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# UAE Banking Market Pulse

## Quarter 1, 2017

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# Foreword

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Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q1 '17 edition of the UAE Banking Sector Market Pulse (“The Pulse”). In this quarterly series, we will share results from our research examining the largest 11 listed UAE banks (“top 11”), 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.

We hope that you will find the Pulse useful and informative. We look forward to hearing from you on how we can make it even more relevant.

**Disclaimer:**

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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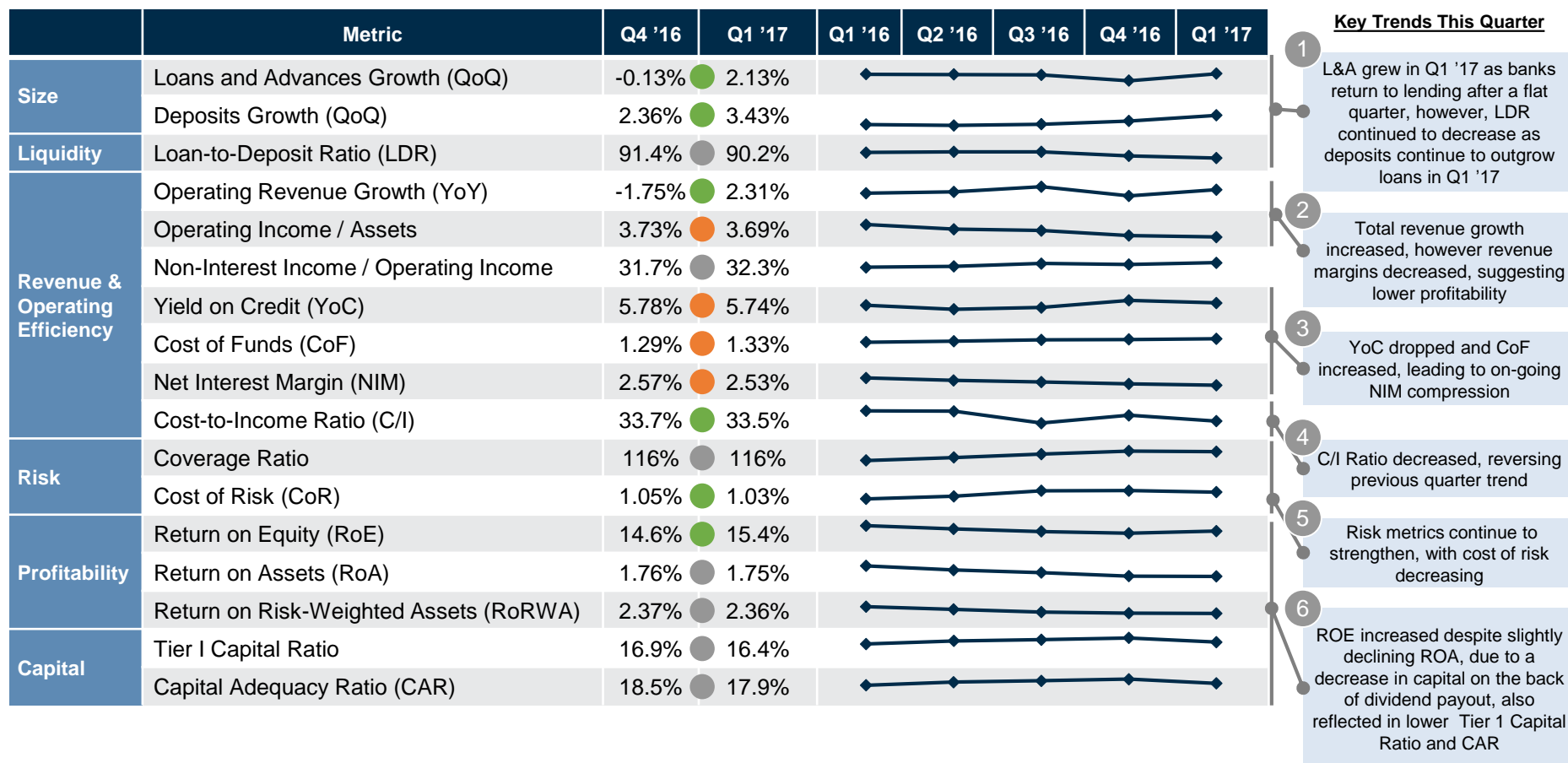


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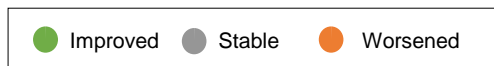
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# Pulse: Banks return to lending however core profitability still under pressure

