



UAE Banking Pulse

Quarter 3, 2018



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q3 '18 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.

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.

Authors



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Lead Author, Managing Director

- 15+ years of experience in management consulting and industry
- Focuses on strategic and performance-related issues in financial institutions, sovereign wealth funds, family businesses and real estate
- Worked in the Middle East, Europe and the U.S.



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- 30+ years of experience in banking
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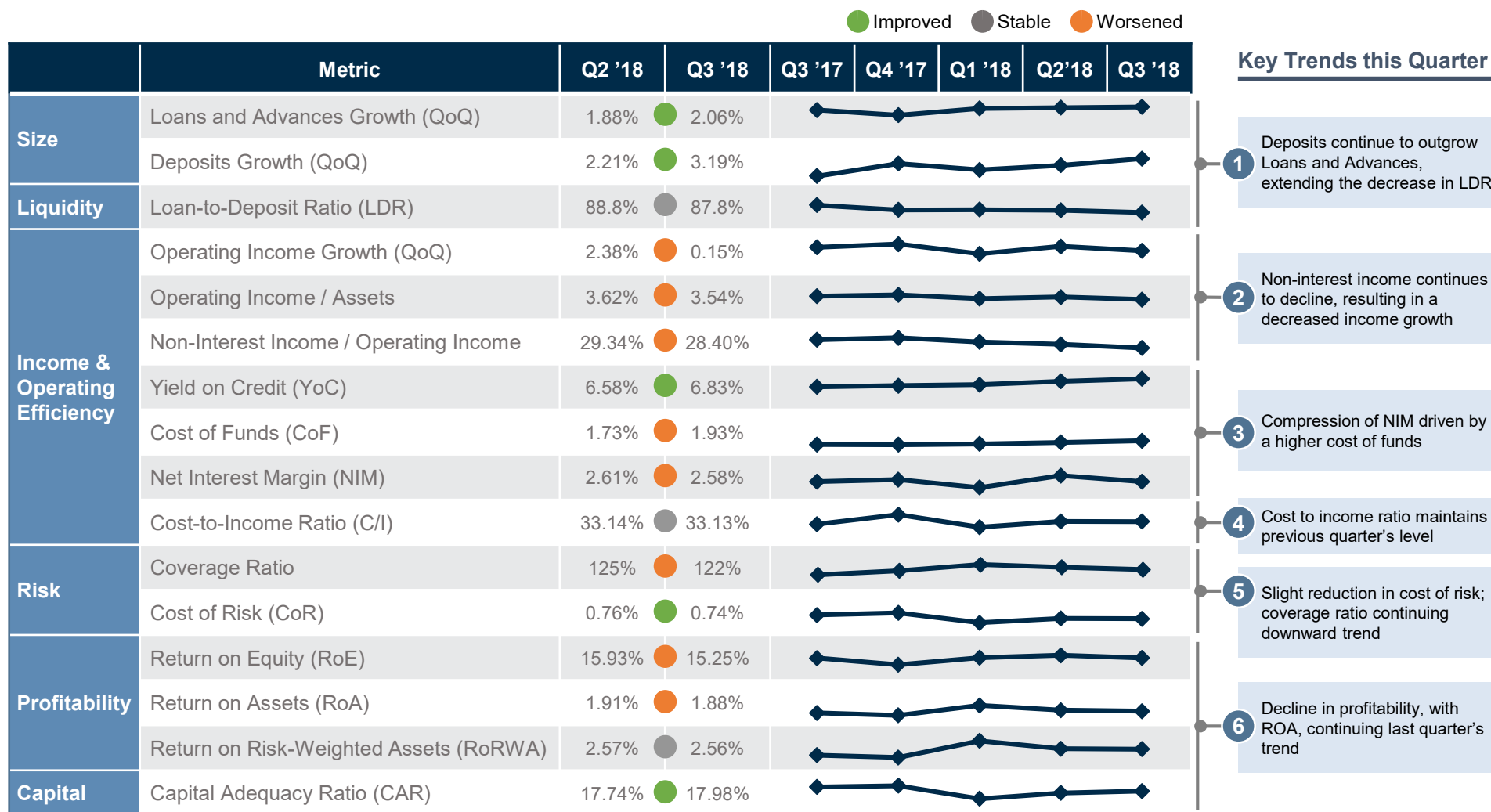
- 18+ years of experience in turnaround and restructuring
- Focuses on financial services and is an expert in restructuring both conventional finance and Islamic finance facilities
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Pulse: Reduced profitability driven by an increase in cost of funds



