



UAE Banking Pulse Quarter 2, 2018



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q2 '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.

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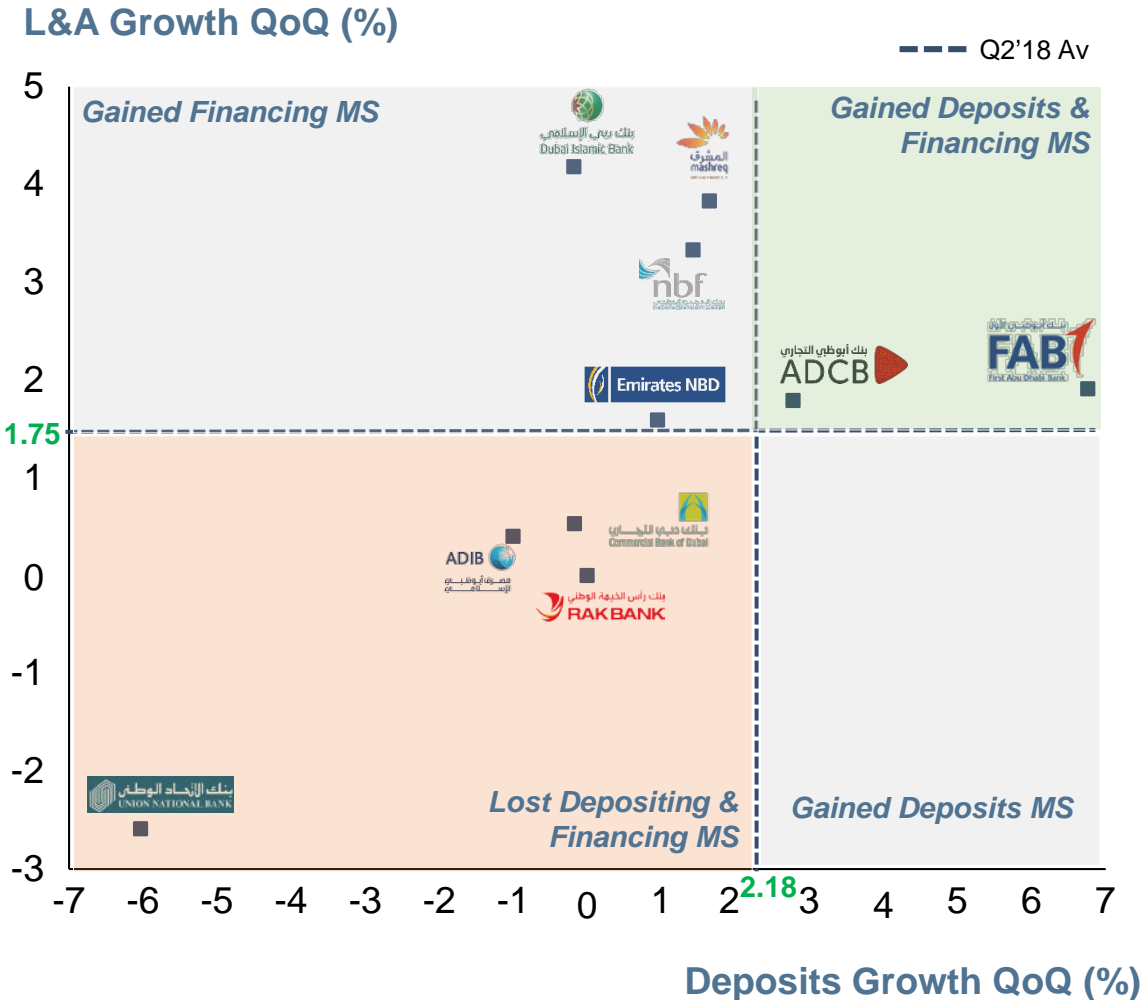
Pulse: Increase in profitability led by increase in yield on credit and decrease in cost of risk, offset by increase in C/I and CoF