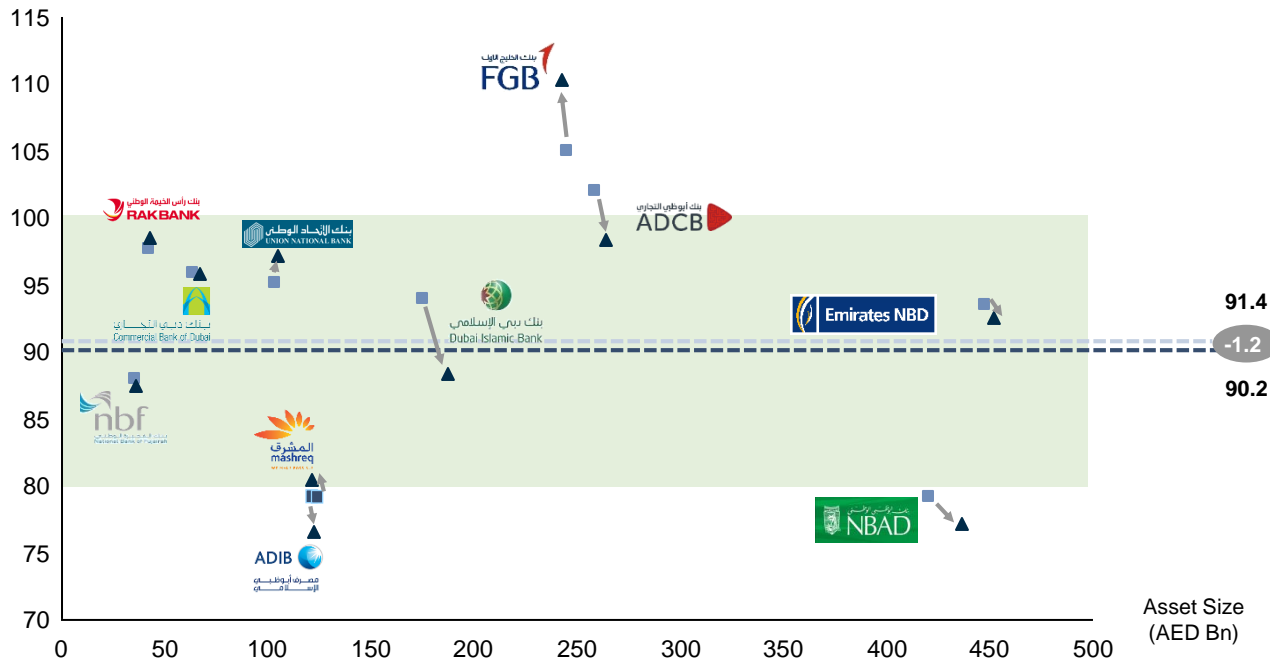


Note 1: QoQ and YoY stand for quarter over quarter and year over year change respectively  
 Note 2: Growth in loans & advances and deposits was presented QoQ instead of YoY  
 Note 3: Quarterly revenues were used in the calculation of operating revenue growth  
 Note 4: Definition of funding used in the calculation of CoF have been modified to include more granularity, details presented in glossary  
 Source: Financial statements, Investor presentations, A&M analysis



# 1 Overall LDR decreased with eight of the top 11 banks in the green zone

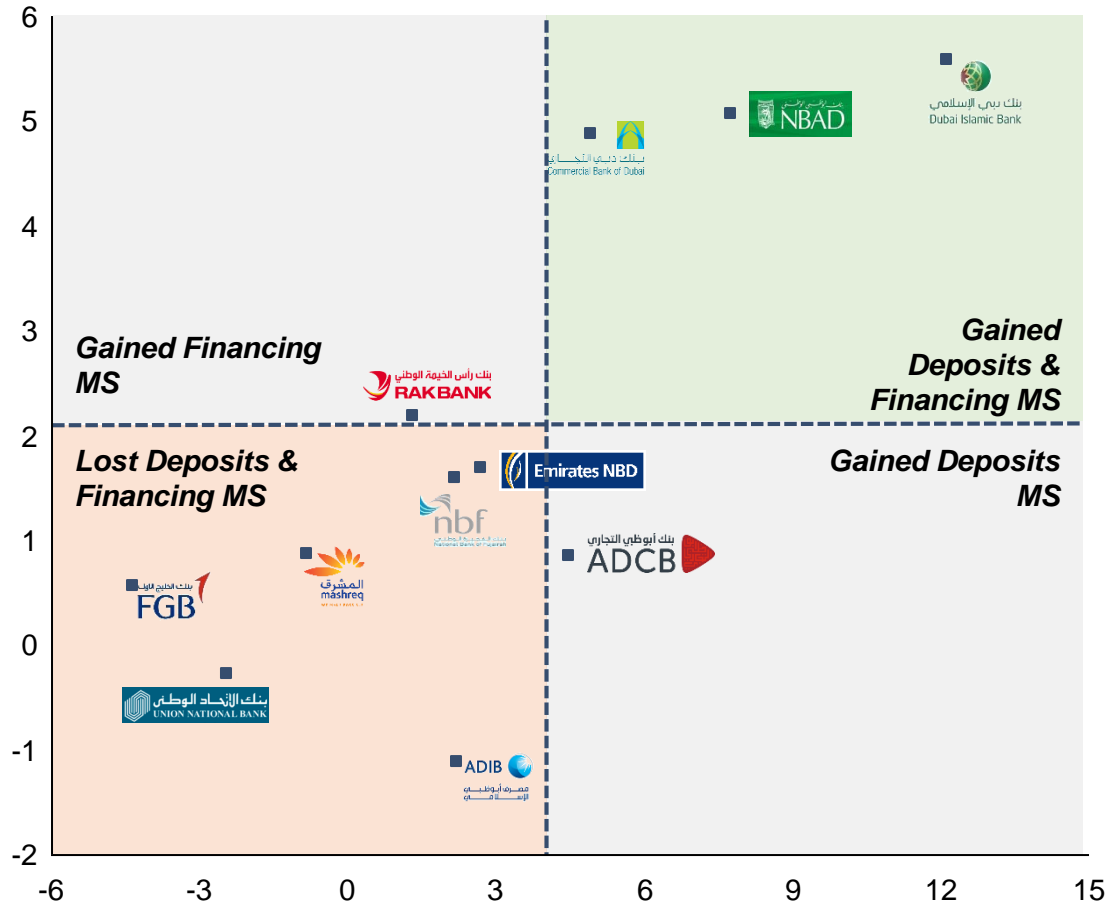
Loans to Deposits Ratio (%)



- Eight of top 11 banks are in the green zone, indicating easing pressure on liquidity
- ADCB increased their liquidity and moved into the green zone
- FGB's LDR increase countered by NBAD's LDR decrease, lessening the impact on movement of First Abu Dhabi Bank (FAB)'s LDR
- Liquidity expected to remain healthy in 2017, particularly for larger banks

