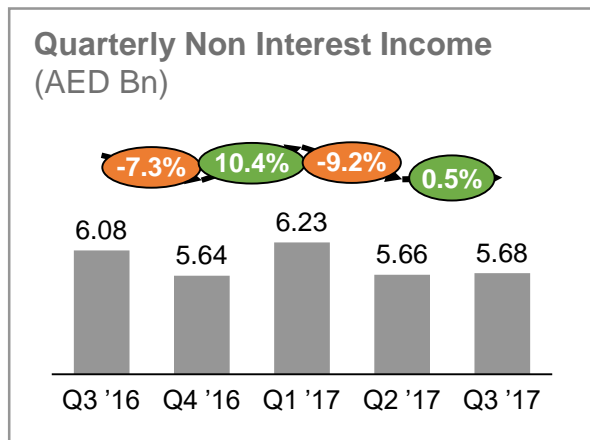
1 Overall, LDR increased with six of the top 10 in the green zone

Loans to Deposits Ratio (%)

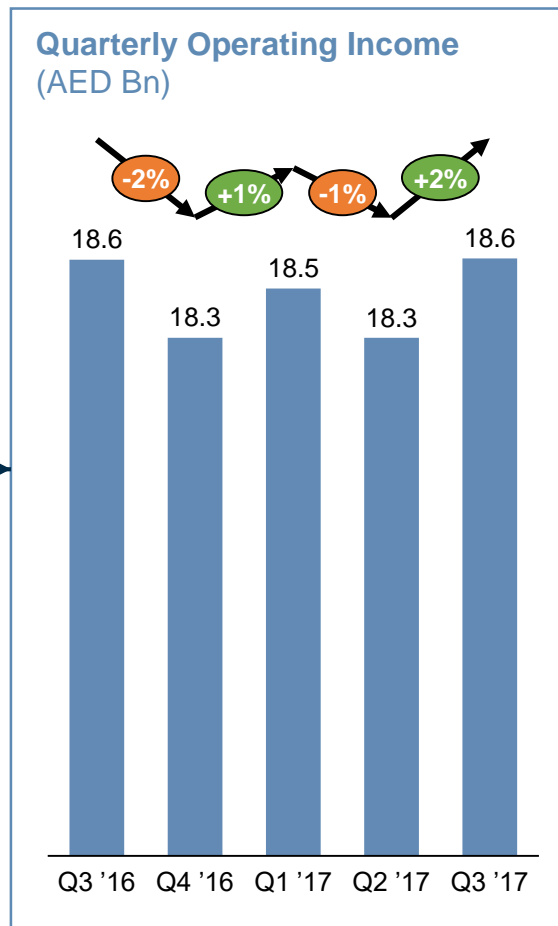


- LDR of eight of the top 10 increased, while two banks decreased
- Six of the top 10 are in the green zone
- RAK, ADCB and CBD decreased their liquidity and moved out of the green zone
- Liquidity expected to remain healthy in 2017, particularly for larger banks, with LDR increasing to 91.2% on average