Note 1: QoQ stand for quarter over quarter

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

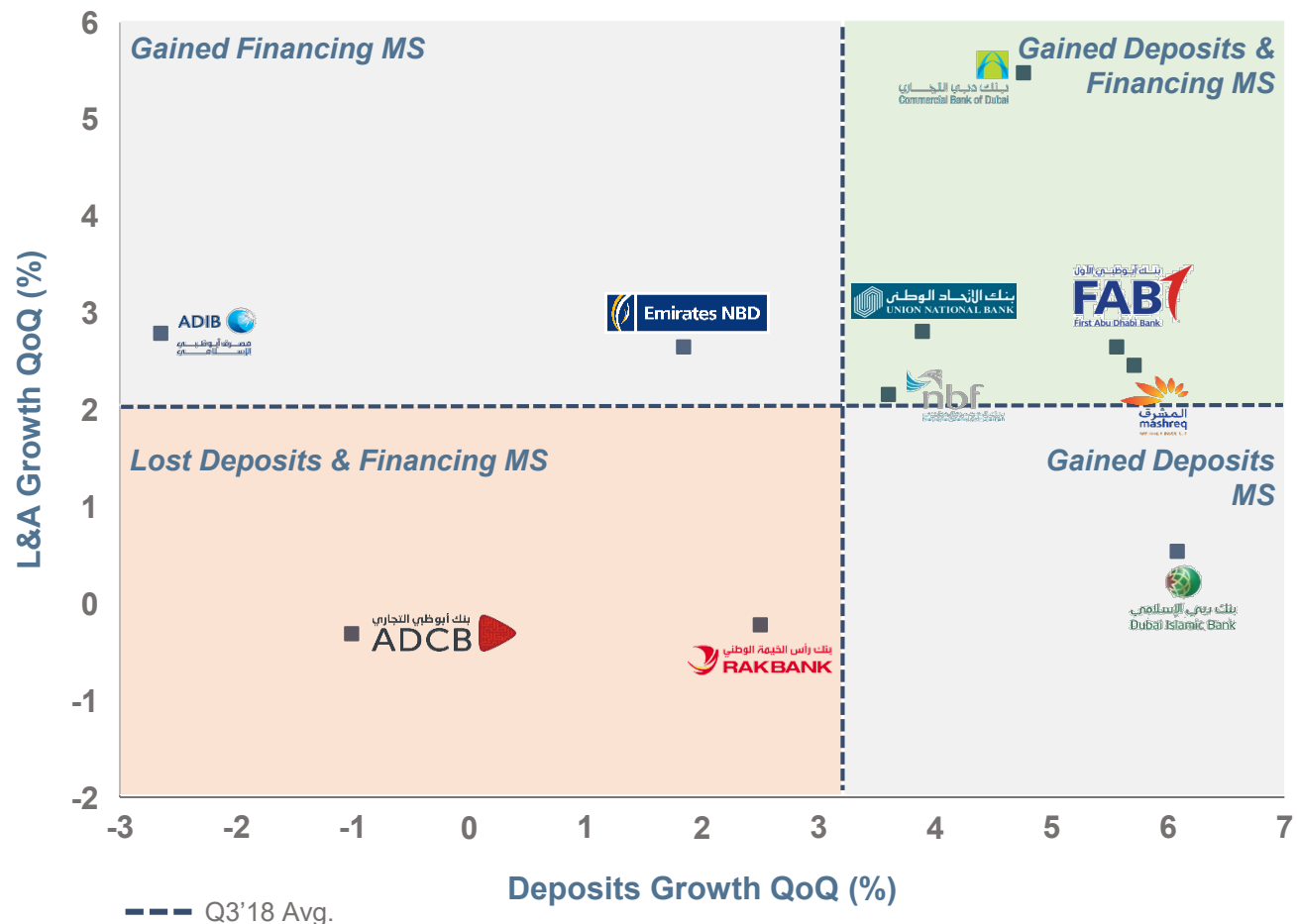
Note 3: Quarterly income was used in the calculation of operating income growth

Note 4: Difference with previous reported numbers due to revision in methodology and use of audited numbers

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

Of the Top 10 banks, 5 increased both their L&A and Deposit market share, while only 2 lost L&A and deposit market share

L&A and Deposit Market Share Growth (% , QoQ)