# 1 DIB and CBD gained market share in both loans and deposits

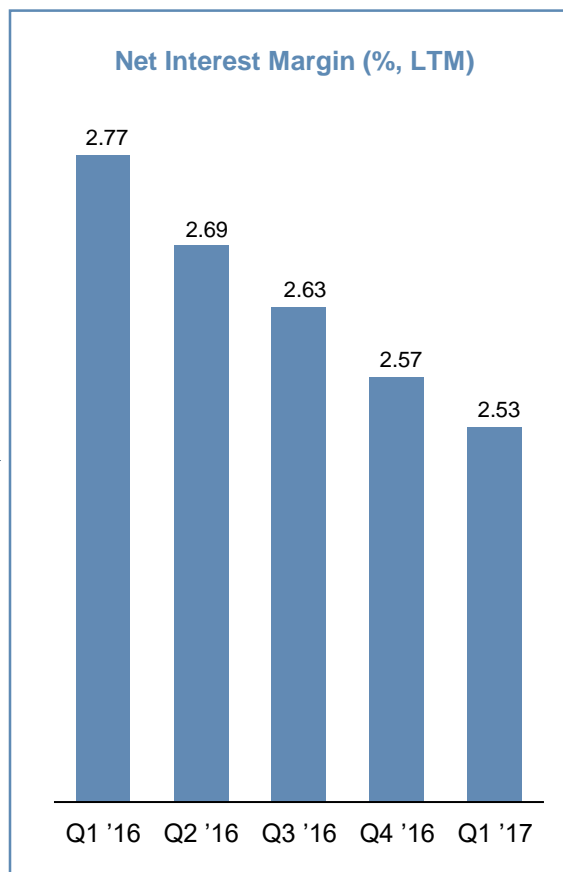
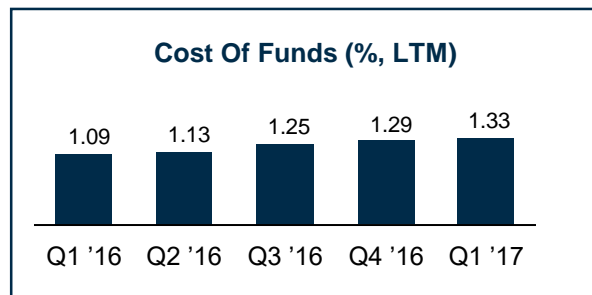
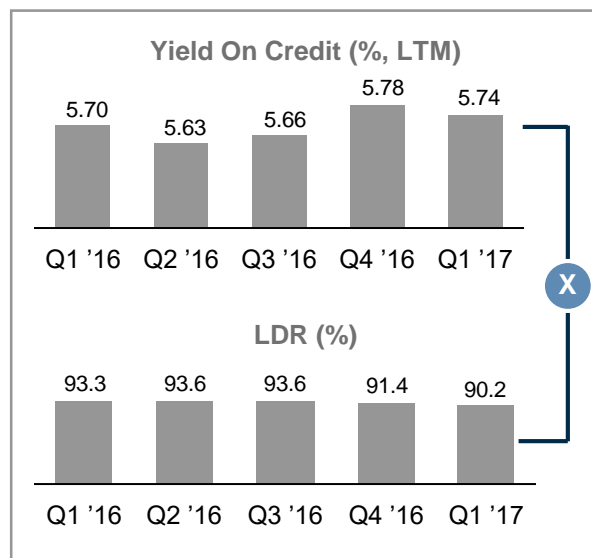
Q1 '17 Loans Growth QoQ (%)



- DIB and CBD grew both deposits and financing market share
- FGB's market share decrease countered by NBAD's market share increase, lessening the impact on movement of First Abu Dhabi Bank (FAB)'s market share
- ENBD, ADIB, Mashreq, NBF, and UNB lost market share in both loans and deposits
- ADCB grew deposits market share but lost financing market share
- RAK marginally grew financing market share but lost deposits market share

Q1 '17 Deposits Growth QoQ (%)

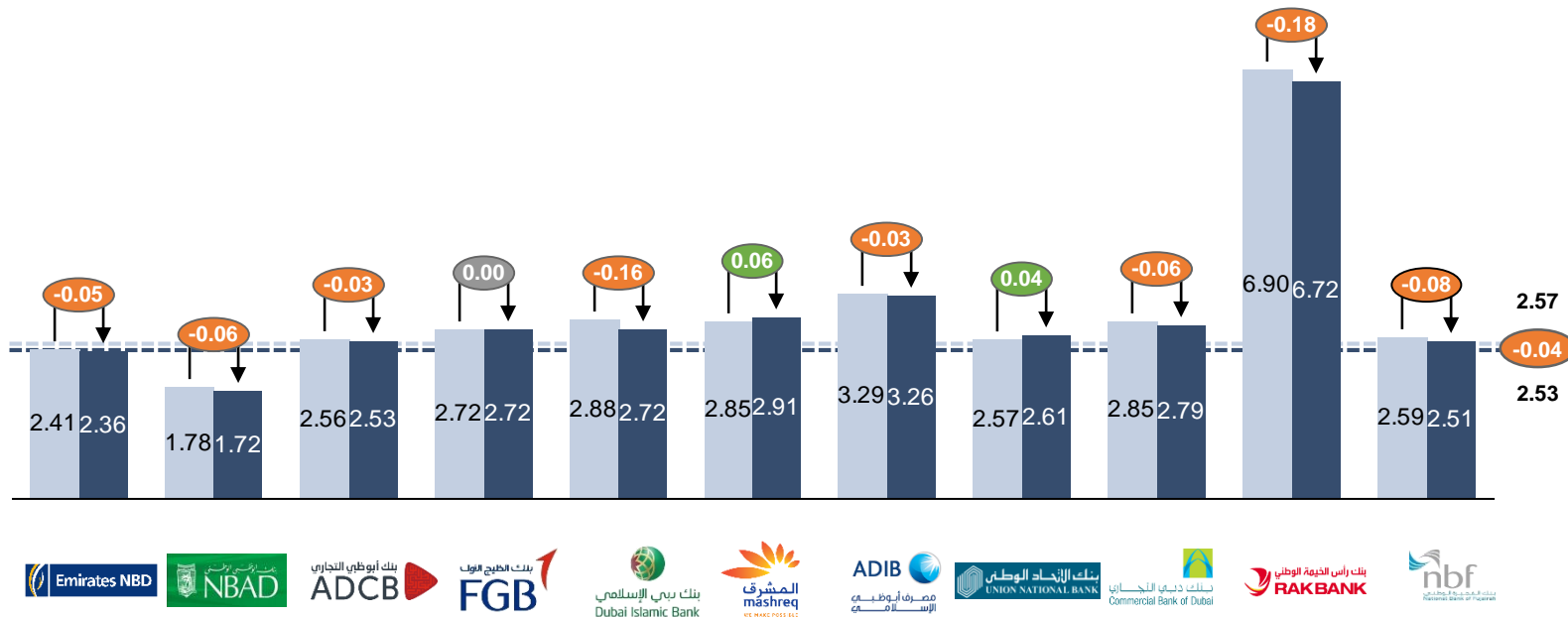
### 3 On-going NIM compression driven by decrease in LDR and yield on credit plus rise in cost of funds



