



UAE Banking Pulse Quarter 4, 2017



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q4 '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: Decrease in ROE due to an increase in cost of risk and cost to income ratio

● Improved ● Stable ● Worsened

	Metric	Q3 '17	Q4 '17	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Key Trends This Quarter
Size	Loans and Advances Growth (QoQ)	1.26%	0.22%						1 Overall, deposits grew more than L&A, hence the decrease in LDR in Q4 '17
	Deposits Growth (QoQ)	0.61%	2.47%						
Liquidity	Loan-to-Deposit Ratio (LDR)	91.2%	89.2%						
Income & Operating Efficiency	Operating Income Growth (QoQ)	1.92%	3.46%						2 Operating income growth increased largely due to an increase in non-interest income
	Operating Income / Assets	3.65%	3.69%						
	Non-Interest Income / Operating Income	30.5%	31.0%						
	Yield on Credit (YoC)	6.02%	6.12%						3 NIM increased on the back of a large increase in yield on credit despite a dip in LDR
	Cost of Funds (CoF)	1.43%	1.43%						
	Net Interest Margin (NIM)	2.58%	2.59%						
	Cost-to-Income Ratio (C/I)	32.7%	34.2%						4 C/I ratio increased significantly, breaking the downward trend
Risk	Coverage Ratio	114%	115%						
	Cost of Risk (CoR)	0.93%	1.04%						5 Cost of risk has jumped, due to increased loan loss provisions
Profitability	Return on Equity (RoE)	15.1%	14.3%						6 ROE and ROA have both decreased due to an increase in cost of risk and operating expenses
	Return on Assets (RoA)	1.83%	1.76%						
	Return on Risk-Weighted Assets (RoRWA)	2.41%	2.35%						
Capital	Capital Adequacy Ratio (CAR)	18.0%	17.9%						

Note 1: QoQ stand for quarter over quarter

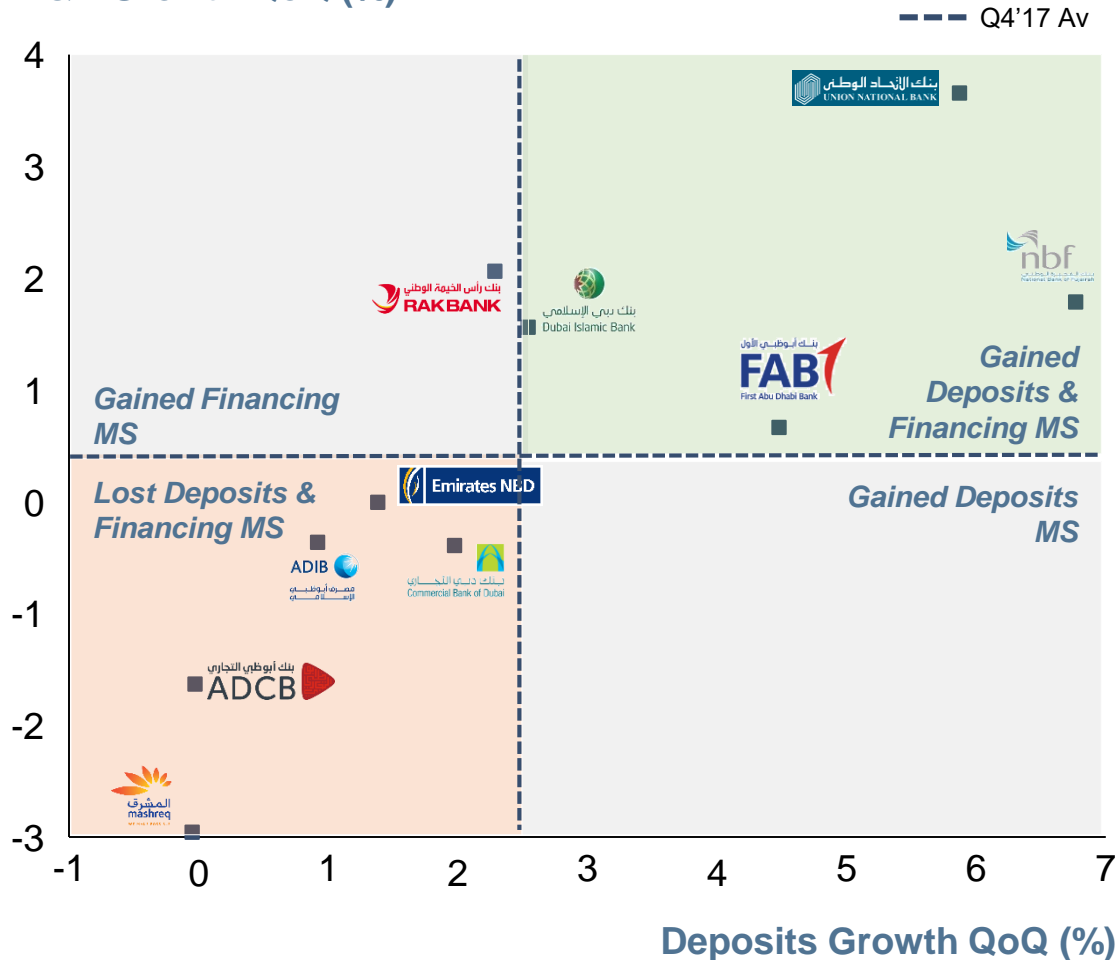
Note 2: Growth in loans & advances and deposits was presented QoQ instead of YoY