● Improved ● Stable ● Worsened

	Metric	Q1 '18	Q2 '18	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Key Trends This Quarter
Size	Loans and Advances Growth (QoQ)	1.41% ●	1.75%						1 Deposits grew faster than Loans in Q2'18 giving rise to a decrease in LDR by 4 bps from Q1'18
	Deposits Growth (QoQ)	1.53% ●	2.18%						
Liquidity	Loan-to-Deposit Ratio (LDR)	89.1% ●	88.7%						2 Operating income has grown significantly from Q1'18 due to an increase in interest income
Income & Operating Efficiency	Operating Income Growth (QoQ)	-1.37% ●	2.25%						
	Operating Income / Assets	3.57% ●	3.62%						
	Non-Interest Income / Operating Income	29.9% ●	29.3%						
	Yield on Credit (YoC)	6.23% ●	6.57%						3 Net interest margins increased driven by an increasing Yield on Credit, despite a higher Cost of Funds
	Cost of Funds (CoF)	1.51% ●	1.73%						
Risk	Net Interest Margin (NIM)	2.55% ●	2.61%						4 C/I ratio increased slightly, reversing last quarter's decrease
	Cost-to-Income Ratio (C/I)	32.3% ●	33.0%						
	Coverage Ratio	127% ●	121.8%						5 CoR continues to fall due to decreased loan loss provisions
Profitability	Cost of Risk (CoR)	0.81% ●	0.78%						
	Return on Equity (RoE)	15.8% ●	16.23%						6 Overall ROE has continued to increase
	Return on Assets (RoA)	1.95% ●	1.91%						
Return on Risk-Weighted Assets (RoRWA)	2.55% ●	3.38%							
Capital	Capital Adequacy Ratio (CAR)	15.6% ●	16.33%						

Note 1: QoQ stand for quarter over quarter
 Note 2: Growth in loans & advances and deposits were 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

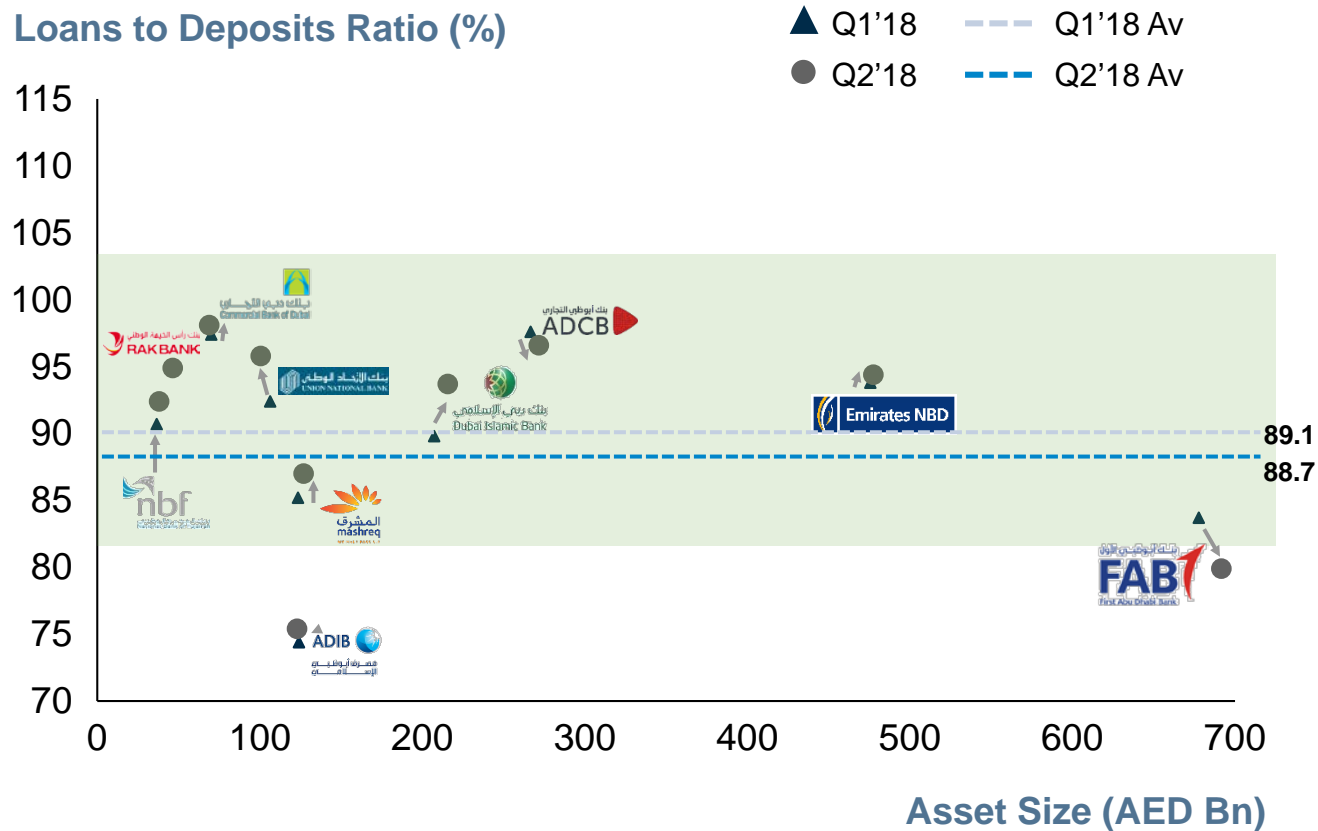
1 Overall, ADCB and FAB outgrew the market while UNB, ADIB, RAK and CBD lost market share