2 Operating income increased largely due to an increase in interest income

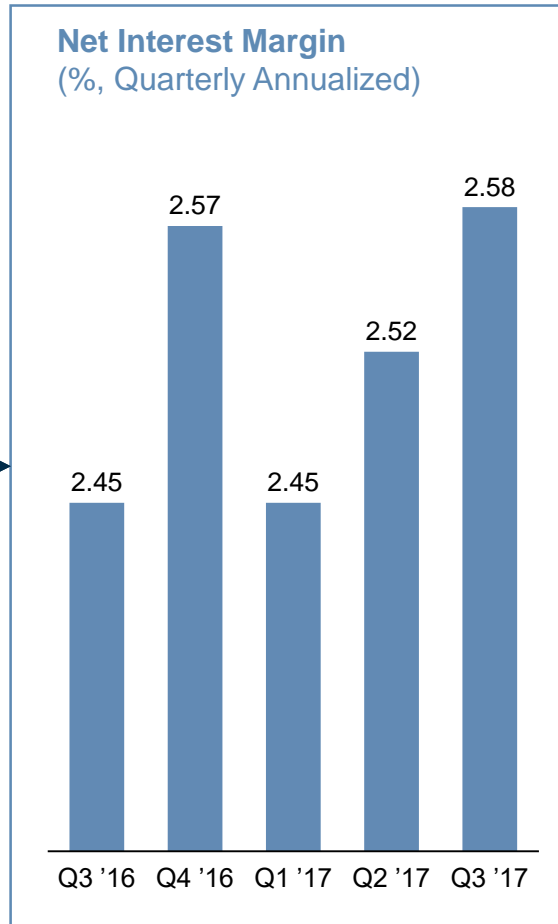
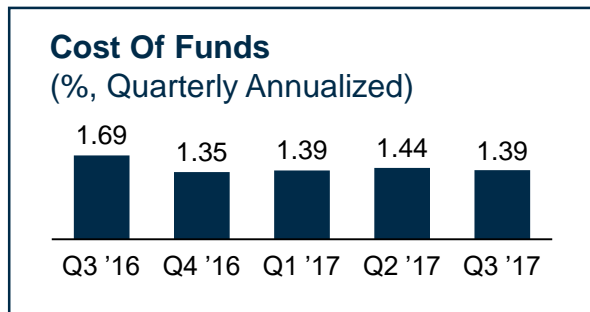
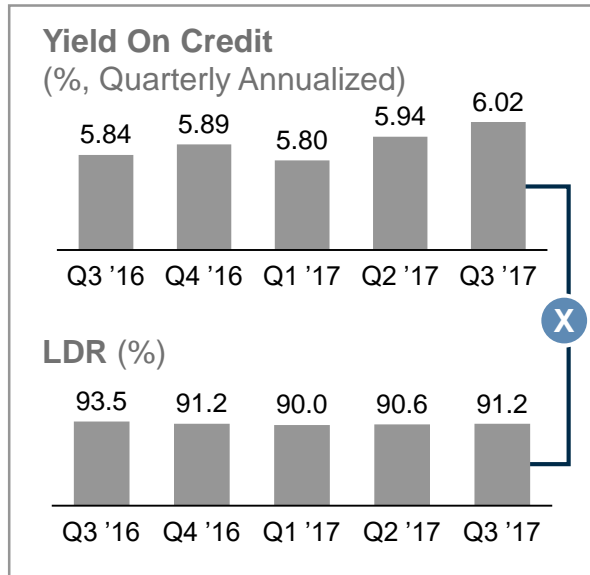


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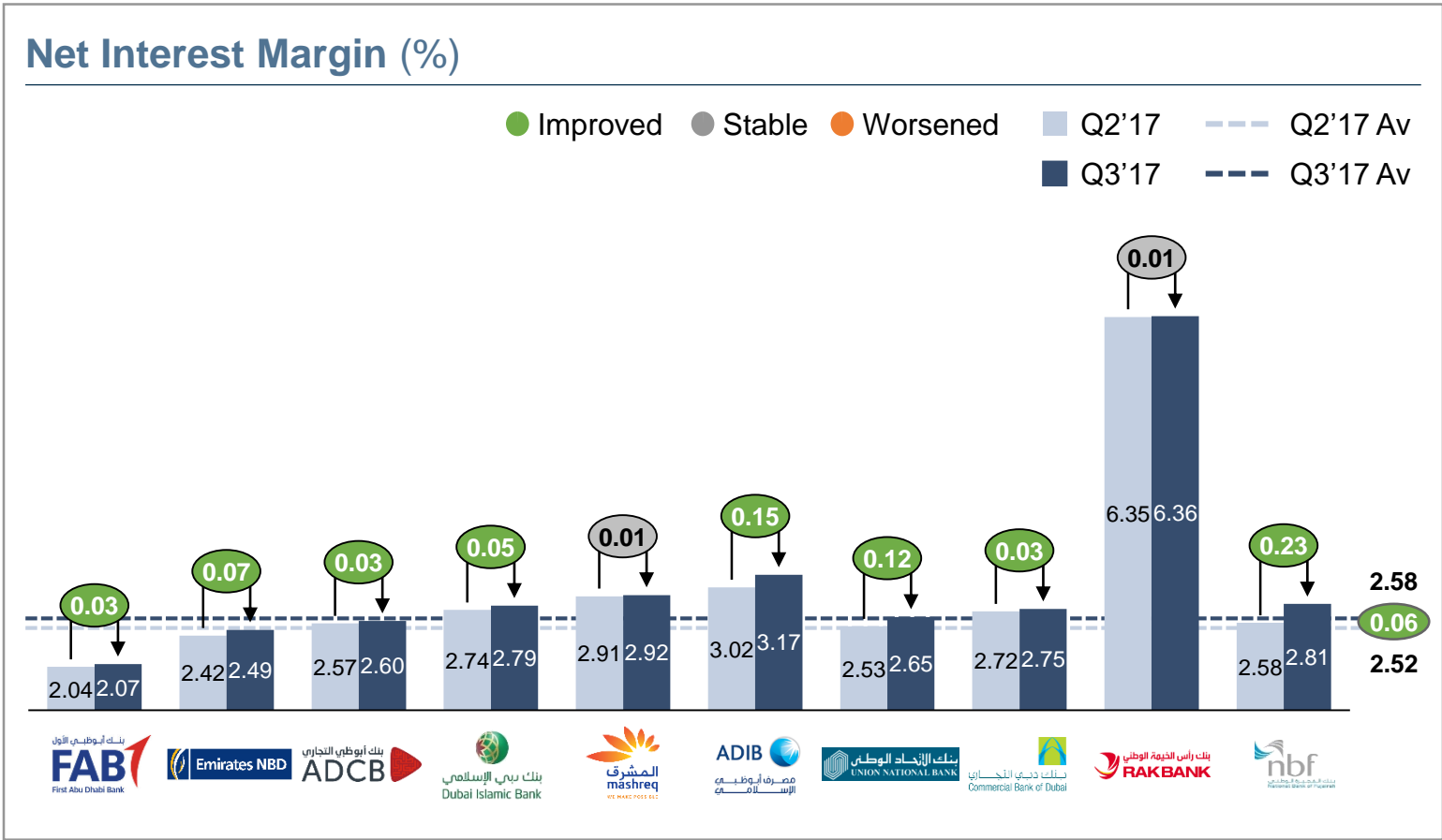
- Significant increase in overall quarterly operating income due to an increase in net interest income with a slight increase stemming from non interest income
- All banks increased their interest income in Q4 '17