Note 3: Quarterly income was used in the calculation of operating income growth

Source: Financial statements, Investor presentations, A&M analysis

1 Overall, deposits grew at a faster rate than loans and advances, decreasing LDR to 89.2% in Q4 '17

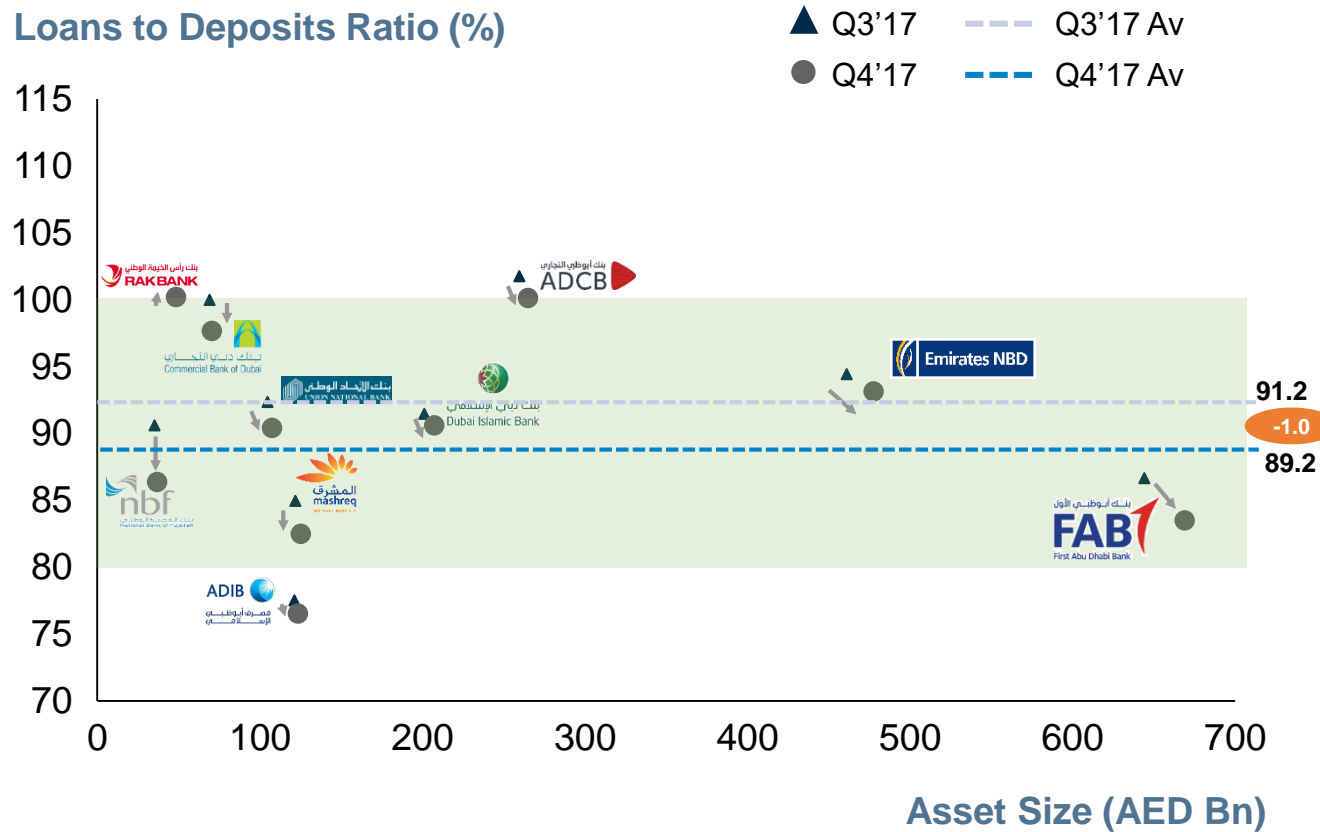
L&A Growth QoQ (%)



- Overall L&A grew at 0.22% while deposits grew at 2.47%
- Five of the top 10 grew their L&A market share and four banks grew their deposits market share
- FAB, DIB, UNB and NBF outgrew the market in both L&A and deposits
- Emirates NBD, Mashreq, ADCB, ADIB and CBD lost deposits and financing market share in Q4 with Mashreq losing significant loan income

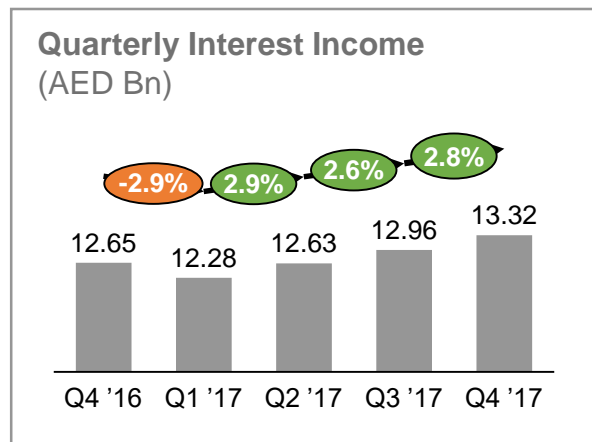
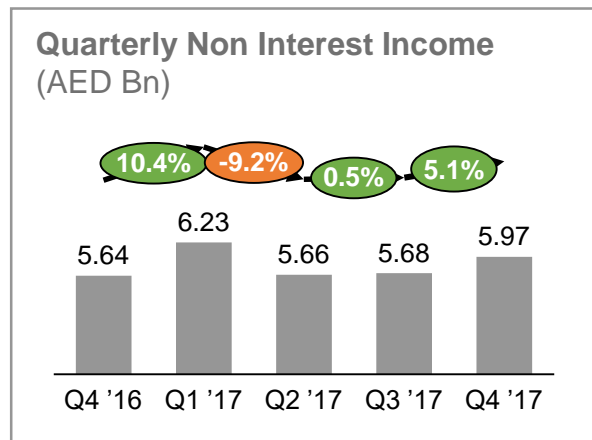
1 Overall, LDR decreased with nine of the top 10 in the green zone

Loans to Deposits Ratio (%)