- NIM decreased by ~4 bps this quarter compared to last quarter, with an overall decrease of ~24 bps since Q1 '16
- Cost of funds increased further by ~4 bps this quarter compared to last quarter, with an overall increase of ~24 bps since Q1 '16
- LDR decreased by 1.2 percentage points this quarter compared to last quarter as deposits outgrew loans, with an overall decrease of 3.1 percentage points since Q1'16
- Yield on credit decreased by ~4 bps this quarter compared to last quarter after increasing throughout the second half of 2016 with rate of decline expected to stabilize towards end of year

### 3 Eight banks saw decline in NIM

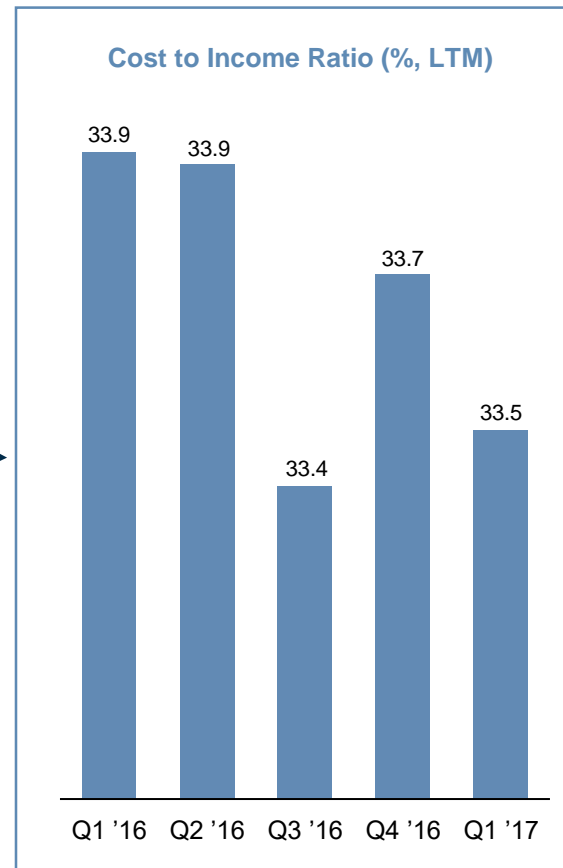
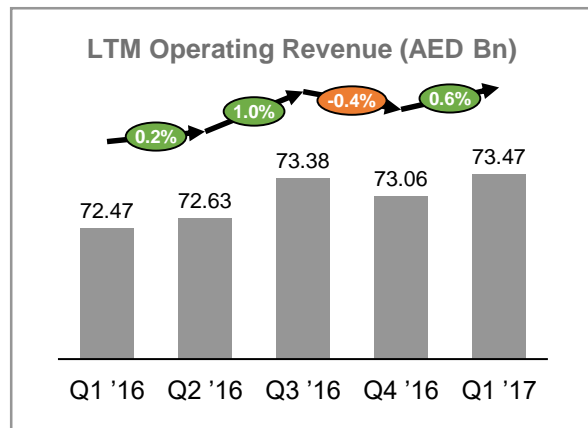
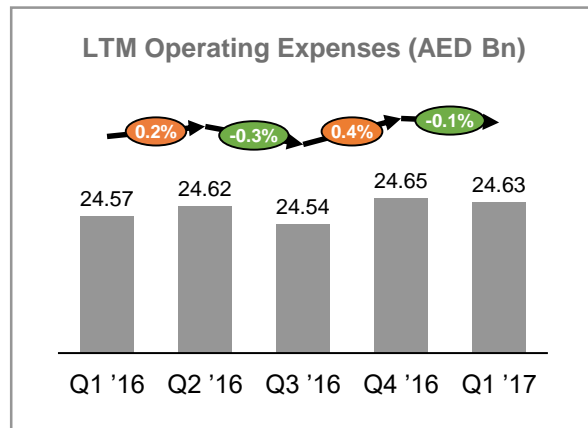
Net Interest Margin (%)



- Eight of top 11 banks witnessed a decline in NIM while one remained constant
- Mashreq and UNB were the only banks to witness an increase in NIM



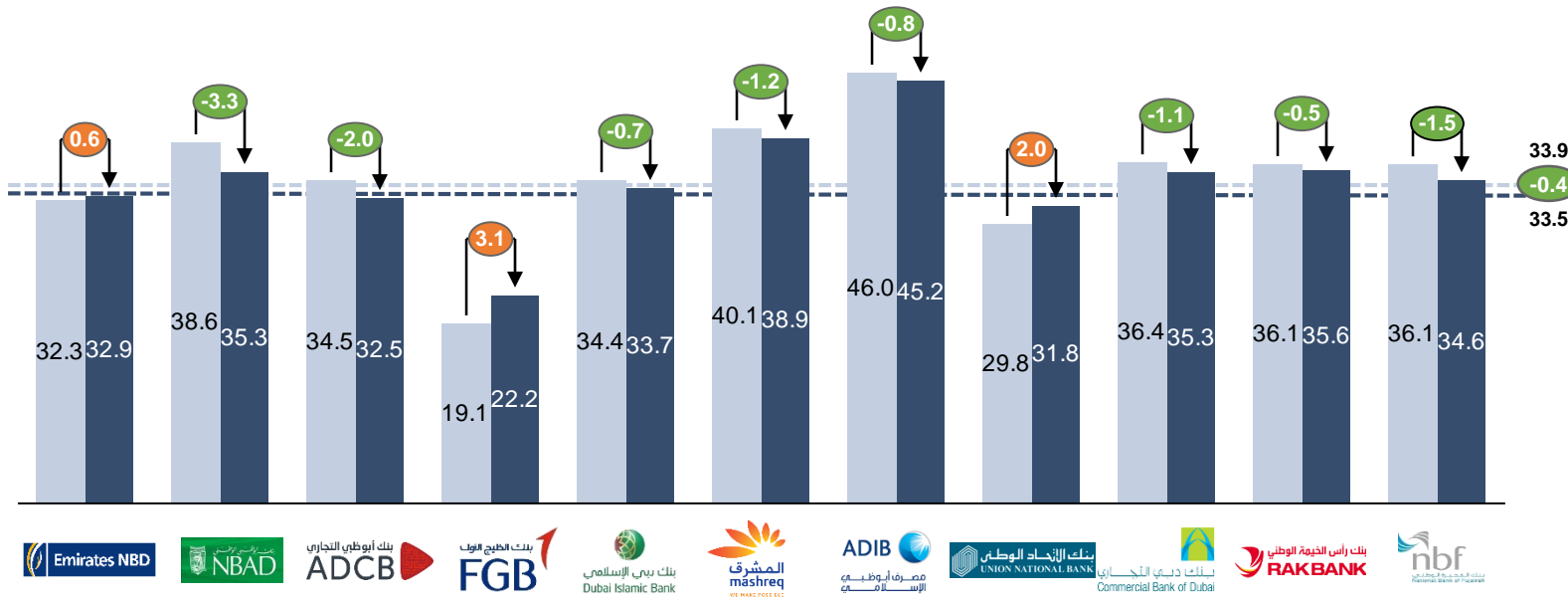
## 4 Cost to income decreased mainly driven by an increase in operating revenue