3 Increase in NIM driven by an increase in LDR and yield on credit; cost of funds also decreased



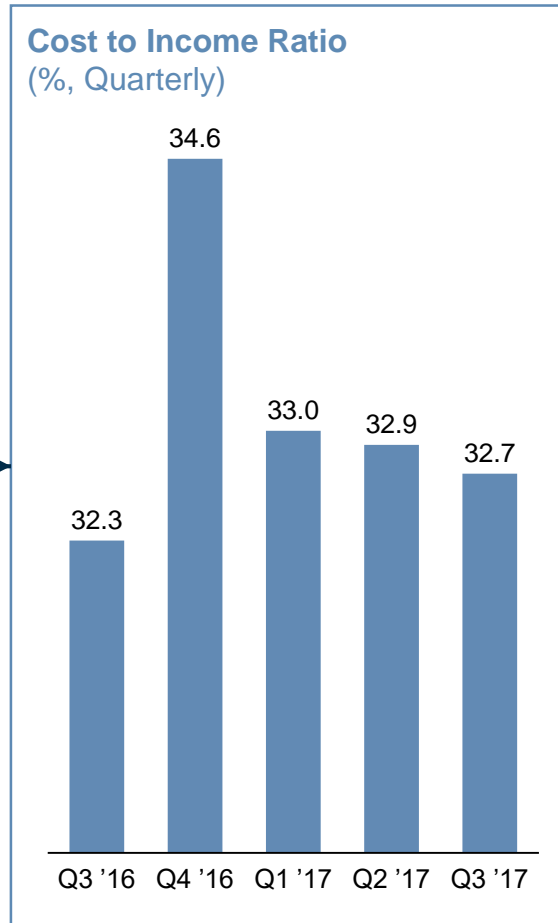
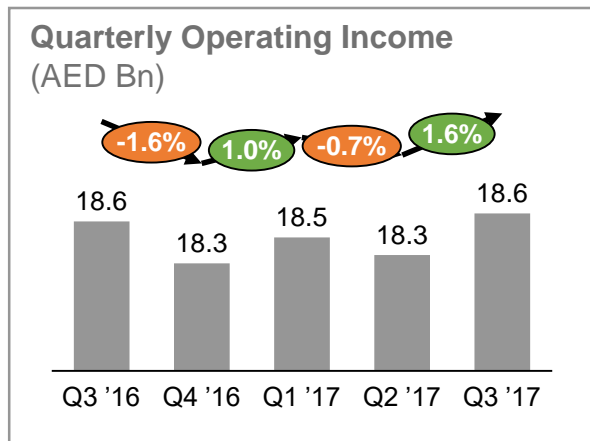
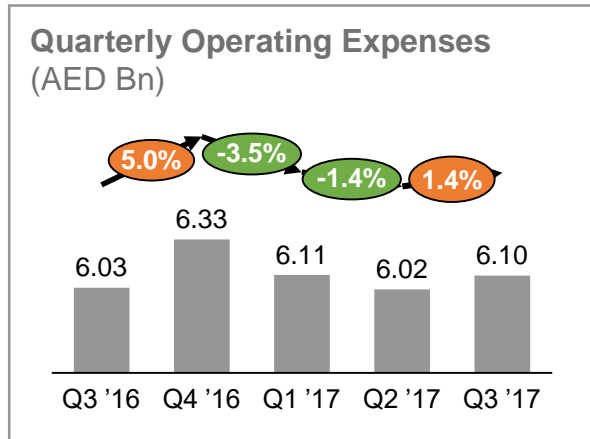
- NIM increased by ~6 bps this quarter
- Yield on credit increased by ~8 bps this quarter compared to last quarter due to the recent rise in interest rates
- LDR increased by 58 bps this quarter as loans issued increased more than deposits
- Cost of funds decreased by ~5 bps which helped boost NIM