- Overall L&A grew by 1.75% while deposits grew by 2.18%
- Four of the top ten banks grew their L&A market share
- FAB and ADCB outgrew the market in both L&A and deposits
- CBD, ADIB, RAK and UNB lost deposits and financing market share in Q2 '18 with UNB losing the most significant share

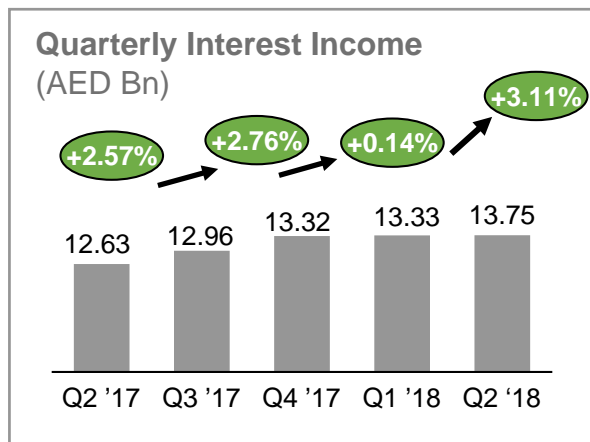
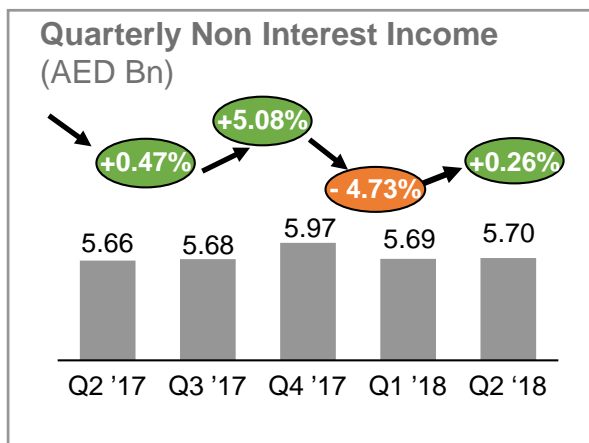
2 Eight of the top ten banks in the green zone despite a slight decrease in LDR

Loans to Deposits Ratio (%)

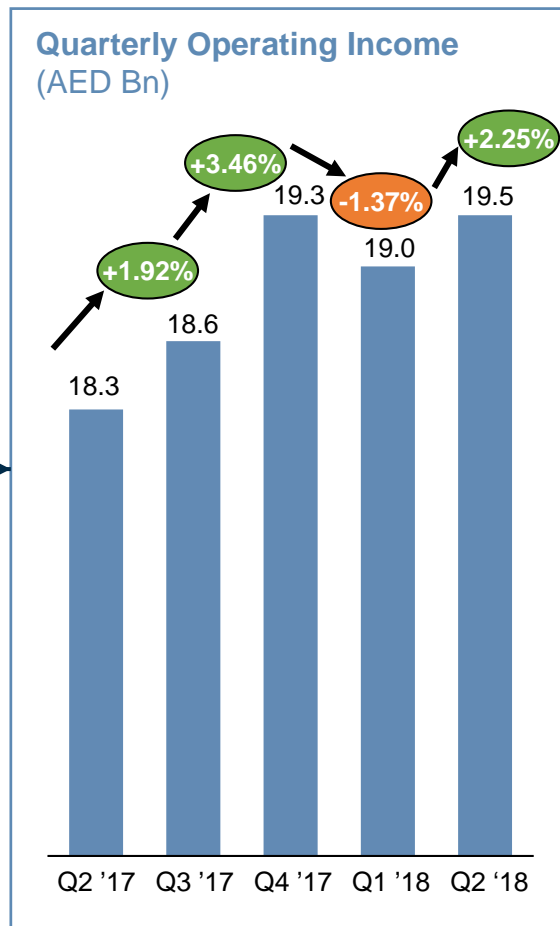


- Overall LDR decreased to 88.7%
- LDR of FAB and ADCB decreased
- FAB moved out of the green zone in Q2'18
- Liquidity is expected to remain healthy in 2018