- C/I Ratio decreased to 33.5% in Q1 '17, lower than its Q1 '16 level of 33.9%
- C/I Ratio decrease driven mainly by an increase in operating revenue and to a lesser extent a decrease in operating expenses
- Reduction in C/I Ratio gives banks head room to selectively invest in future growth opportunities – expected to increase for some banks towards end of 2017

# 4 Most banks improved their C/I

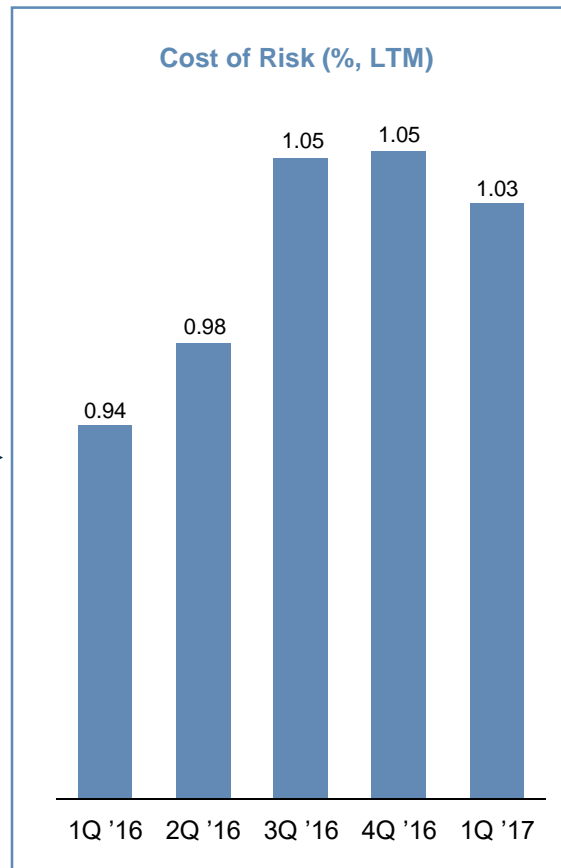
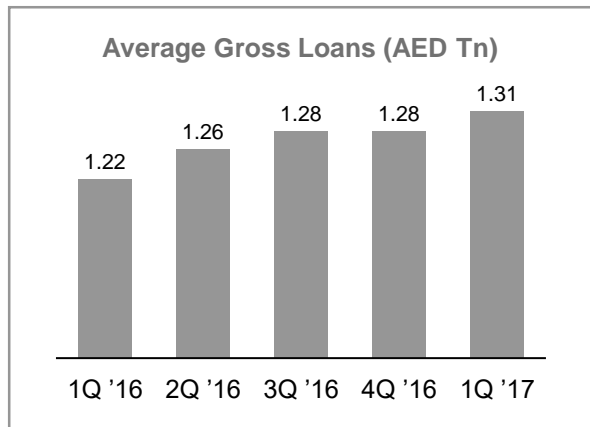
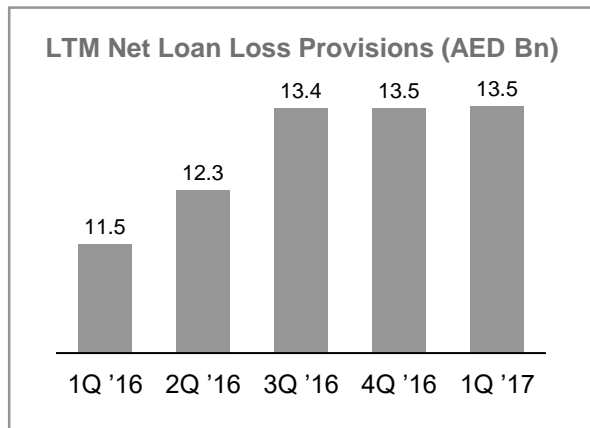
Cost to Income Ratio (%)



- Eight of top 11 banks decreased their C/I ratio compared to Q4 '16, based on prudent cost management and by delaying investments and hiring
- FGB's C/I Ratio increase countered by NBAD's C/I Ratio decrease, lessening the impact on movement of First Abu Dhabi Bank (FAB)'s C/I Ratio

● Improved   
 ● Stable   
 ● Worsened  
■ Q1'16   
 ■ Q1'17   
 ■ Q1'16 Av   
 ■ Q1'17 Av