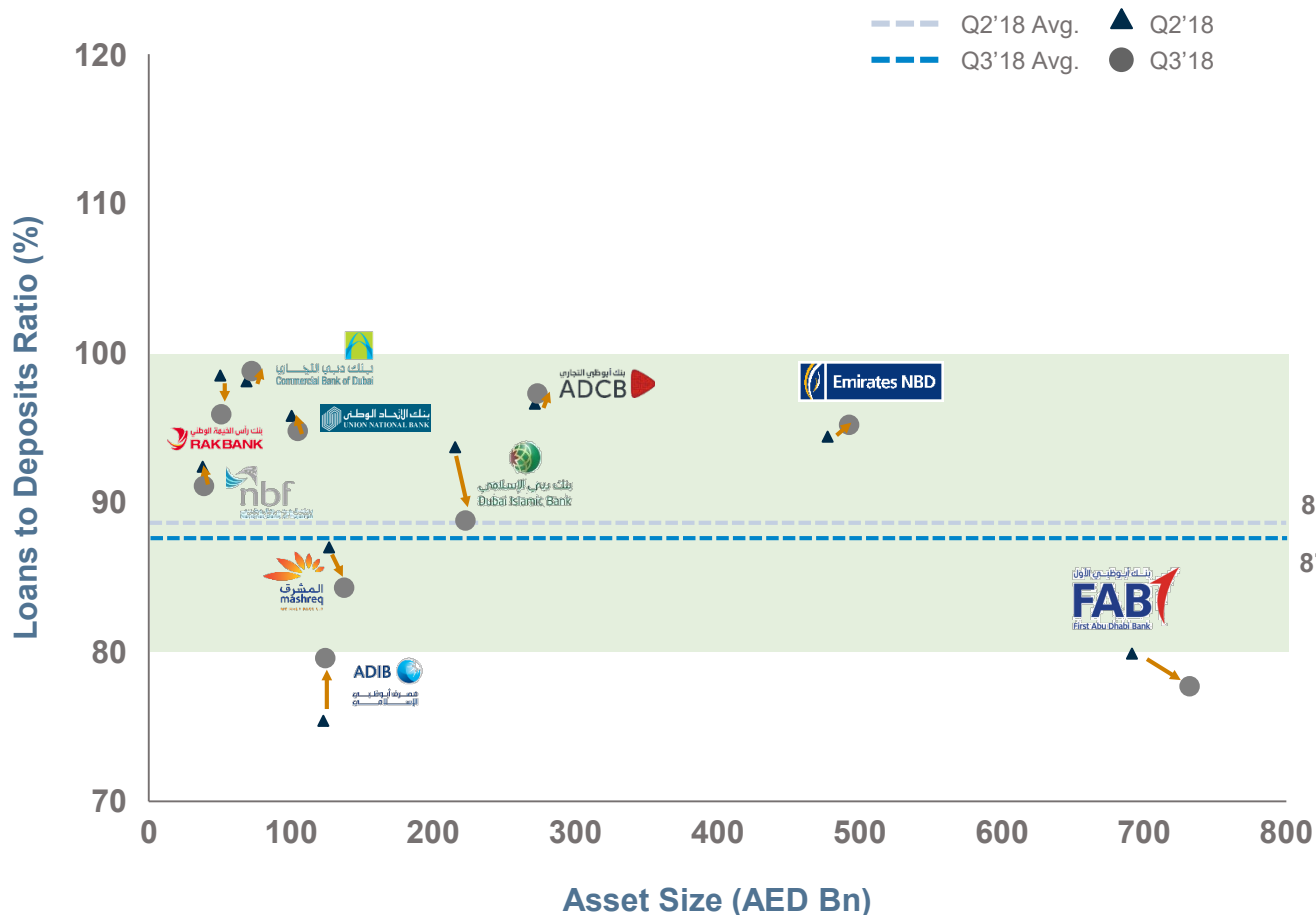


Key Remarks

- CBD, UNB, FAB, Mashreq and NBF all managed to increase their L&A market share as well as their deposit market share
- DIB increased their Deposit market share while losing L&A share
- ADIB and ENBD lost Deposit market share but gained L&A share
- ADCB and RAK lost both L&A and Deposit market shares

Of the Top 10 banks, 8 are in the green zone, with FAB moving further out

Loans-to-deposit vs. Asset Size



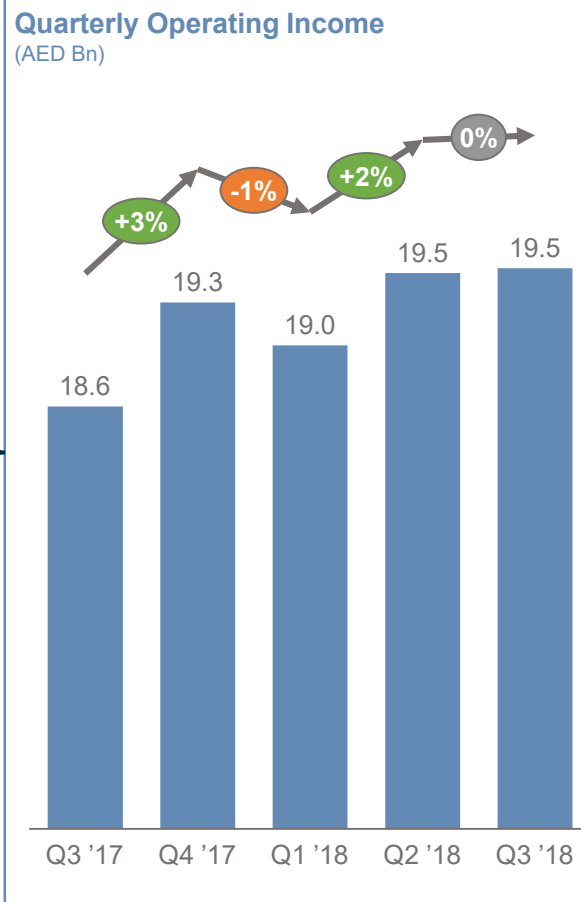
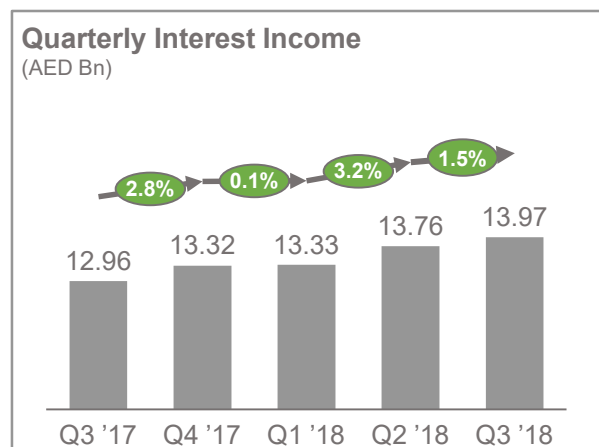
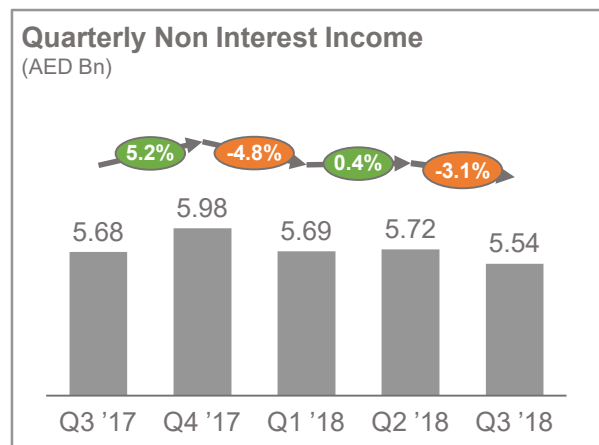
Key Remarks

- Slight decrease in LDR ratio from 88.8% in Q2 to 87.8% in Q3
- 8 out of 10 banks are in the green zone
- FAB has the lowest LDR ratio of 77.7%, leaving room for it to issue more loans and increase profitability
- CBD has the highest LDR ratio of 98.8%

Note: The green zone is an area of healthy liquidity
 Source: Financial statements, A&M analysis

Steady operating income was driven by mixed results in interest and non-interest income

Top 10 Operating Income (AED Bn)