3 Operating Income increased due to an increase in Interest Income

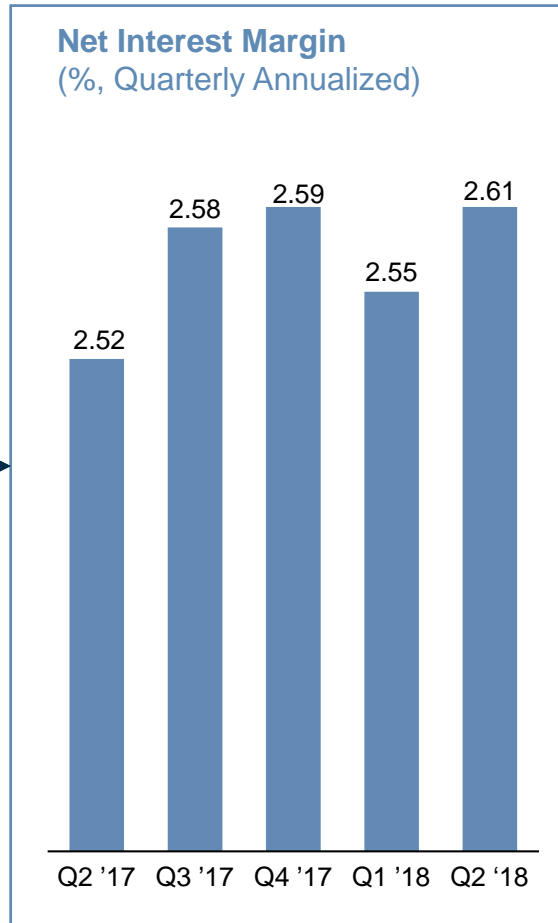
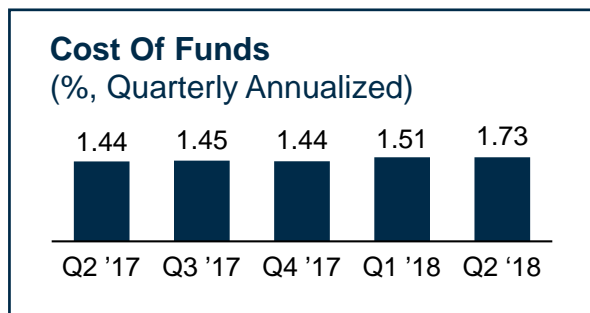
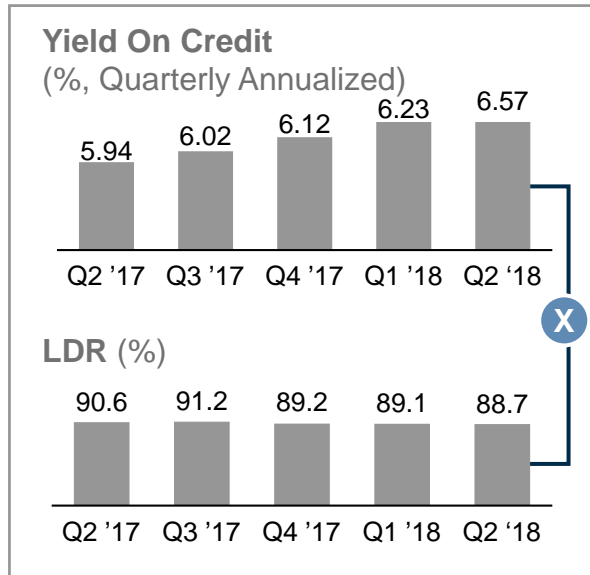