3 Eight banks improved their NIM and two banks remained stable



- Eight of the top 10 witnessed an increase in NIM
- While most banks enjoyed NIM expansion due to increases in yield of credit, Mashreq and Rak have seen steady NIMs due to steady yields

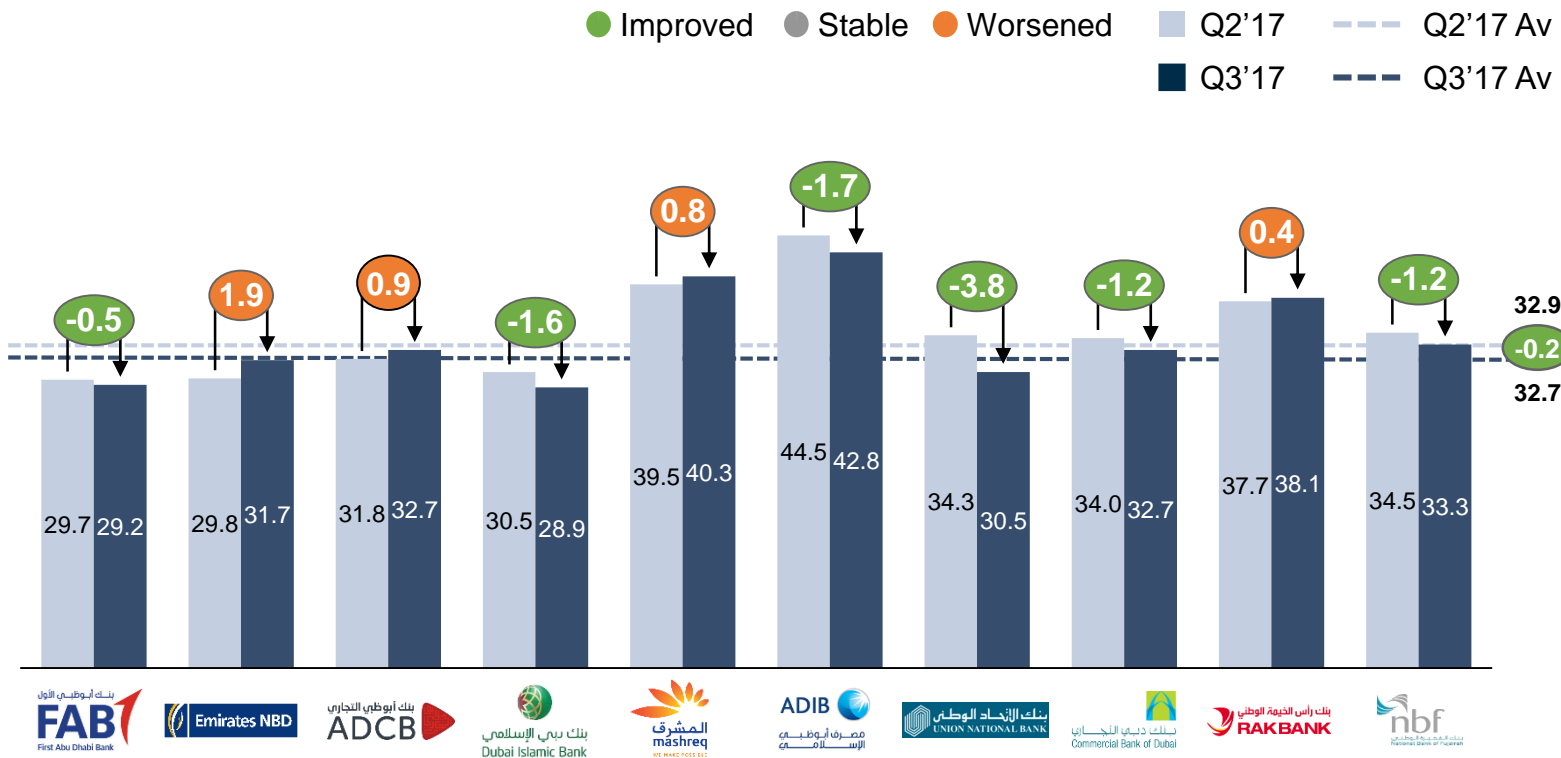
4 Cost to income ratio continued to decrease led by an increase in operating income



- C/I ratio decreased driven by an increase in operating income, despite an increase in operating expenses
- Largest increase in operating income came from ENBD