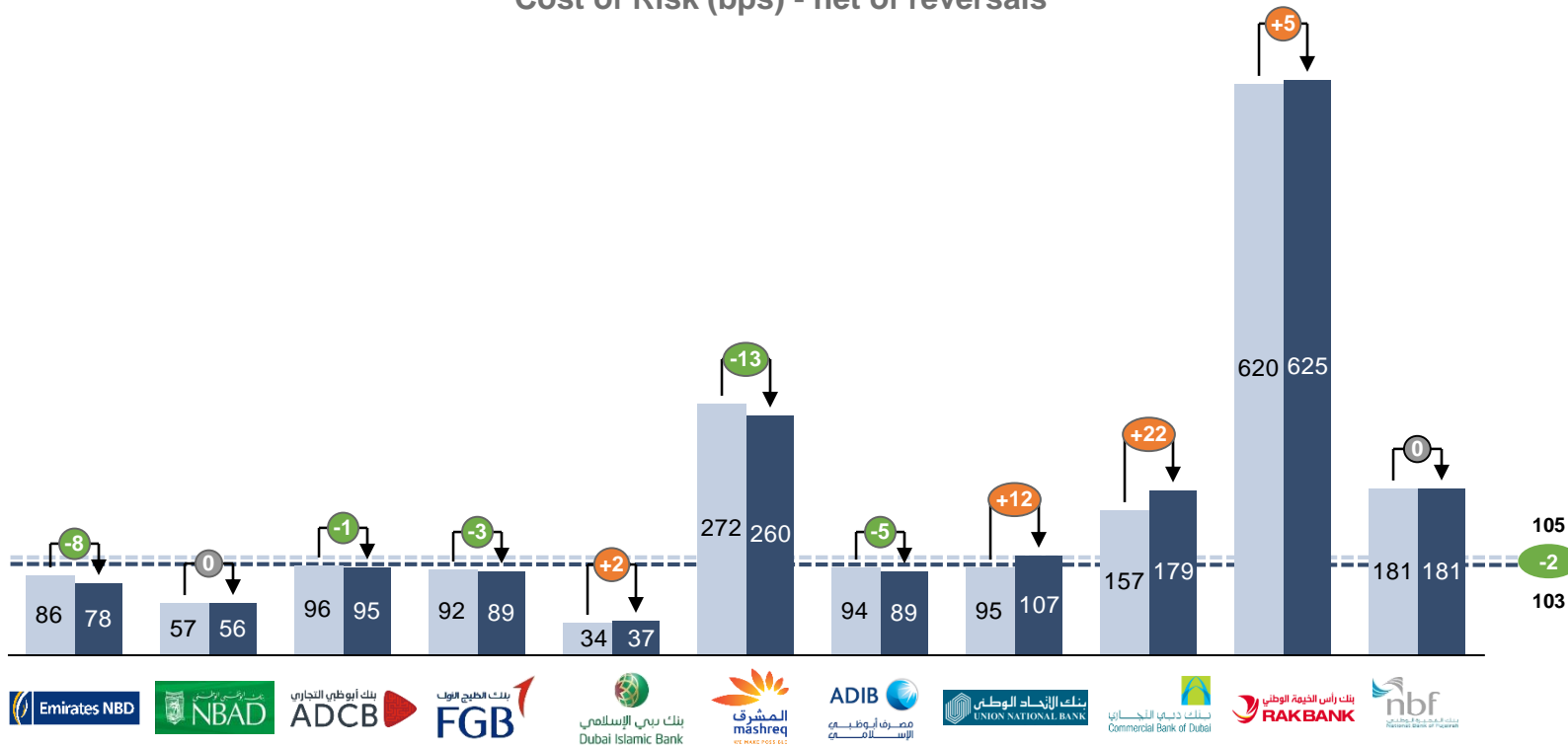
# 5 Cost of risk decreasing after stabilizing in Q4 '16



- Cost of risk decreased to 1.03% in Q1 '17 after stabilizing in Q4 '16, but remained higher than its Q1 '16 level of 0.94%
- Decrease in cost of risk was driven by growth in gross loans and advances rather than a decrease in net provisions
- Skip cases have declined significantly over last quarter and quality of retail portfolio appears to stabilize

# 5 Banks show mixed results in cost of risk

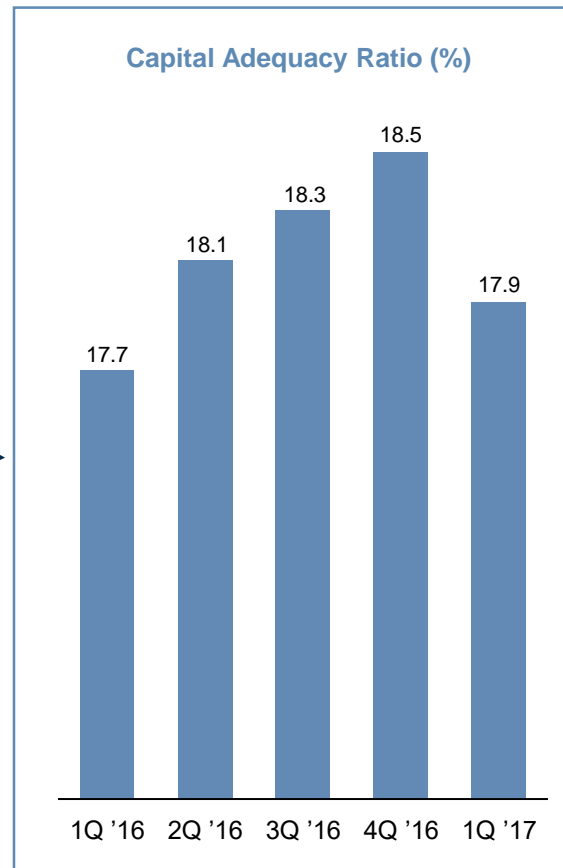
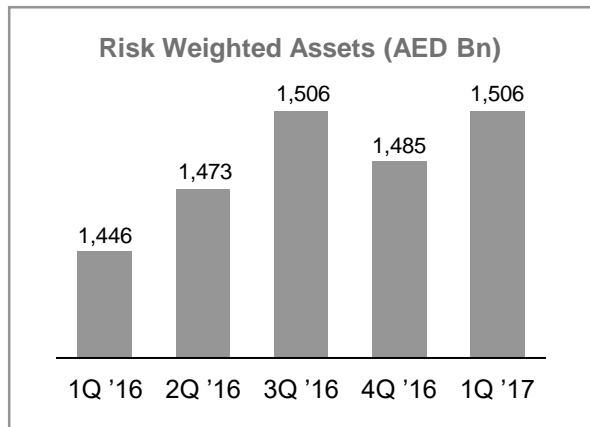
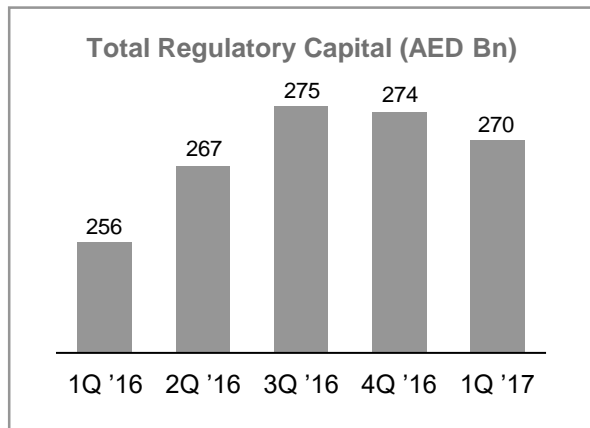
Cost of Risk (bps) - net of reversals