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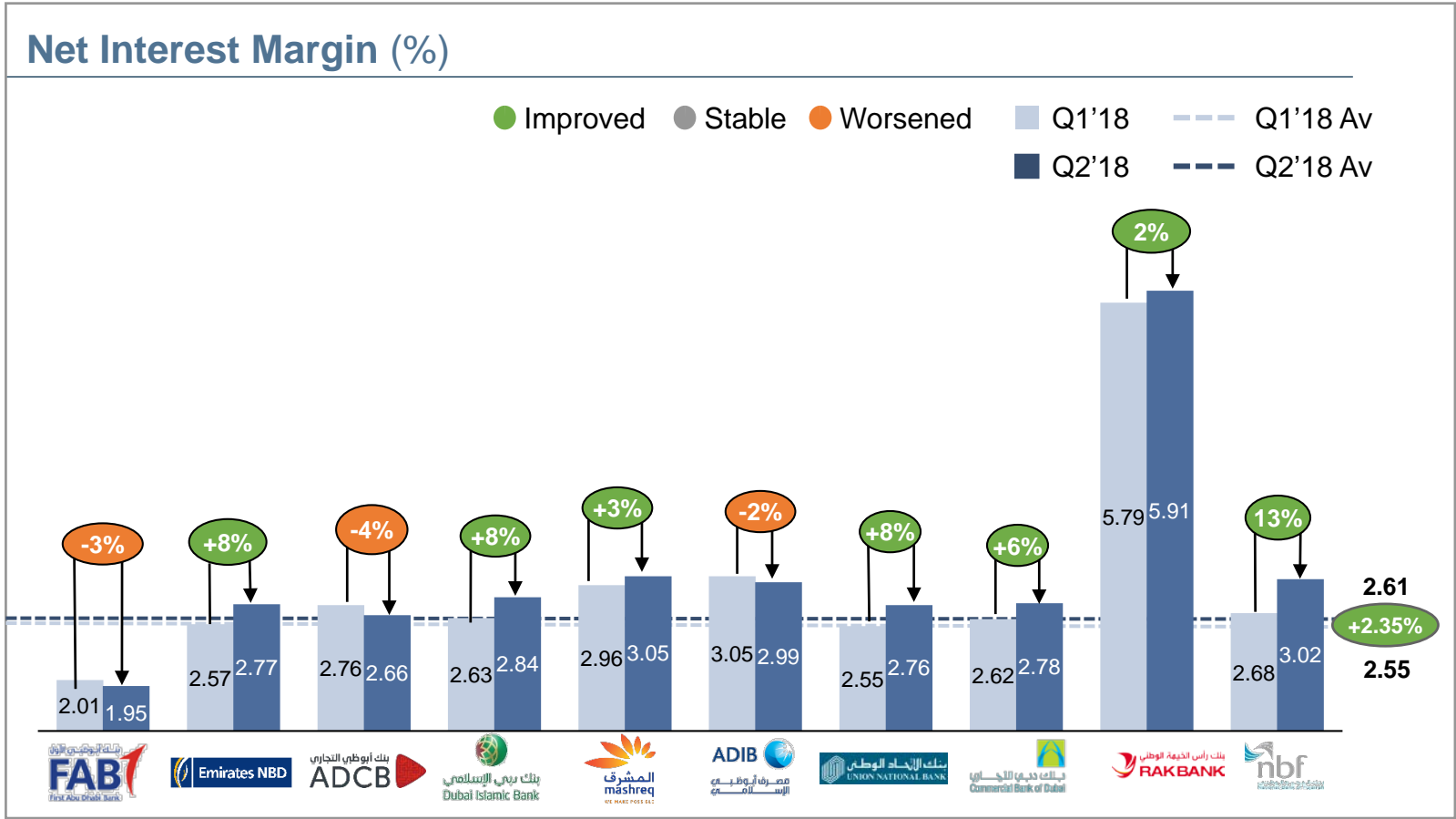
- ~50 bps increase in overall quarterly operating income
- Interest income increased 3.11% from Q1'18
- Six of the 10 banks' operating income marginally decreased, while FAB, ENBD, ACDB and NBF showed a slight increase

4 NIM increased this quarter driven by an increase in Yield On Credit



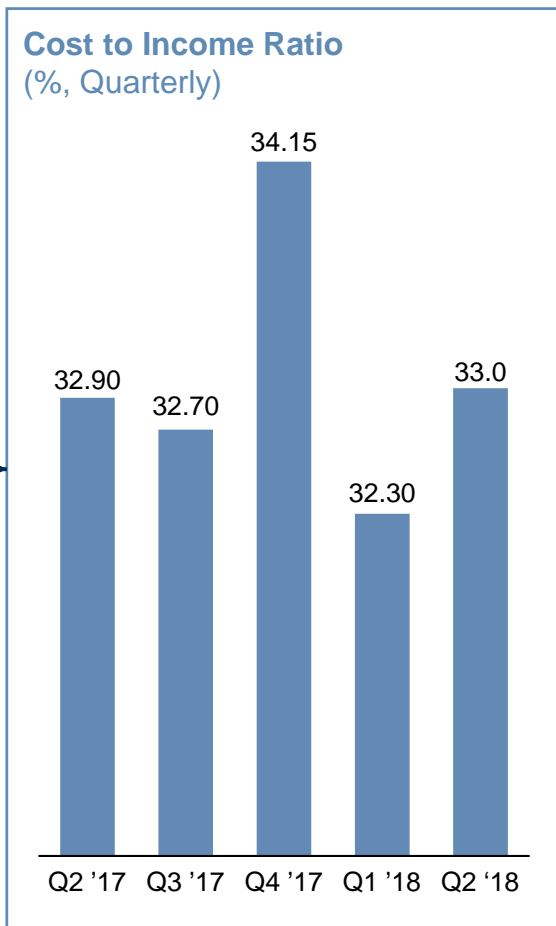
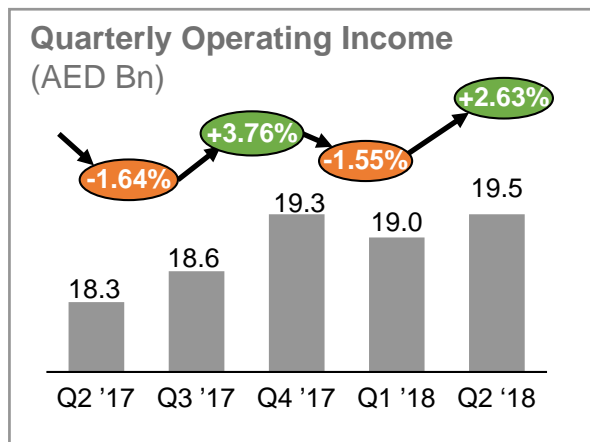
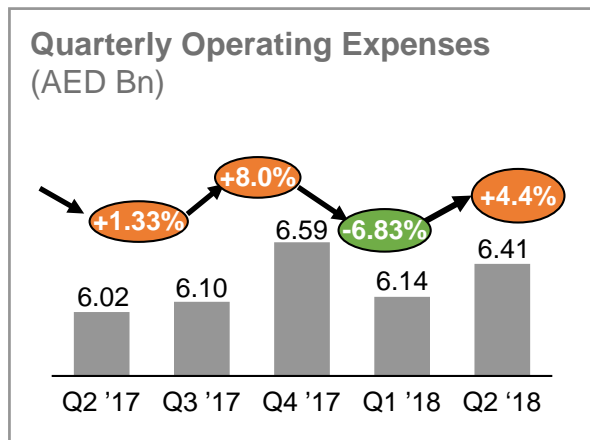
- NIM increased by ~6 bps this quarter
- Yield on credit increased by ~34 bps compared to last quarter
- Decrease in LDR offsets the increase in yield on credit as deposits increased more than loans issued
- Cost of Funds increased by ~22 bps for Q2 '18 from previous quarter