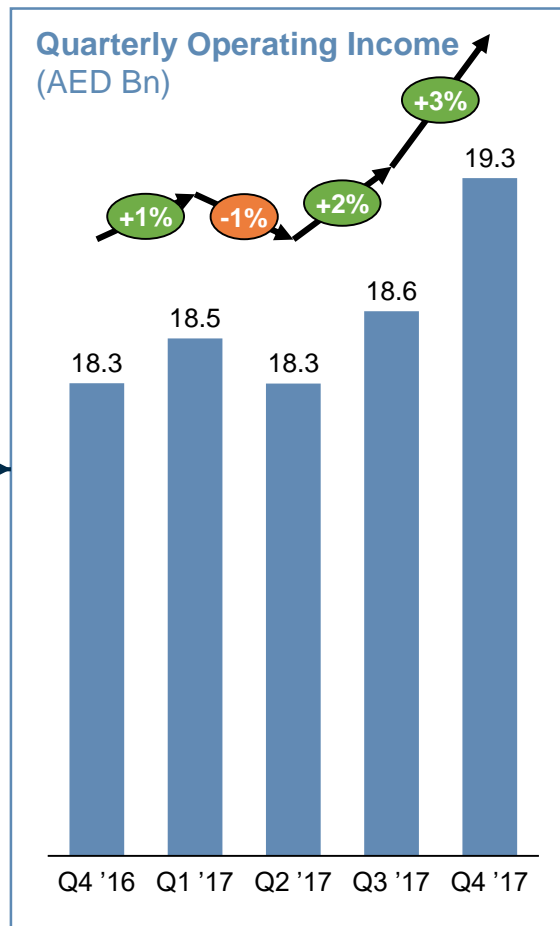


- LDR of nine of the top 10 decreased
- Nine of the top 10 are in the green zone
- Liquidity expected to remain healthy in 2018, with LDR decreasing to 89.2%

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

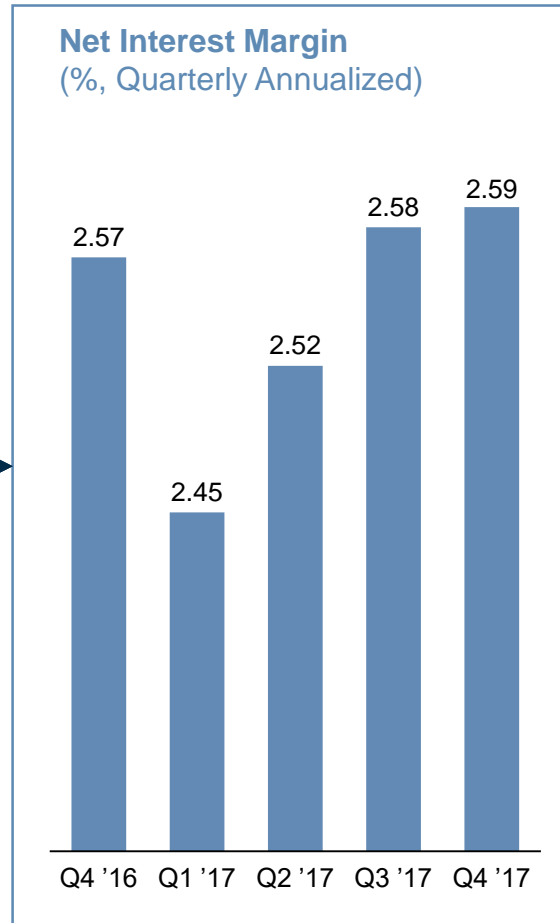
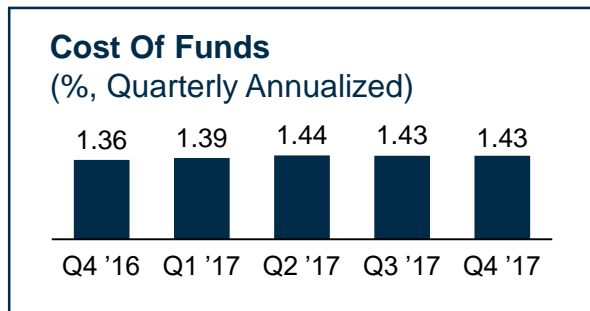
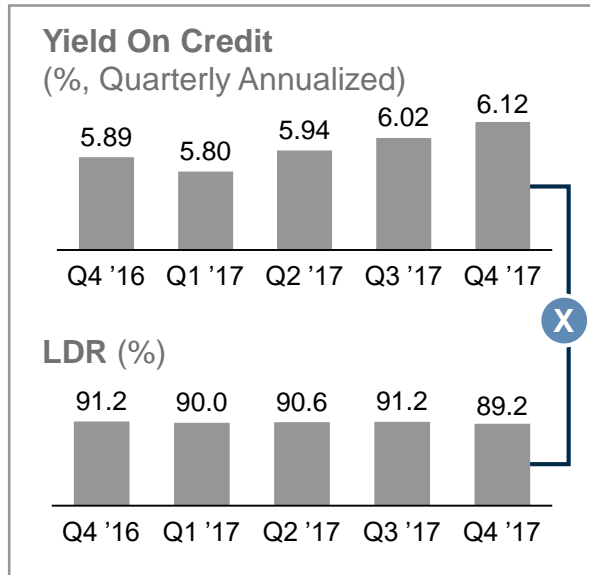


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- Large increase in overall quarterly operating income due to an increase in non interest income driven from fees and commissions in FAB and Mashreq
- Seven banks increased their operating income, while UNB, CBD and RAK's decreased