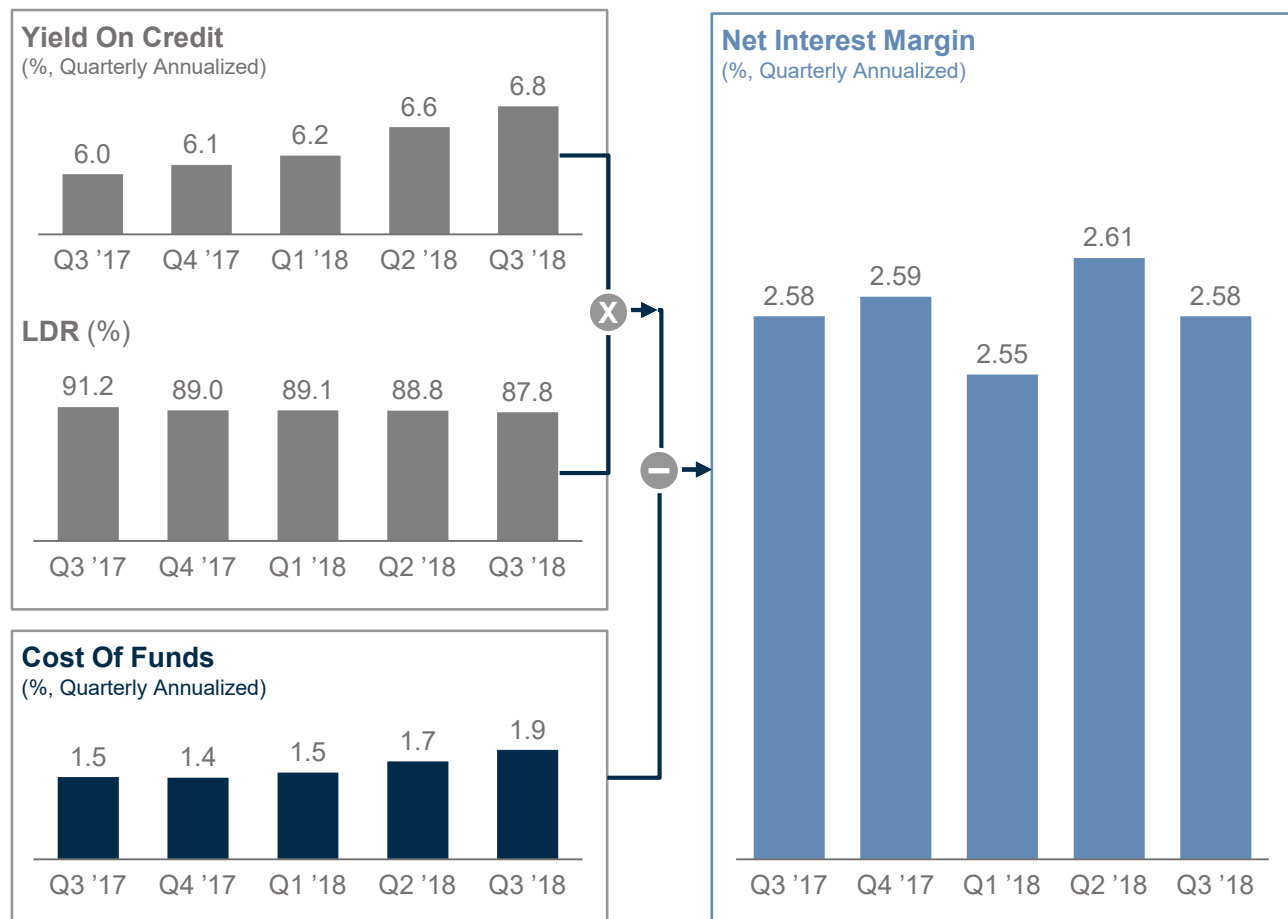
● Improved ● Stable ● Worsened

Key Remarks

- Q3 operating income unchanged from Q2
- Non-interest income declined by 3.1% compared to Q2
- Interest income continues to increase, registering a 1.5% increase against Q2

Compression in NIM was driven by a ~ 20 bps increase in Cost of Funds despite an increase in yield on credit

Top 10 Operating Income (AED Bn)



Key Remarks

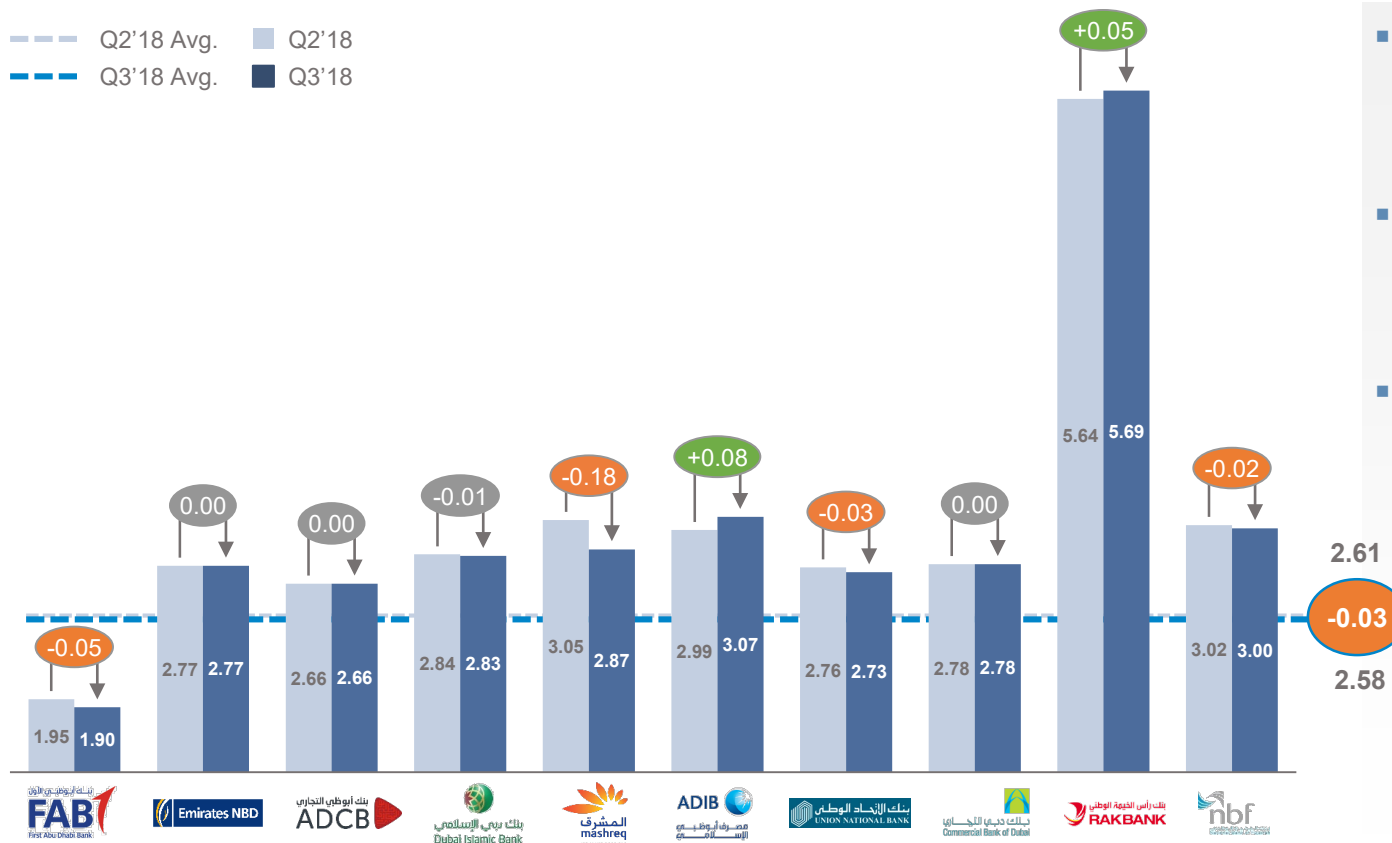
- Compression of NIMS by 3 bps, reversing last quarter's increase
- Yield on Credit increased by ~25 bps when compared to last quarter
- Cost of funds increased by ~20 bps when compared to last quarter

Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula

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

Slight compression in NIMs was driven mostly by Mashreq and FAB

Net Interest Margin (%)



Key Remarks

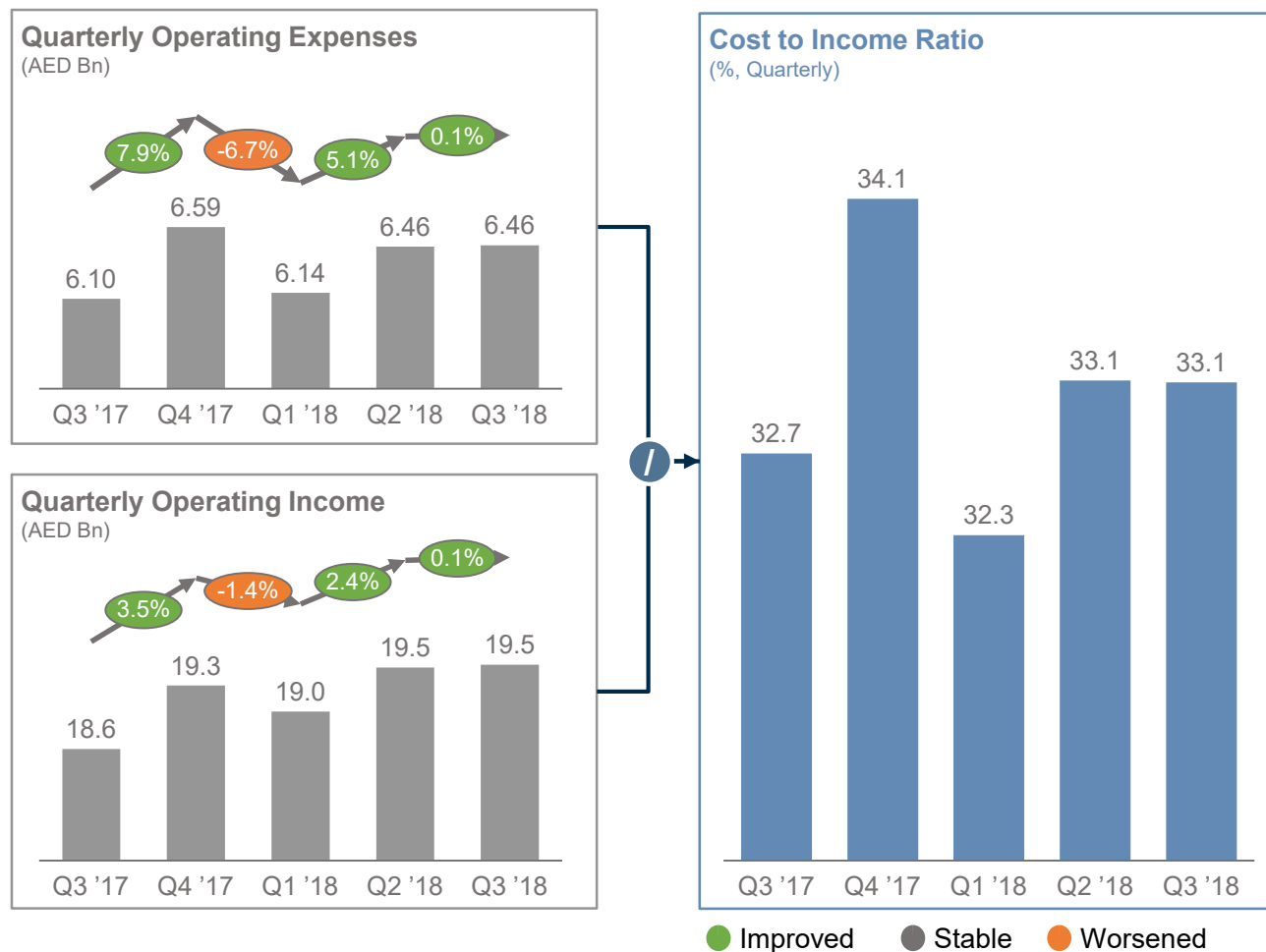
- 2 banks increased their NIMs, with 4 banks showing declining NIMs
- ADIB witnessed the highest increase in NIMs; An increase of ~8 bps
- Mashreq had the greatest decline in NIM; a decline of ~18 bps

● Improved ● Stable ● Worsened

Note: Some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis

Cost to income ratio retains previous quarter levels, with income and expenses steady