5 NIM for three of the top banks worsened, however there is an overall increase of ~6 bps



- Three of the top ten banks witnessed a decrease in NIM
- ENBD, DIB, UNB, Mashreq, CBD, RAK and NBF witnessed an expansion of NIM in Q2'18
- NBF had the largest increase in NIM of ~34 bps for Q2 '18

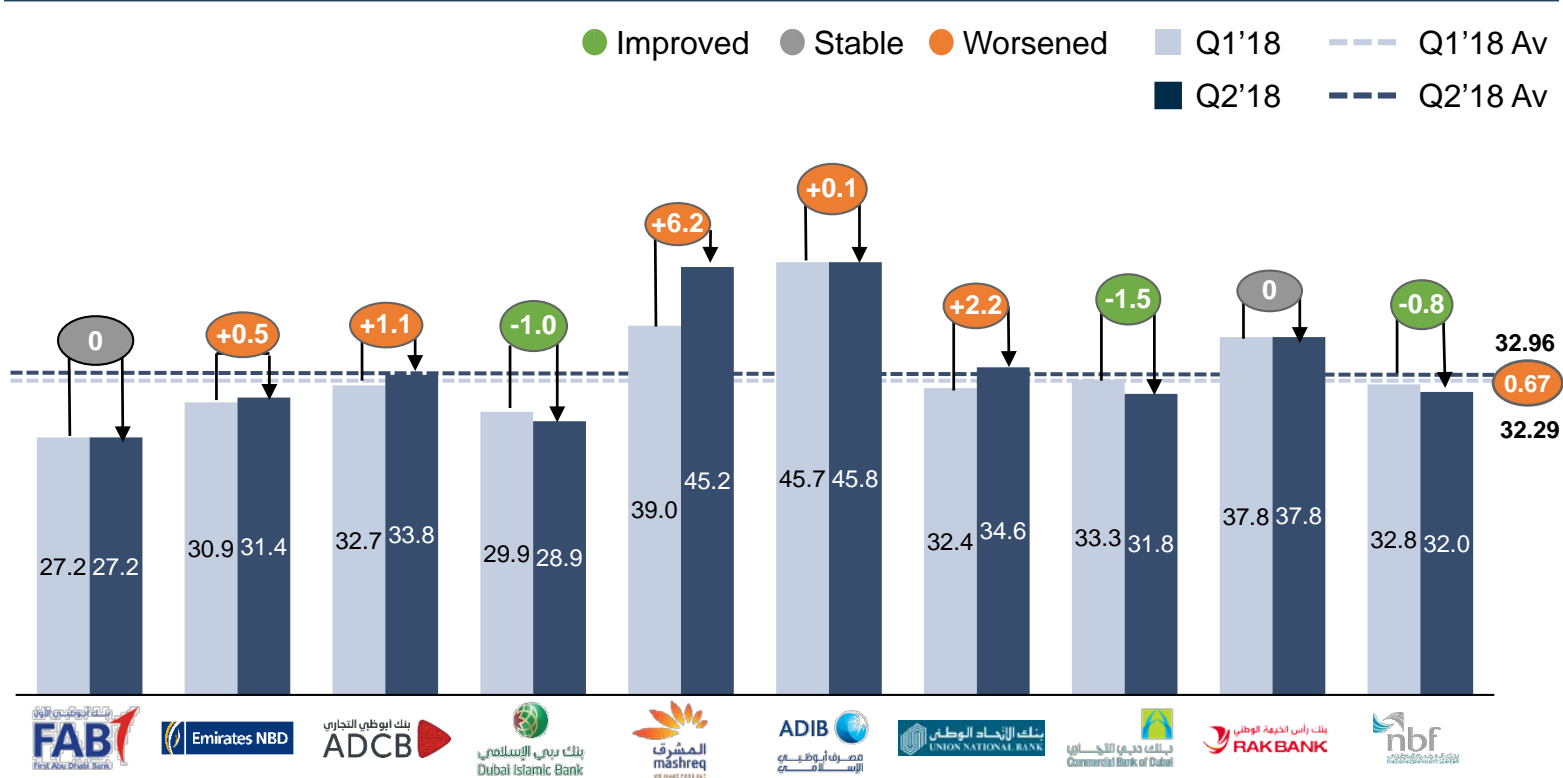
6 Cost to Income Ratio increases due to sharp rise in Operating Expenses despite an increasing Operating Income