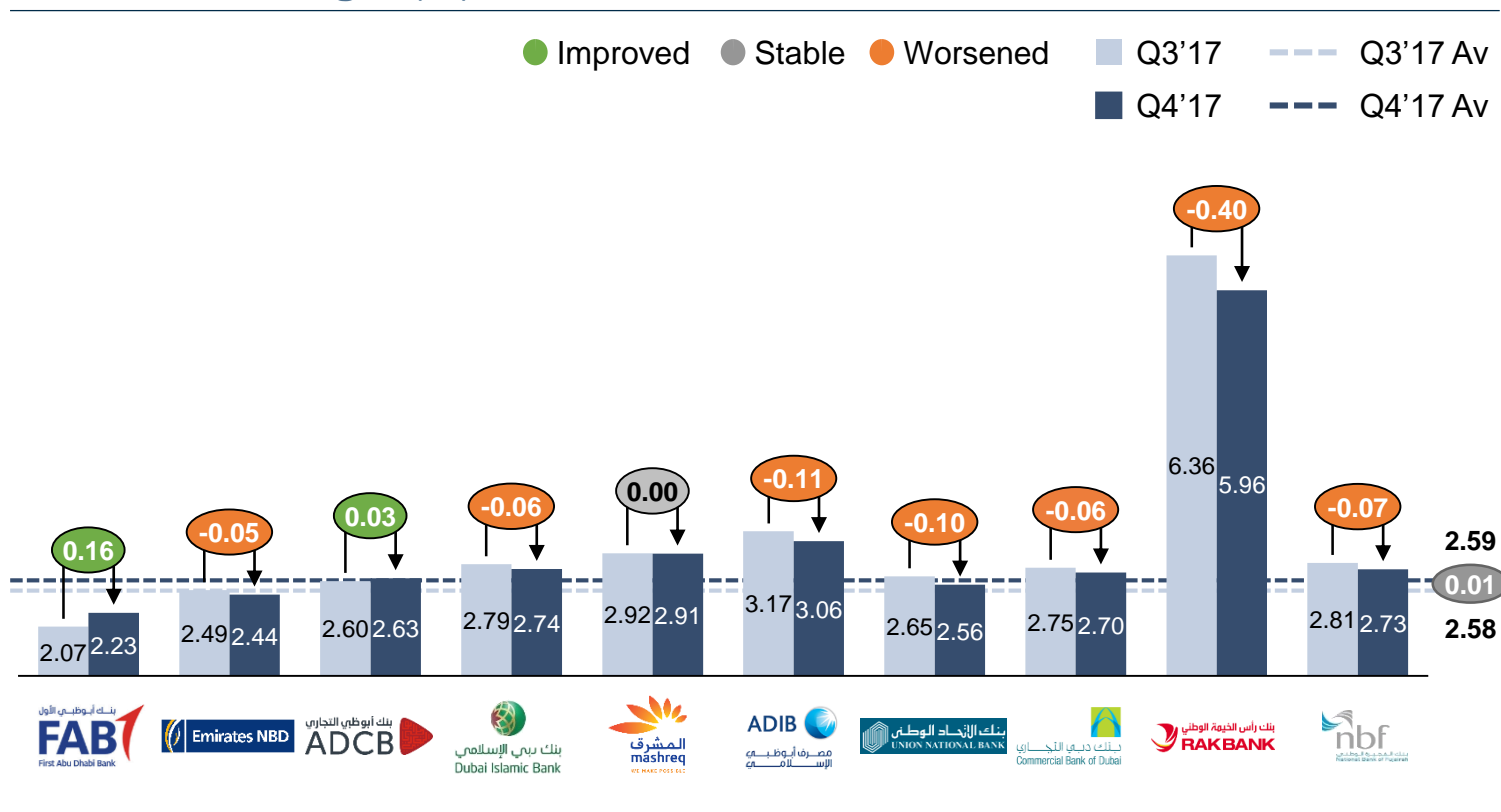
3 NIM was relatively stable this quarter with overall yield on credit offset by decreases in LDR



- NIM increased by ~1 bps this quarter
- Yield on credit increased by ~10 bps this quarter compared to last quarter due to the recent rise in interest rates
- LDR offset the increase in yield on credit as deposits increased more than loans issued
- Cost of funds remained steady