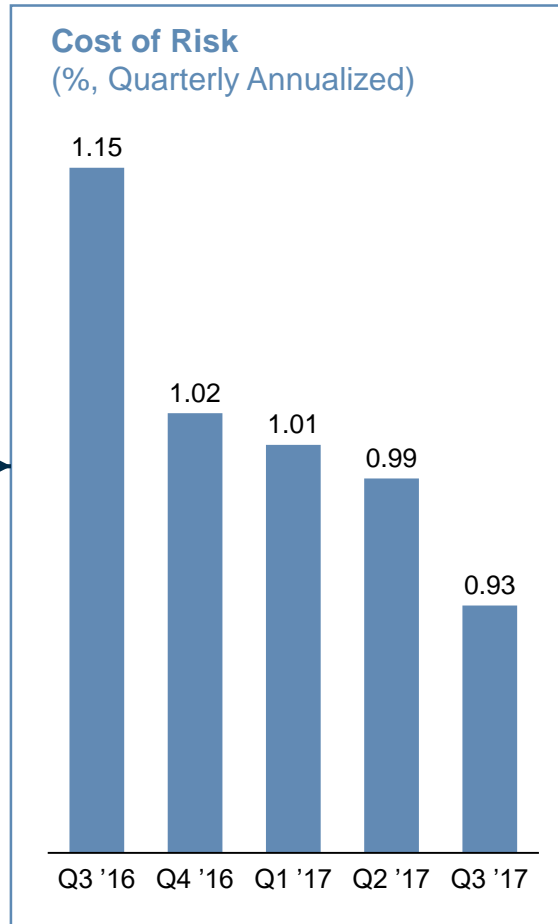
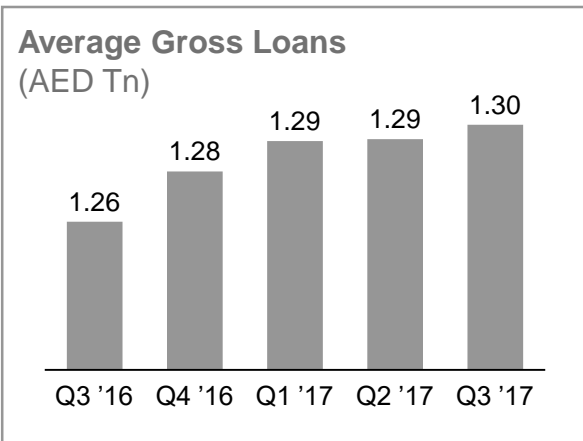
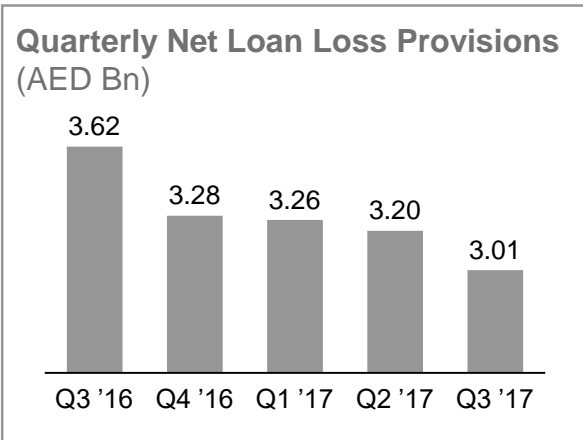
4 Six of the top 10 decreased their C/I ratio

Cost to Income Ratio (% , Quarterly)



- Six of the top 10 decreased their C/I ratio
- This was largely driven by an increase in income while maintaining a steady cost base