- Five of top 11 banks saw improved Cost of Risk
- Mashreq, ENBD and ADIB witnessed the largest decreases in Cost of Risk
- CBD witnessed a 22 bps increase in Cost of Risk on the back of heavy provisioning in Q1 '17

● Improved   
 ● Stable   
 ● Worsened  
■ Q4'16   
 ■ Q1'17   
 ■ Q4'16 Av   
 ■ Q1'17 Av

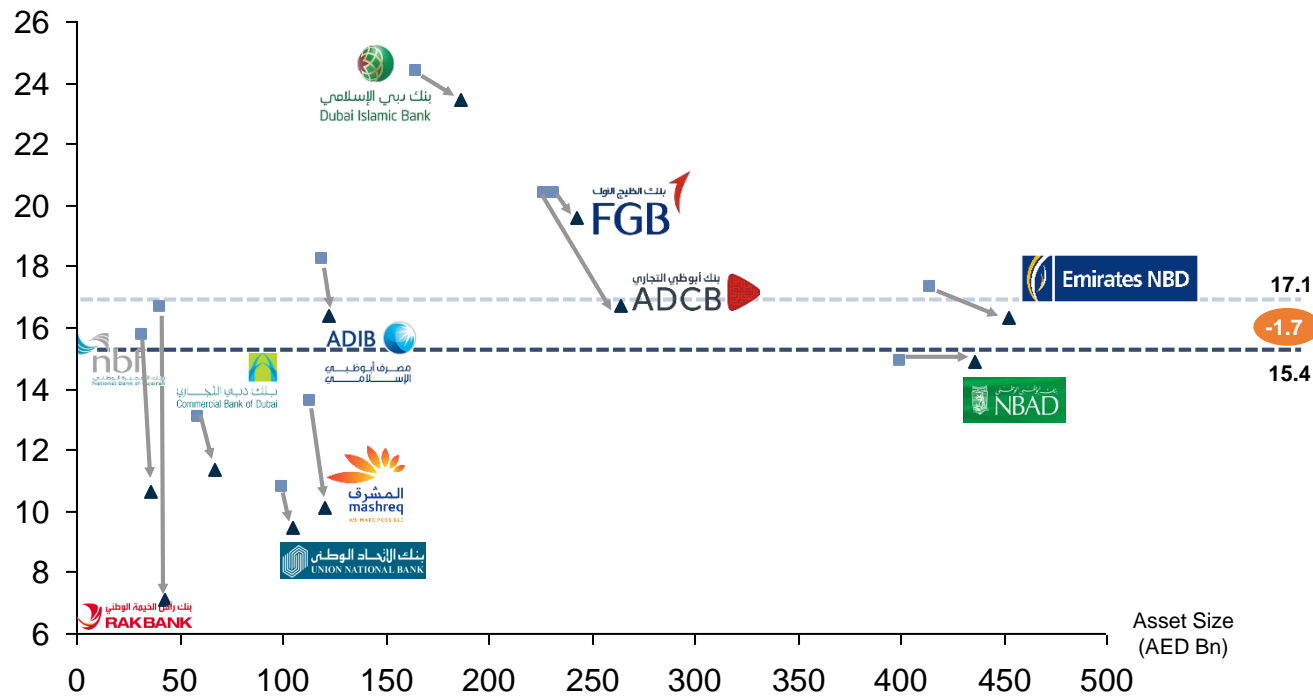
## 6 CAR decreased as a result of equity reduction but remained higher than the Q1 '16 level



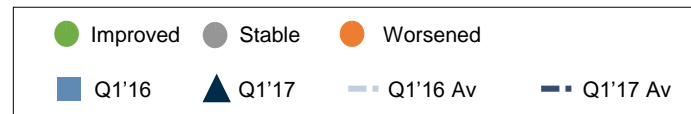
- CAR decreased, but remained higher than Q1 '16 level
- Q1 '17 CAR is largely driven by a reduction of total Regulatory Capital, due to dividend payouts in Q1 '17