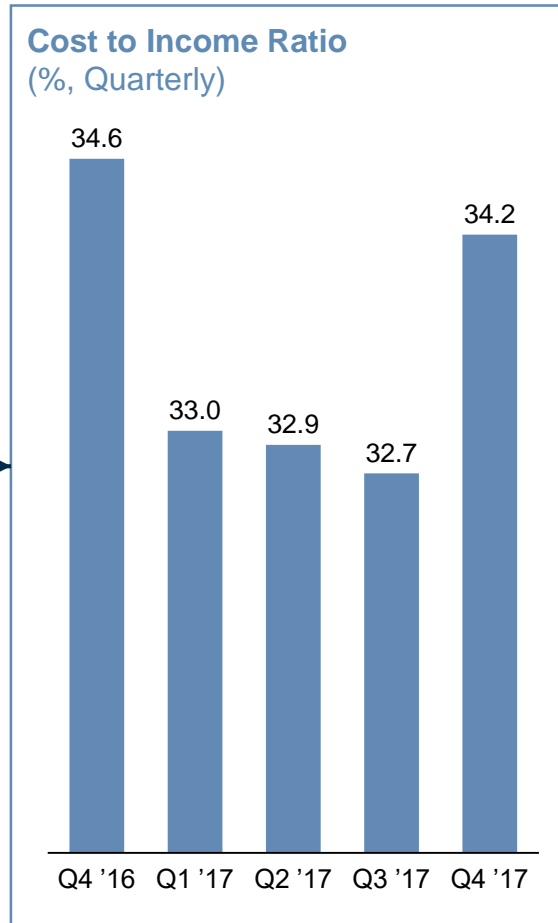
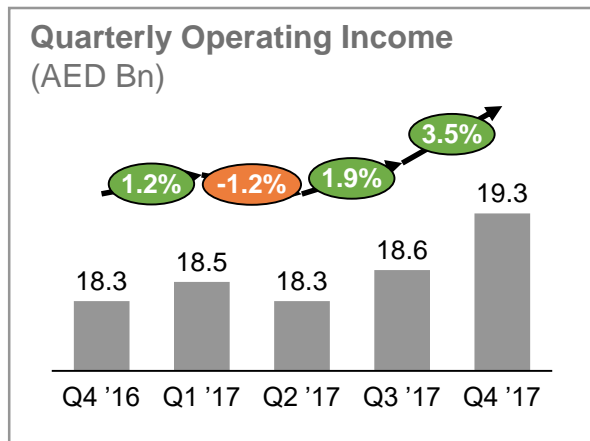
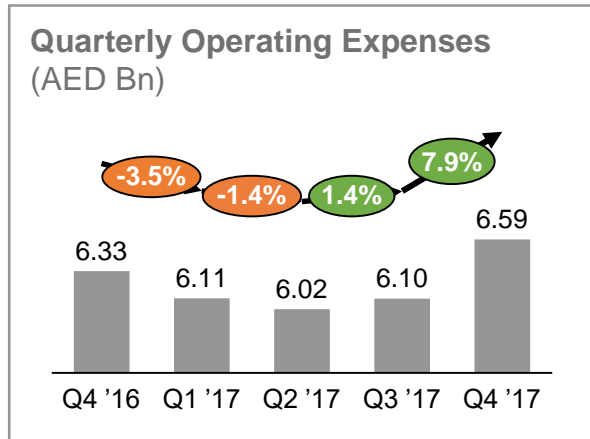
3 NIM for seven of the top banks worsened, yet market was stabilized by FAB's NIM increase

Net Interest Margin (%)



- Seven of the top 10 witnessed a decrease in NIM
- FAB was the only bank to witness significant NIM expansion, contrary to their reports. This is due to our exclusion of non-trading investments for consistency

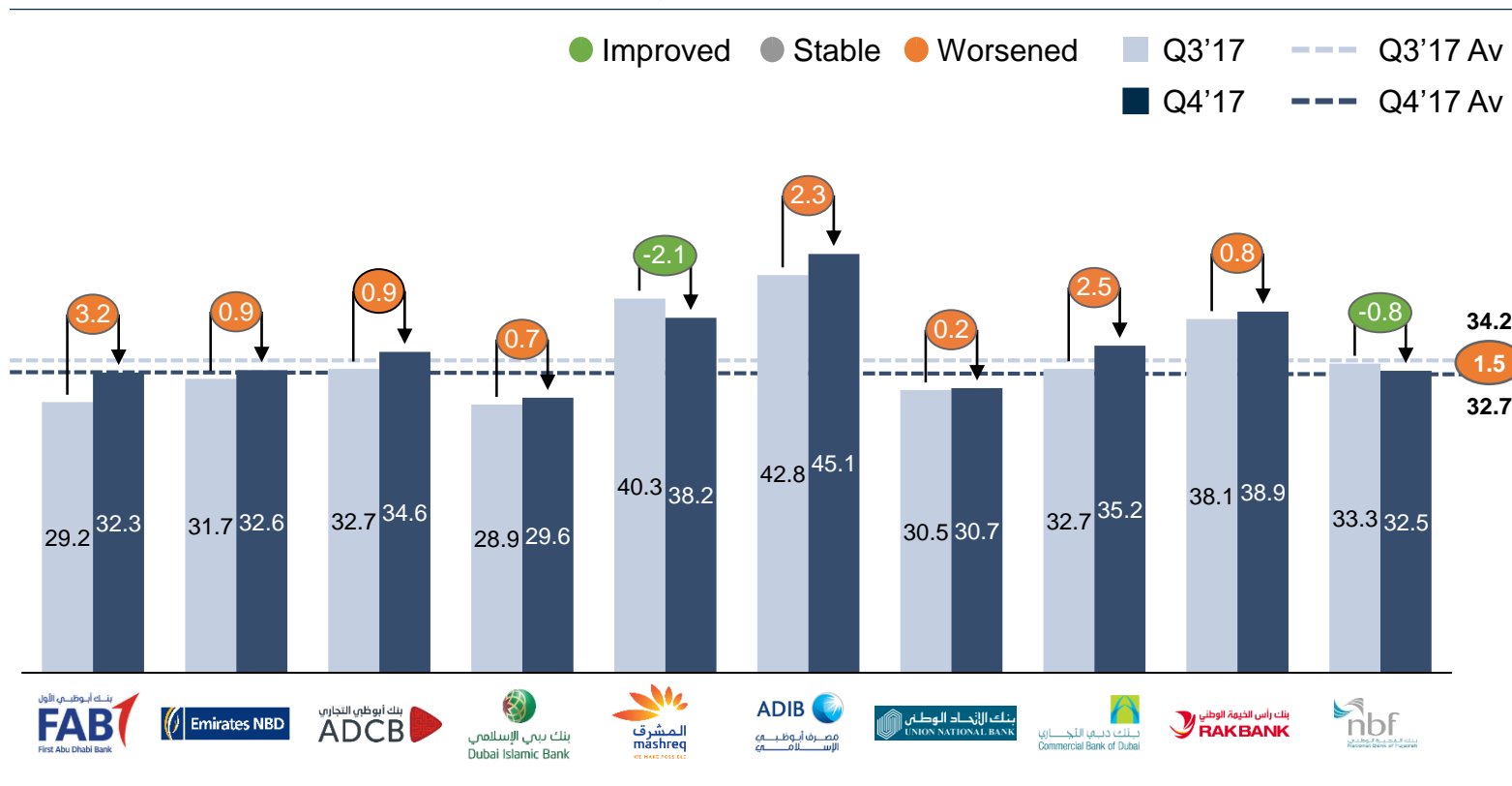
4 Cost to income ratio increased significantly due to an increase in operating expenses