5 Overall, CoR continued to decrease driven by lower provisioning

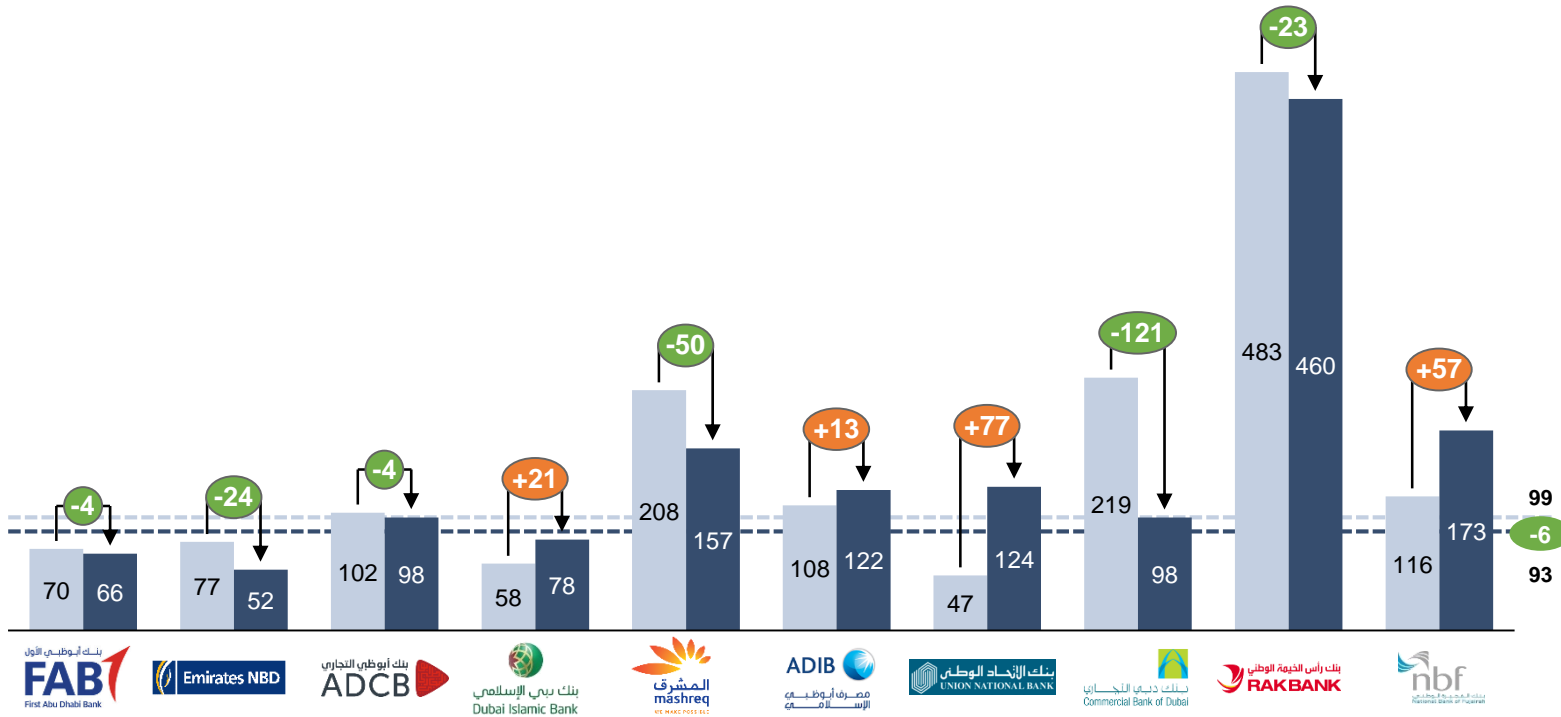


- Cost of risk decreased to 0.93% in Q2 '17, continuing the downward trend that started in Q3 '16
- Decrease in cost of risk was driven by a decrease in provisioning and a slight increase in loans portfolio