# 6 Average ROE decreased compared to last year with most banks showing declines

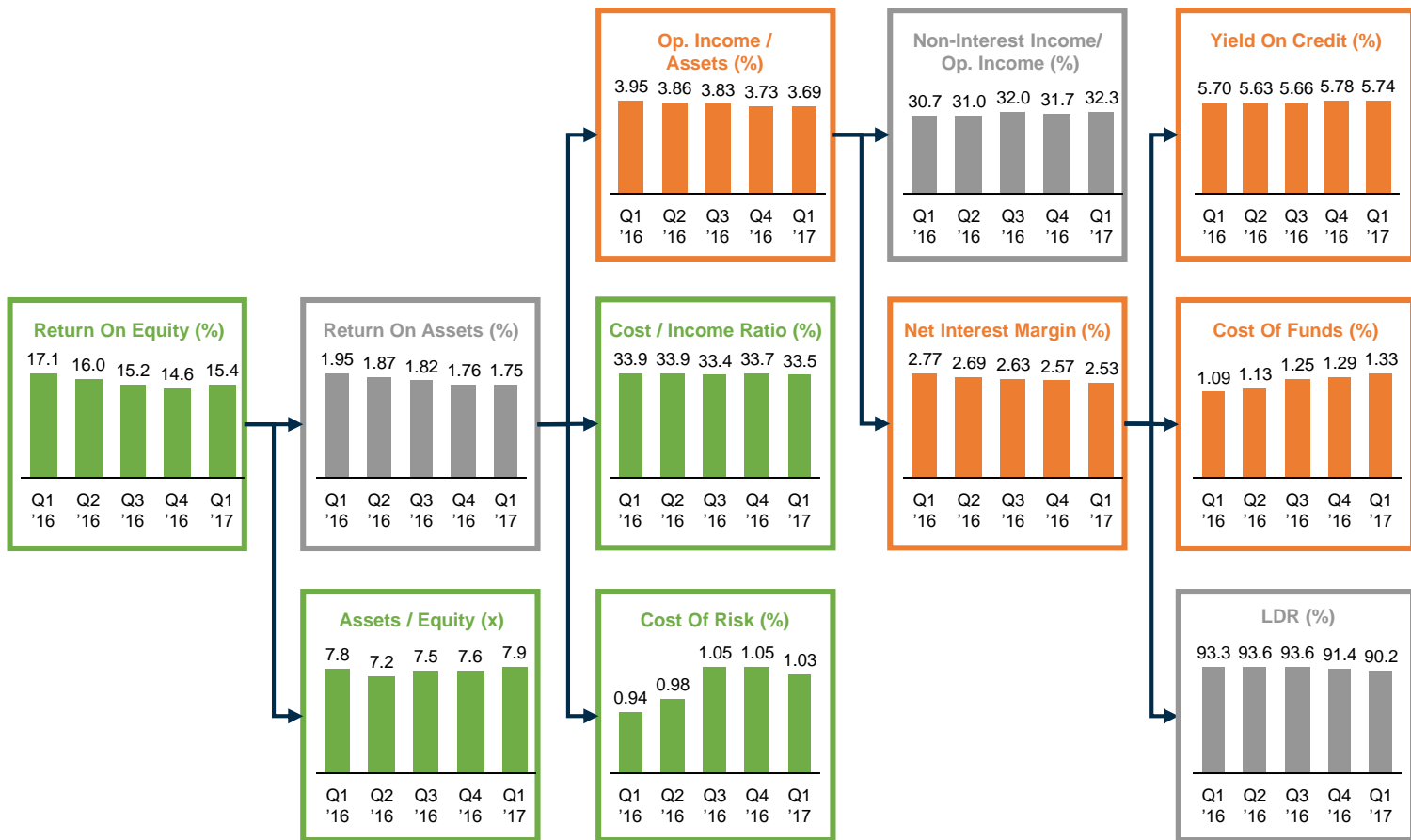
Return on Equity (%)



- Average ROE decreased to 15.4% in Q1'17, from to 17.1% in Q1'16
- Decrease in ROE largely driven by compressed NIMs and increased cost of risk
- Pure Islamic banks continue to outperform their conventional peers



# 6 ROE increased despite slightly declining ROA, due to a decrease in capital



- ROE increased despite slightly declining ROA, due to the reduction in equity on the back of dividends payments in Q1 '17
- Cost of Risk and Cost to Income decreased in Q1 '17
- Further compression in NIM on the back of decreasing LDR and YoC and increasing CoF

# Glossary















# Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		QoQ growth in EOP net loans and advances for the top 11 banks
	Deposits Growth		QoQ growth in EOP customer deposits for the top 11 banks
Liquidity	Loan-to-Deposit Ratio	LDR	Net EOP loans and advances as percent of EOP customer deposits for the top 11 banks
Revenue & Operating Efficiency	Operating Revenue Growth (YoY)		YoY growth in aggregate quarterly operating revenue generated by the top 11 banks
	Operating Income / Assets		LTM operating income / one-year average assets for the top 11 banks
	Non-Interest Income / Operating Income		LTM non-interest income / LTM operating income
	Net Interest Margin	NIM	(Aggregate LTM net interest income) / (one-year average earning assets) Earnings assets are defined as total assets excluding goodwill; intangible assets; and property and equipment
	Yield on Credit	YoC	(LTM gross interest income generated by the top 11 banks) / (one-year average loans & advances)
	Cost of Funds	CoF	(LTM interest expense + LTM capital notes & tier II sukuk interest) / (one-year average interest bearing liabilities + one-year average capital notes & tier I sukuk interest) for top 11 banks
	Cost-to-Income Ratio	C/I	LTM operating expenses as percent of LTM operating income for top 11 banks
Risk	Coverage Ratio		Loan loss reserves as percent of non-performing loans for top 11 banks
	Cost of Risk	CoR	LTM provision expenses net of recoveries / one-year average gross loans
Profitability	Return on Equity	RoE	(LTM net profit attributable to the equity holders of the banks – LTM coupons on capital notes) / (one-year average equity excluding capital notes)
	Return on Assets	RoA	(LTM net profit generated by top 11 banks) / (one-year average assets)
	Return on Risk-Weighted Assets	RoRWA	(LTM net profit generated by top 11 banks) / (one-year average risk-weighted assets)
Capital	Tier I Capital Ratio		(top 11 banks EOP tier I capital) / (EOP risk-weighted assets)
	Capital Adequacy Ratio	CAR	(top 11 banks EOP tier I capital + tier II capital) / (EOP risk-weighted assets)

# Glossary (Cont'd)

Bank	Assets (AED B)	Abbreviation	Logo
Emirates NBD	452.0	ENBD	
National Bank of Abu Dhabi	436.0	NBAD	
Abu Dhabi Commercial Bank	263.7	ADCB	
First Gulf Bank	242.5	FGB	
Dubai Islamic Bank	186.9	DIB	
Mashreq Bank	120.7	Mashreq	
Abu Dhabi Islamic Bank	122.5	ADIB	
Union National Bank	104.6	UNB	
Commercial Bank of Dubai	66.8	CBD	
National Bank of Ras Al-Khaimah	42.9	RAK	
National Bank of Fujairah	35.8	NBF	