- C/I ratio increased driven by an increase in operating expenses, despite a significant increase in operating income
- Largest increase in operating expenses came from ENBD, ADCB and DIB

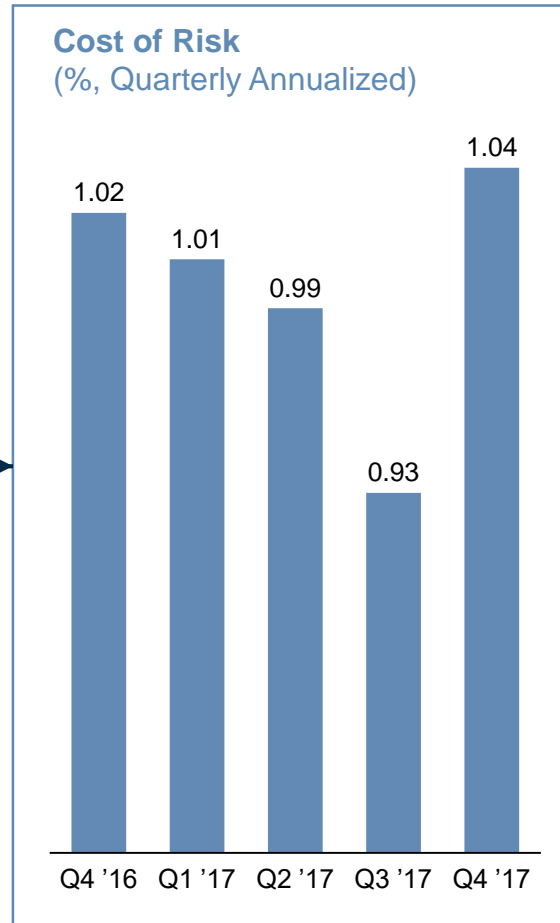
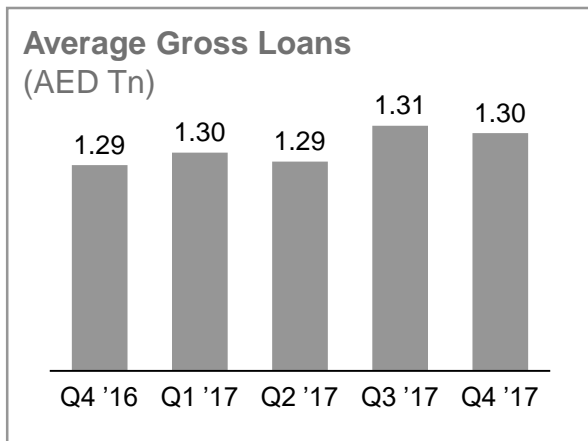
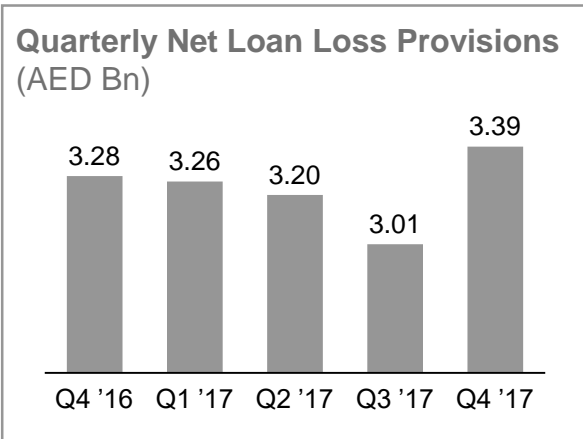
4 Eight of the top 10 increased their C/I ratio

Cost to Income Ratio (% , Quarterly)



- Eight of the top 10 increased their C/I ratio
- This was largely driven by an increase in G&A despite significant income increases
- The increase in operating costs is quite usual for the final quarter as leftover budget is usually spent