5 The overall cost of risk has decreased, but this masks four banks increasing their cost of risk

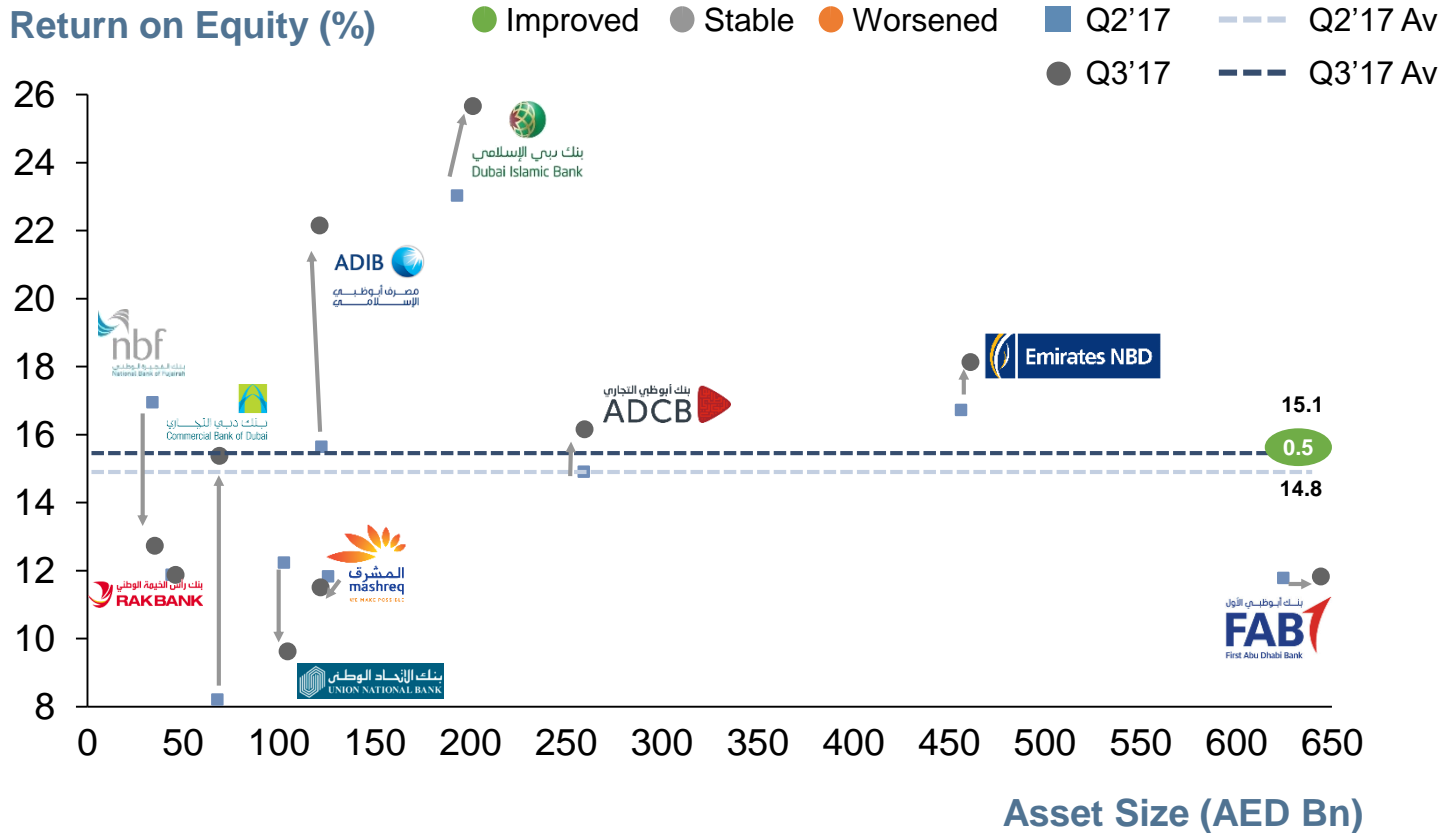
Cost of Risk (bps) - net of reversals

● Improved ● Stable ● Worsened ■ Q2'17 ■ Q3'17 - - - Q2'17 Av - - - Q3'17 Av



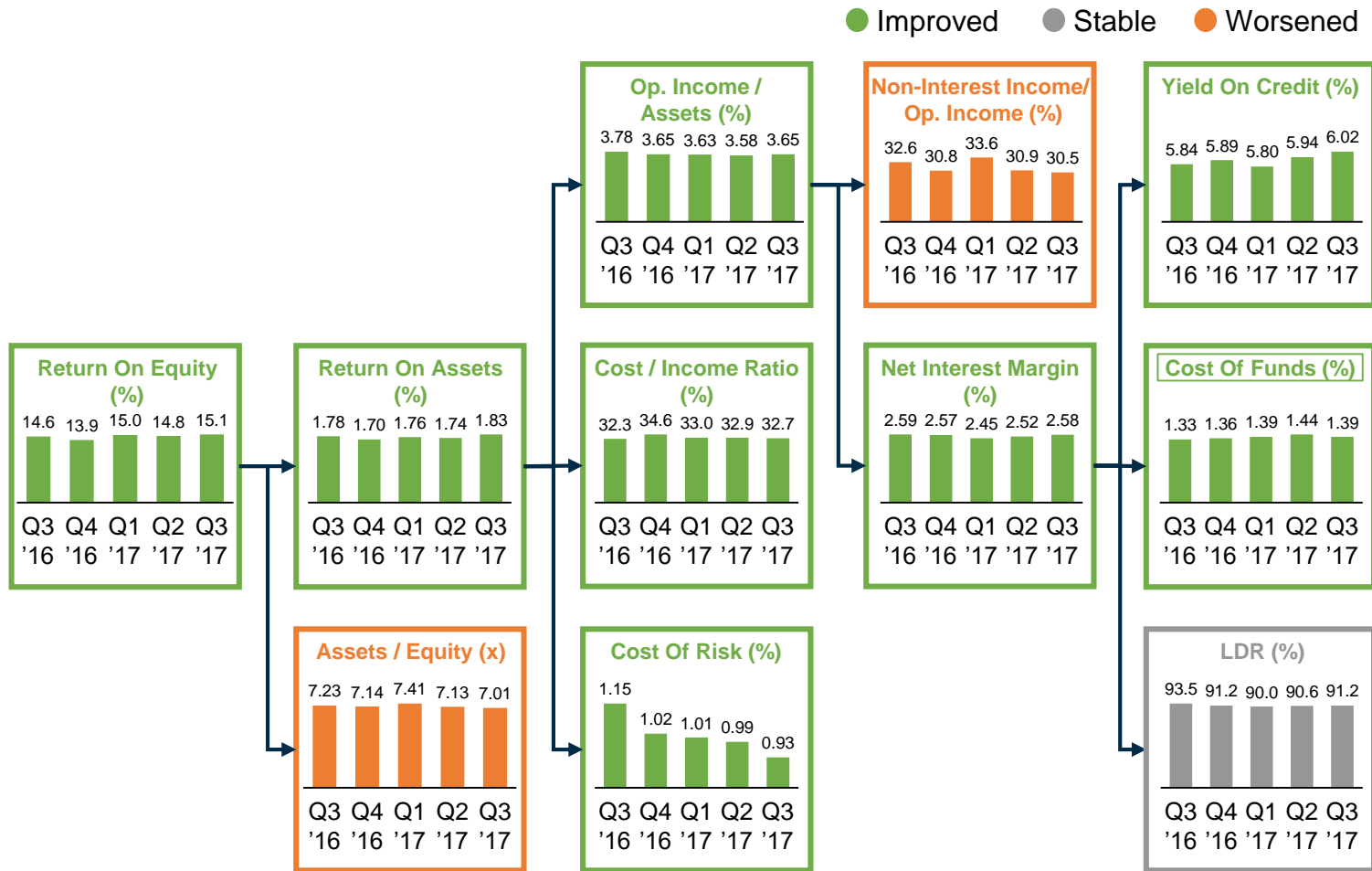
- Six of the top 10 saw improved cost of risk
- RAK, CBD, ENBD and Mashreq witnessed the largest decreases in cost of risk
- NBF witnessed a 57 bps increase in cost of risk on the back of heavy provisioning in Q2 '17