Cost to Income Ratio



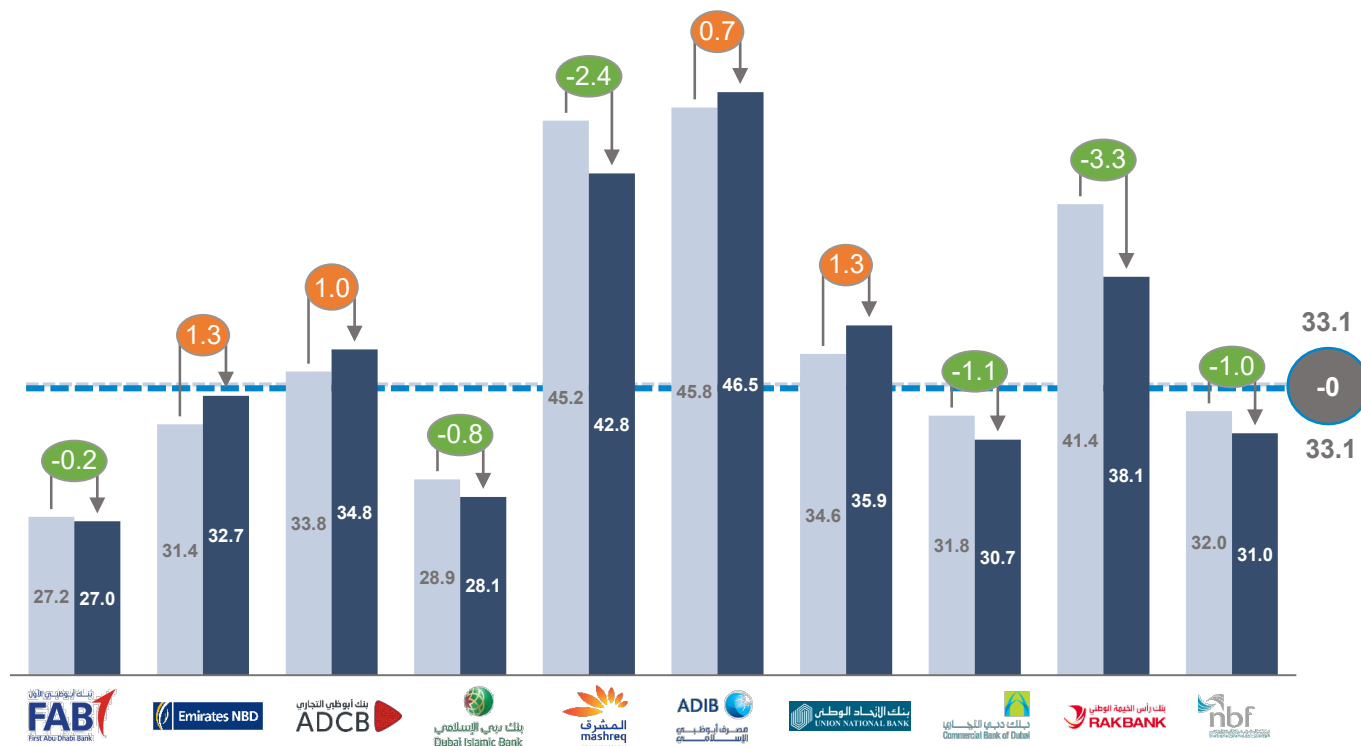
Key Remarks

- Cost to income ratio retains last quarter levels of 33.1%
- This is due to minimal growth in both operating expenses and operating income

Of the Top 10 bank, 6 banks reduced their Cost to Income ratio, led by RAK bank's decrease of ~330 bps

Cost to Income Ratio (% , Quarterly)

--- Q2'18 Avg. ■ Q2'18
 - - - Q3'18 Avg. ■ Q3'18



Key Remarks

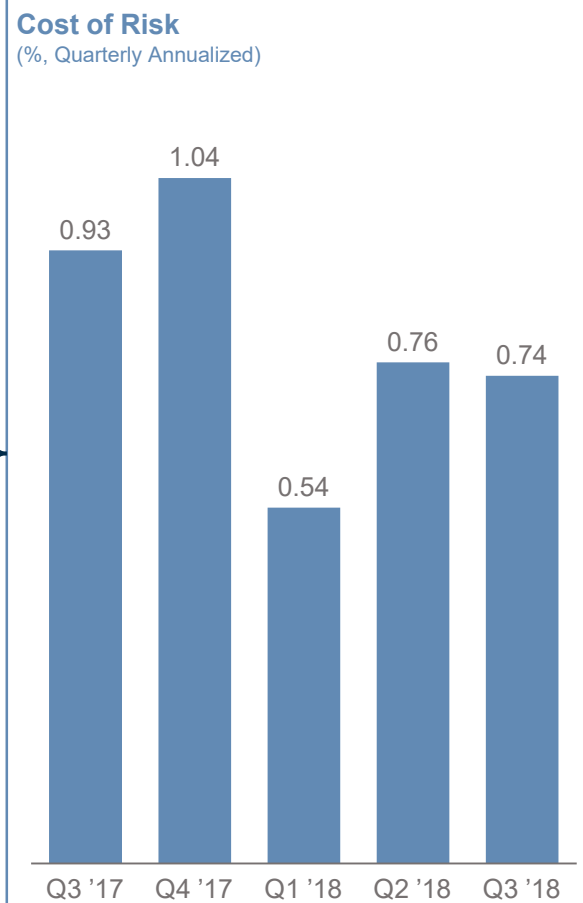
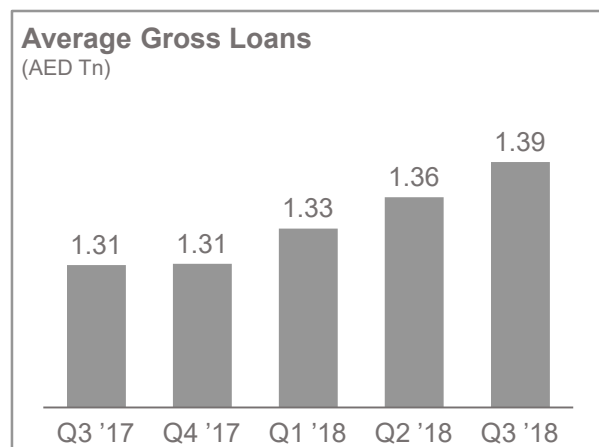
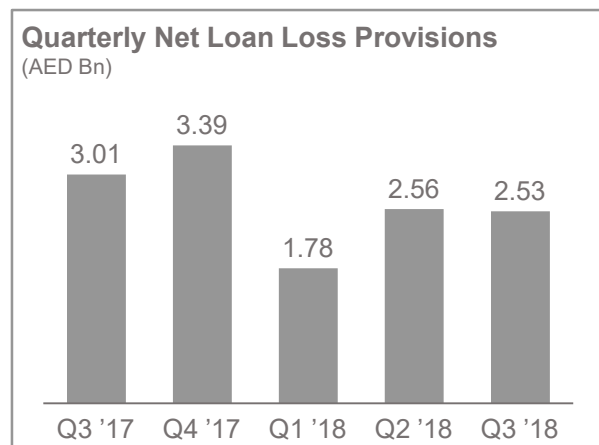
- FAB, DIB, Mashreq, CBD, RAK and NBF all witnessed decreasing Cost to Income ratios
- ENBD, ADCB, ADIB and UNB all witnessed increased Cost to Income ratios