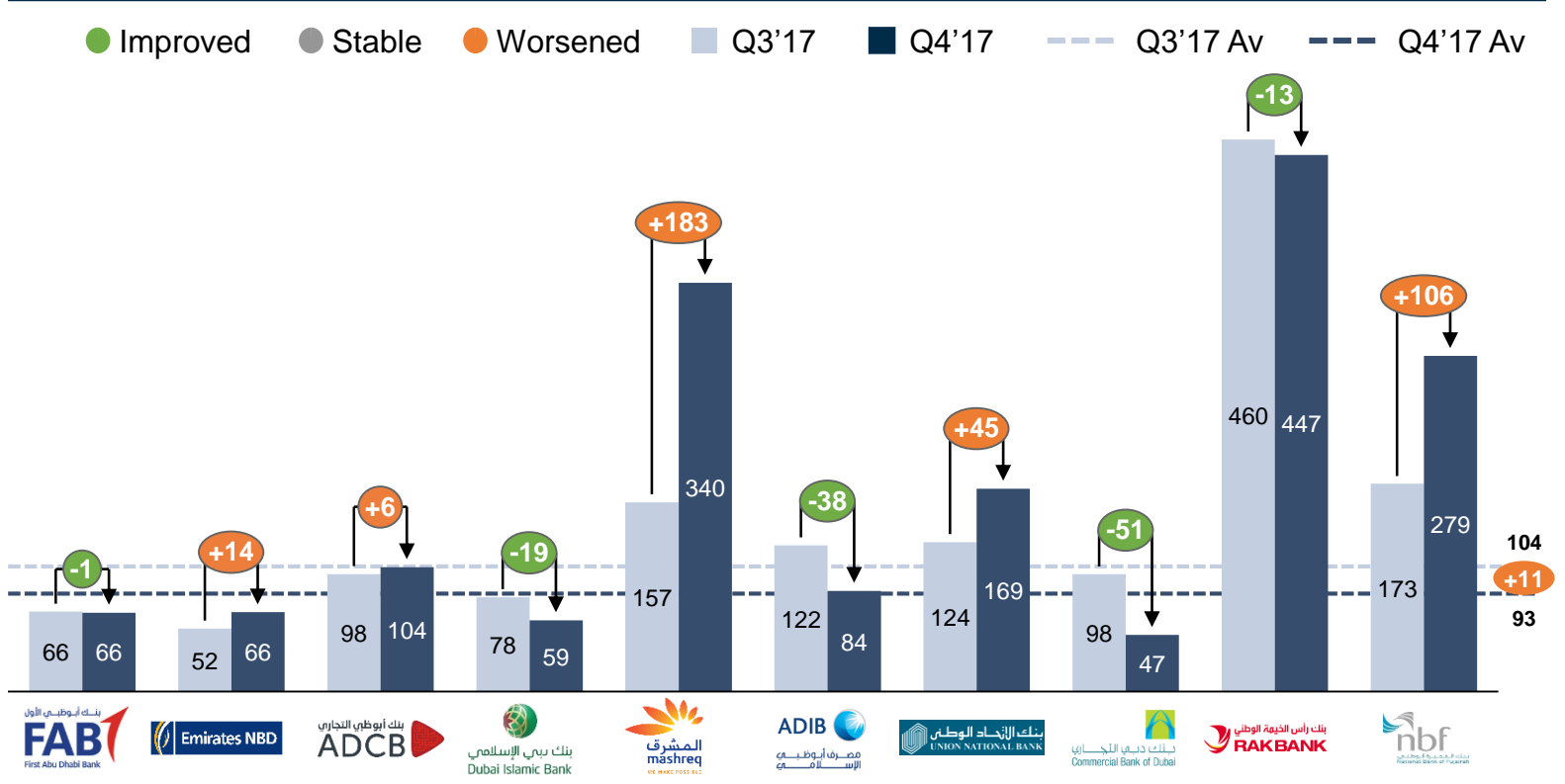
5 Cost of risk increased significantly due increases in net loan loss provisions



- Cost of risk jumped to 1.04% in Q4 '17, breaking the downward trend that started in Q4 '16
- Increase in cost of risk was driven by significant increases in provisioning

5 The overall cost of risk has increased due to increases in allowances for impairment

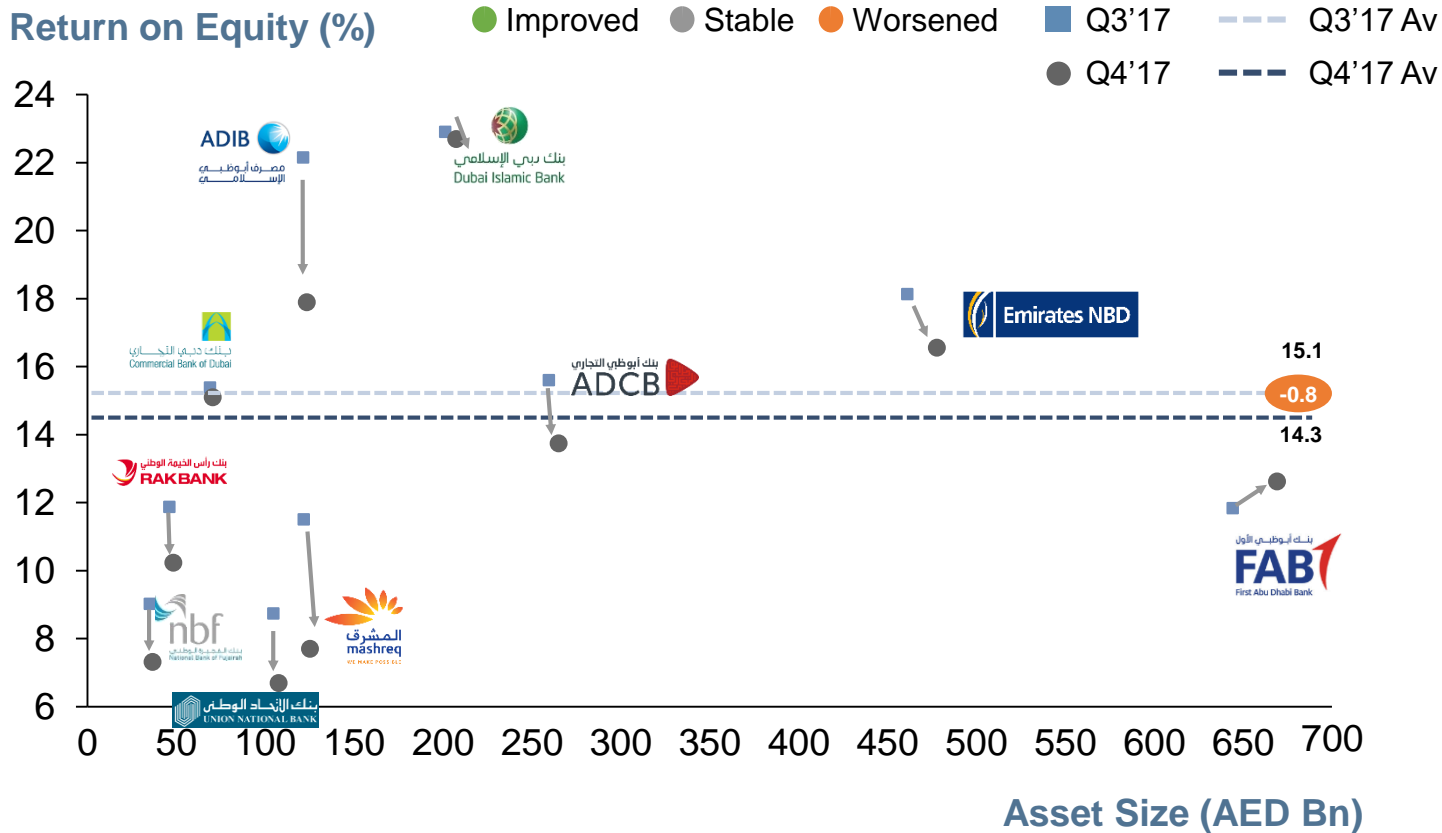
Cost of Risk (bps) - net of reversals



- Half of the top 10 saw worsened costs of risk
- Mashreq, UNB and NBF witnessed the largest increases due to increases in allowances for impairment
- CBD has decreased its cost of risk due to a significant increase in recoveries in Q4 '17