- Overall C/I ratio increased by ~ 70 bps due to a slight increase in SG & A
- After a large decrease in Q1'18, the C/I ratio displays an increase in Q2'18
- Quarterly income increased by 2.63%, though not sufficient to reduce C/I ratio

7 C/I ratio of five of the top ten banks increased, contributing to higher C/I Ratio for the quarter

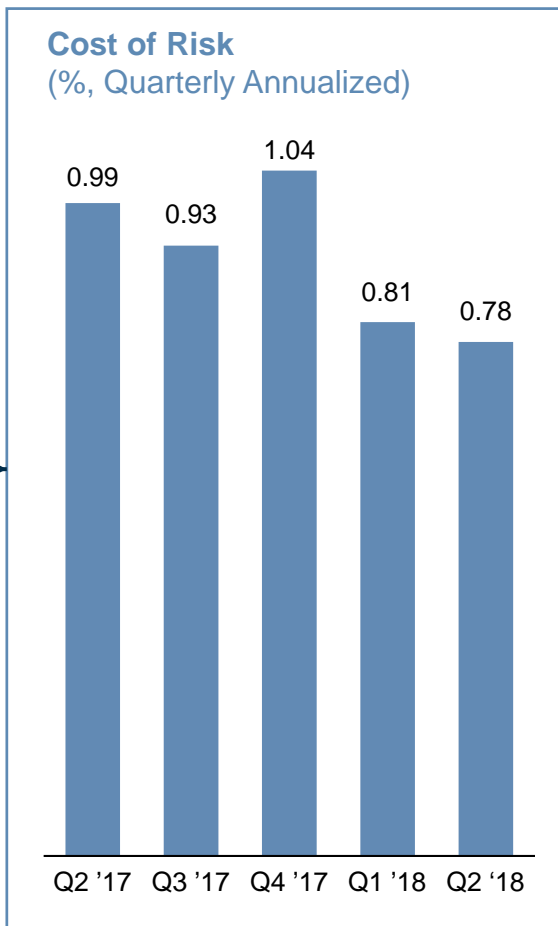
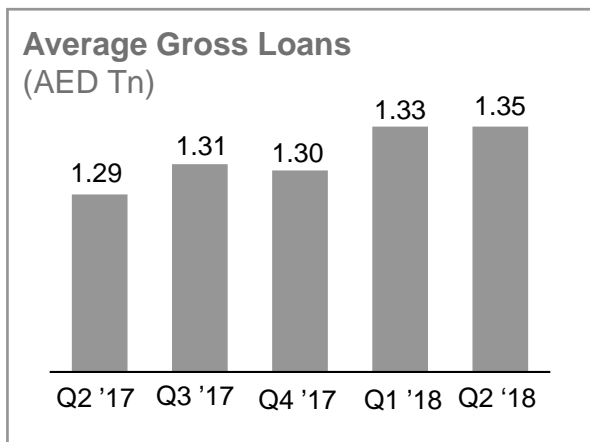
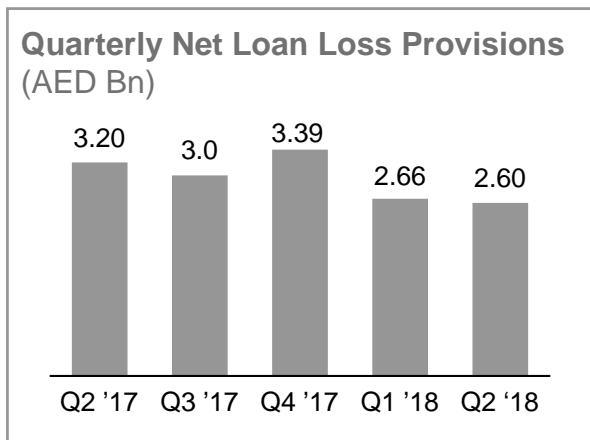
Cost to Income Ratio (% , Quarterly)