● Improved ● Stable ● Worsened

Note: Scaling and some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis

Cost of Risk declined as a result of lower provisions and higher loans

Cost of Risk

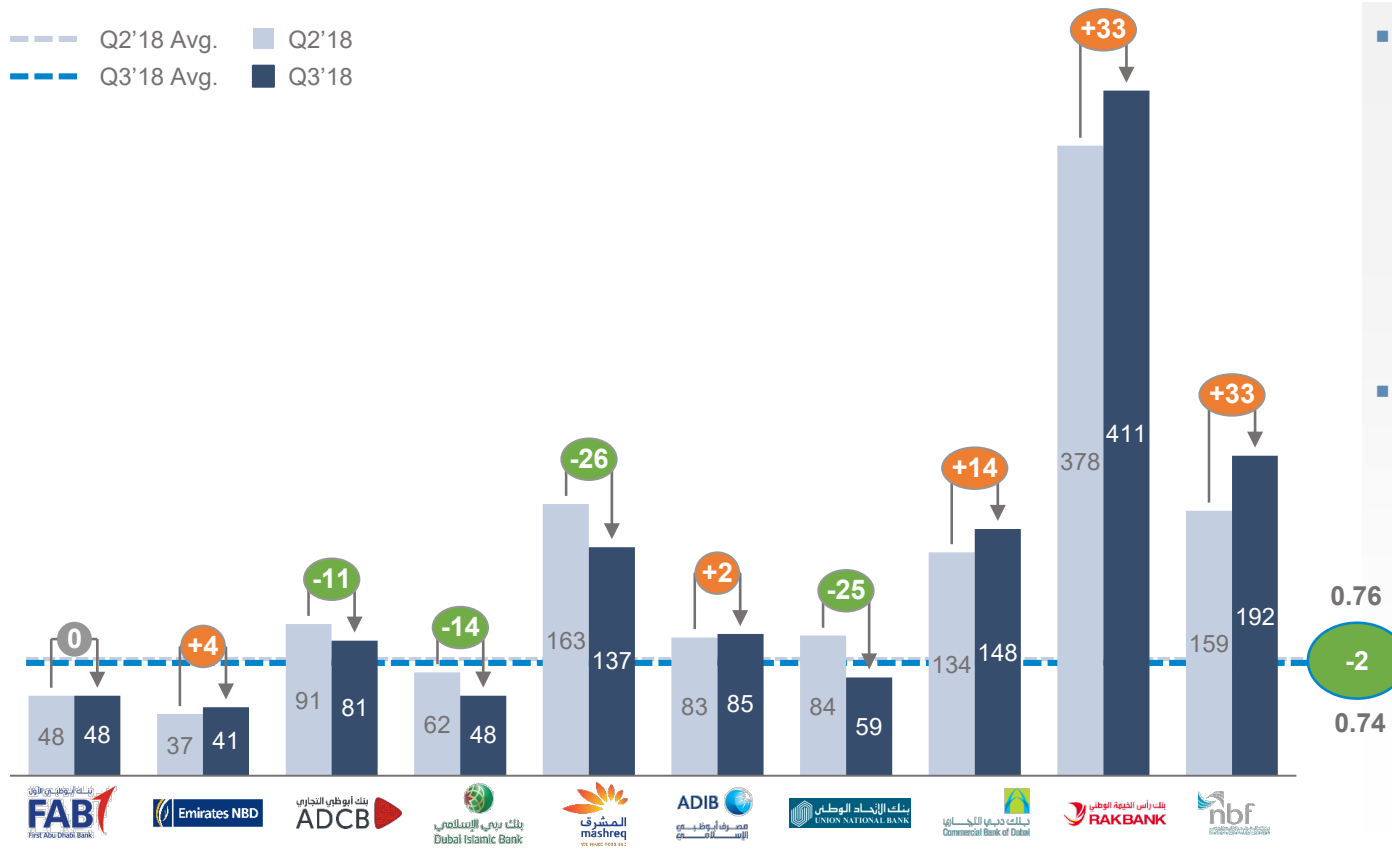


Key Remarks

- Slight reduction in Cost of Risk of ~2 bps, compared to previous quarter
- Reduction driven by slight decrease in Loss Provisions and increasing gross loans

RAK bank and NBF increased their CoR by ~33 bps; Mashreq and UNB decreased by ~ 25 bps