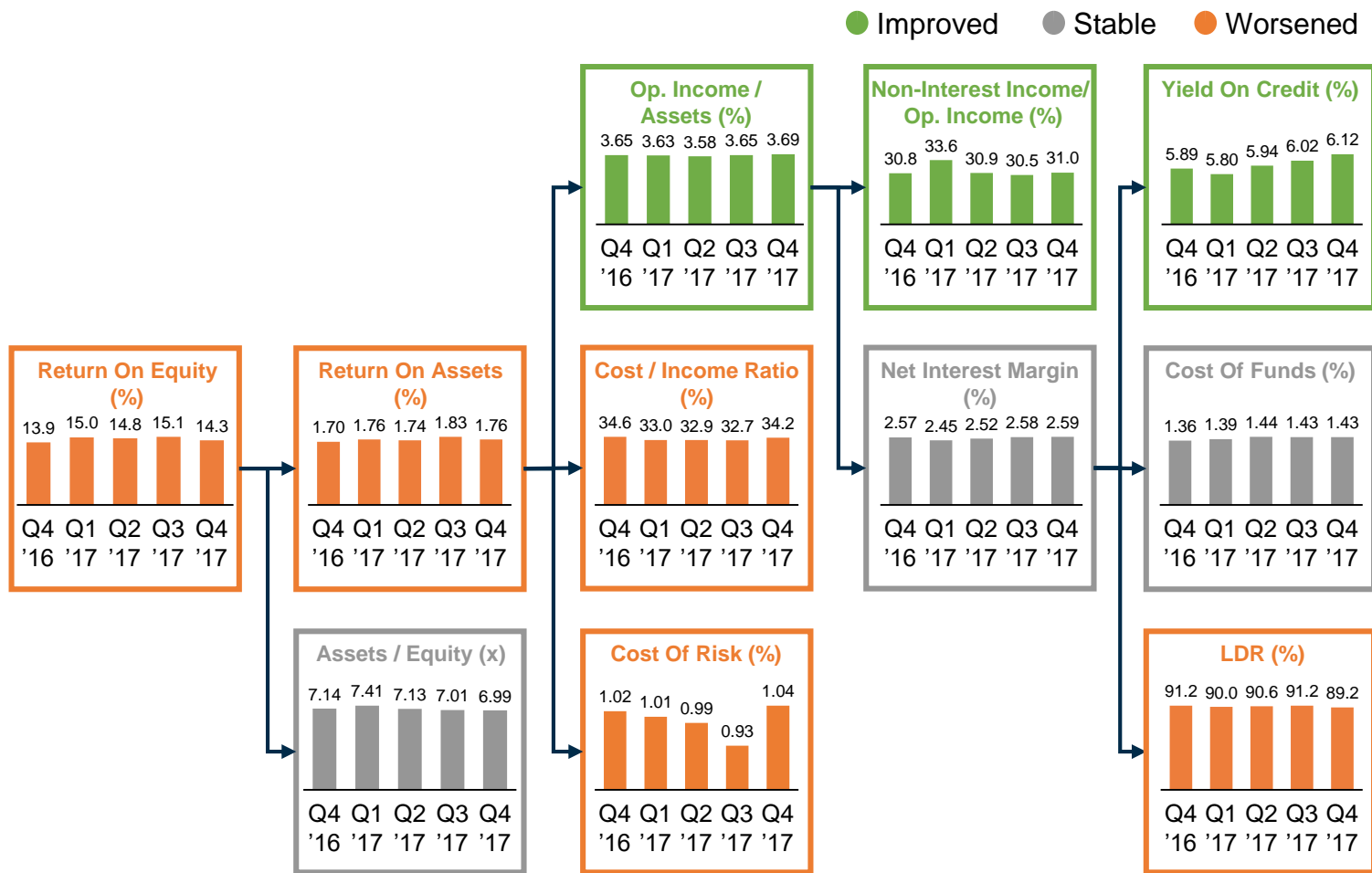


6 ROE has decreased for 9 out of the 10 banks



- Average ROE decreased to 14.3% in Q4'17, from 15.1% in Q3'17
- FAB's increase in ROE has stabilized the rest of the market

6 ROE decreased due to a lower ROA caused by an increase in cost of risk and cost to income ratio



- ROE decreased due to a significant increase in cost of risk and cost to income ratio, despite an increase in operating income to assets ratio
- Operating income increased due to an increase in non-interest income
- Net interest margin remained stable in Q4

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	669.0	FAB	
Emirates NBD	477.7	ENBD	
Abu Dhabi Commercial Bank	265.0	ADCB	
Dubai Islamic Bank	207.3	DIB	
Mashreq Bank	125.1	Mashreq	
Abu Dhabi Islamic Bank	123.3	ADIB	
Union National Bank	107.5	UNB	
Commercial Bank of Dubai	70.4	CBD	
National Bank of Ras Al-Khaimah	48.4	RAK	
National Bank of Fujairah	36.7	NBF	