6 Larger banks have improved their ROE while smaller banks show mixed results



- Average ROE increased slightly to 15.1% in Q3'17, from 14.8% in Q2'17
- ROE of the larger banks have mostly increased while smaller banks show mixed results

6 ROE increased due to an expansion of net interest margins and a decrease in the cost of risk



- ROE increased due to a significant increase in returns on assets, despite an increase in equity
- ROA increase due to decreases in C/I and risk, with an increase in operating income
- Operating income increased mainly due to an expansion of NIM which came from a decrease in cost of funds, an increase in credit yields and a slight increase in LDR

Glossary



Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		QoQ growth in EOP net loans and advances for the top 10
	Deposits Growth		QoQ growth in EOP customer deposits for the top 10
Liquidity	Loan-to-Deposit Ratio	LDR	(Net EOP loans and advances / EOP customer deposits) for the top 10
Income & Operating Efficiency	Operating Income Growth		QoQ growth in aggregate quarterly operating income generated by the top 10
	Operating Income / Assets		(Annualized quarterly operating income / quarterly average assets) for the top 10
	Non-Interest Income / Operating Income		(Quarterly non-interest income / quarterly operating income) for the top 10
	Net Interest Margin	NIM	(Aggregate annualized quarterly net interest income) / (quarterly average earning assets) for the top 10 Earnings assets are defined as total assets excluding goodwill, intangible assets, and property and equipment
	Yield on Credit	YoC	(Annualized quarterly gross interest income / quarterly average loans & advances) for the top 10
	Cost of Funds	CoF	(Annualized quarterly interest expense + annualized quarterly capital notes & tier I sukuk interest) / (quarterly average interest bearing liabilities + quarterly average capital notes & tier I sukuk interest) for the top 10
	Cost-to-Income Ratio	C/I	(Quarterly operating expenses / quarterly operating income) for the top 10
Risk	Coverage Ratio		(Loan loss reserves / non-performing loans) for the top 10
	Cost of Risk	CoR	(Annualized quarterly provision expenses net of recoveries / quarterly average gross loans) for the top 10
Profitability	Return on Equity	RoE	(Annualized quarterly net profit attributable to the equity holders of the banks – annualized quarterly capital notes & tier I sukuk interest) / (quarterly average equity excluding capital notes) for the top 10
	Return on Assets	RoA	(Annualized quarterly net profit / quarterly average assets) for the top 10
	Return on Risk-Weighted Assets	RoRWA	(Annualized quarterly net profit generated / quarterly average risk-weighted assets) for the top 10
Capital	Capital Adequacy Ratio	CAR	(EOP tier I capital + tier II capital) / (EOP risk-weighted assets) for the top 10

Glossary (Cont'd)

Bank	Assets (AED Bn)	Abbreviation	Logo
First Abu Dhabi Bank	644.1	FAB	
Emirates NBD	461.1	ENBD	
Abu Dhabi Commercial Bank	259.6	ADCB	
Dubai Islamic Bank	201.2	DIB	
Mashreq Bank	121.8	Mashreq	
Abu Dhabi Islamic Bank	121.3	ADIB	
Union National Bank	104.6	UNB	
Commercial Bank of Dubai	69.0	CBD	
National Bank of Ras Al-Khaimah	46.1	RAK	
National Bank of Fujairah	35.2	NBF	