Cost of Risk, Net of Reversals (bps)



Key Remarks

- 5 Banks witnessed increased Cost of Risk with RAK Bank and NBF both witnessing a ~33 bps increase in cost of risk
- Mashreq and UNB both witnessed a reduction of ~25 bps in Cost of Risk

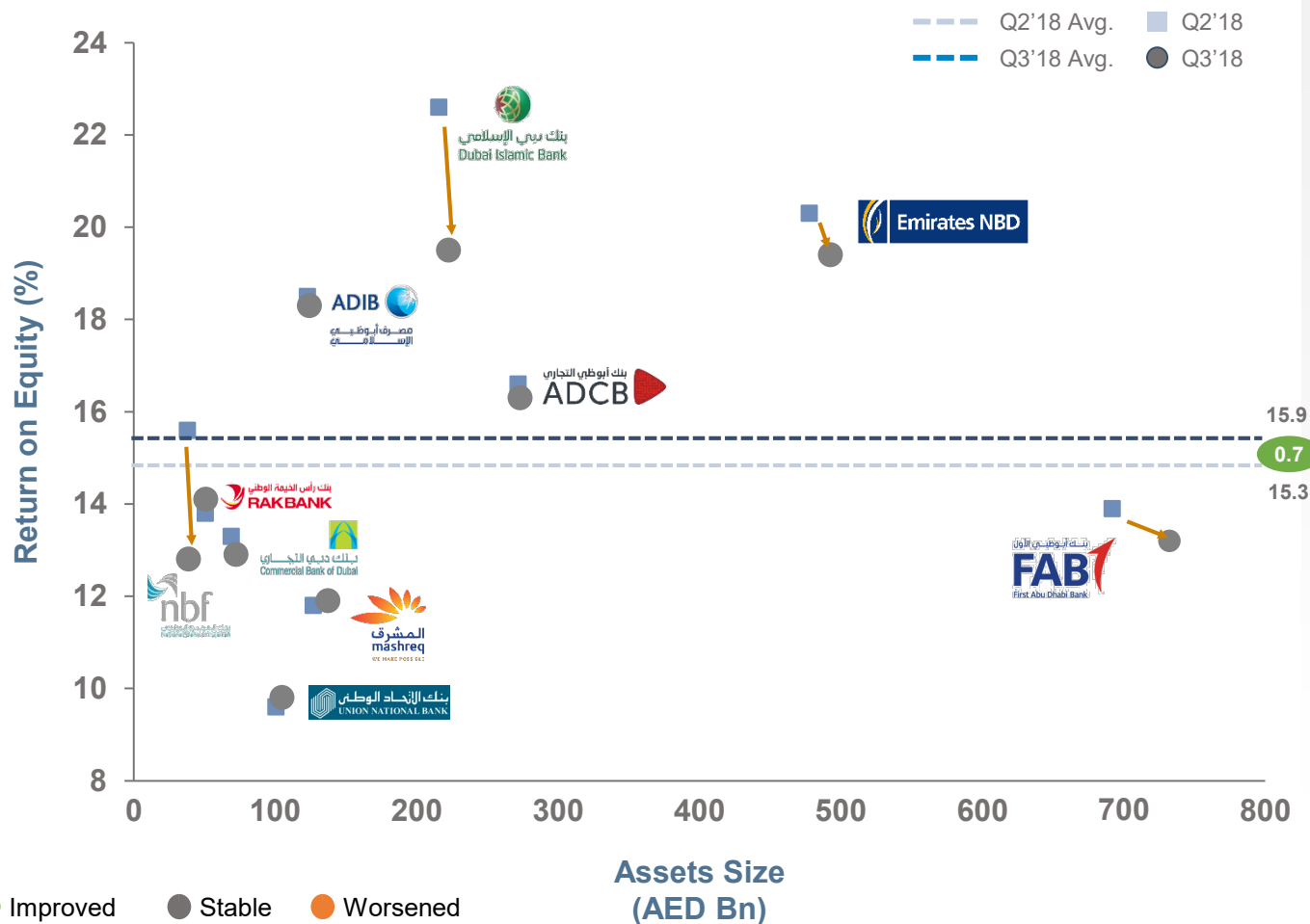
● Improved ● Stable ● Worsened

Note: Scaling and some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis

Of the Top 10 banks, 3 banks managed to increase their ROE with DIB and NBF witnessing the largest decline

Return on Equity

Key Remarks



- Mashreq, UNB and RAK are the only banks that managed to increase their ROE
- DIB and NBF witnessed the largest decrease in ROE, a decrease of ~310 bps and ~270 bps respectively

Slight ROE decline is driven by higher cost of funds and lower non-interest income



● Improved ● Stable ● Worsened

Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula

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

Key Remarks

- ROE declined by ~ 70 bps when compared to previous quarter
- ROE Decline driven by declining non-interest income and tighter NIMs
- NIM compression despite higher yield on credit due to higher cost of funds

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
	Yield on Credit	NIM	(Aggregate annualized quarterly net interest income) / (quarterly average earning assets) for the Top 10; Earnings assets are defined as total assets (excl. goodwill, intangible assets, property & equipment)
	Cost of Funds	YoC	(Annualized quarterly gross interest income / quarterly average loans & advances) for the Top 10
	Net Interest Margin	CoF	(Annualized quarterly interest expense + annualized quarterly capital notes & tier 1 sukuk interest) / (quarterly average interest bearing liabilities + quarterly average capital notes & tier 1 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	732.2	FAB	
Emirates NBD	492.6	ENBD	
Abu Dhabi Commercial Bank	273.4	ADCB	
Dubai Islamic Bank	222.8	DIB	
Mashreq Bank	137.4	Mashreq	
Abu Dhabi Islamic Bank	124.3	ADIB	
Union National Bank	104.9	UNB	
Commercial Bank of Dubai	72.4	CBD	
National Bank of Ras Al-Khaimah	51.2	RAK	
National Bank of Fujairah	38.9	NBF	