- Five banks witnessed an increase in their C/I ratio
- Whilst FAB and RAK remained the same, DIB, CBD and NBF showed a slight decrease in their C/I ratio
- CBD witnessed the largest drop in C/I ratio while Mashreq had the largest increase

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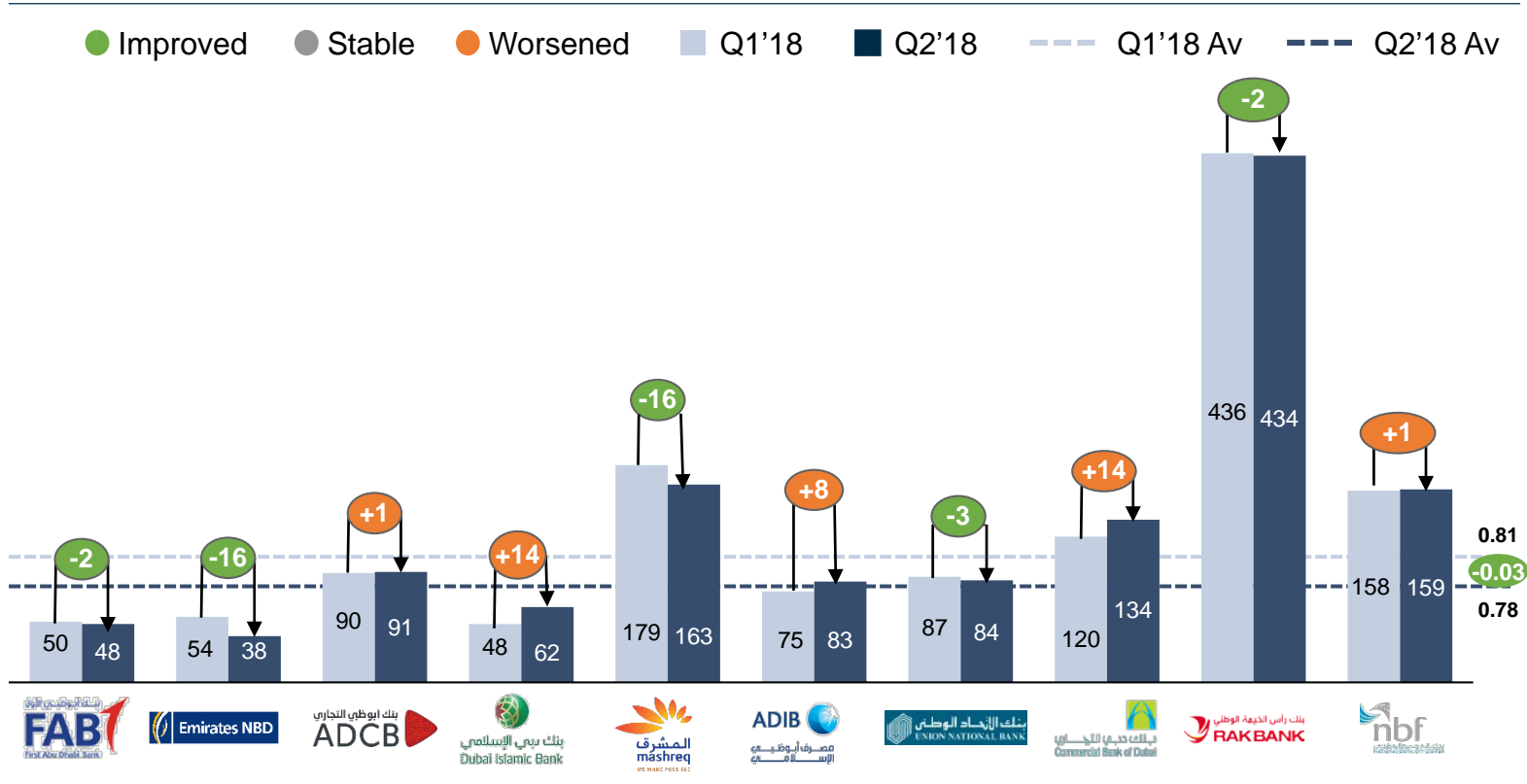
Slight decrease in Cost of Risk due to a corresponding decrease in Net Loan Loss Provisions



- Q2'18 closed with a decrease of 2.28% in Net Loan Loss Provisions
- Cost of risk followed the downward trend from Q4'17
- Decrease in cost of risk was driven by a decrease in net loan loss provisions and increase of average gross loans

9 Five out of the top ten banks have shown a decrease in Cost of Risk

Cost of Risk (bps) - net of reversals

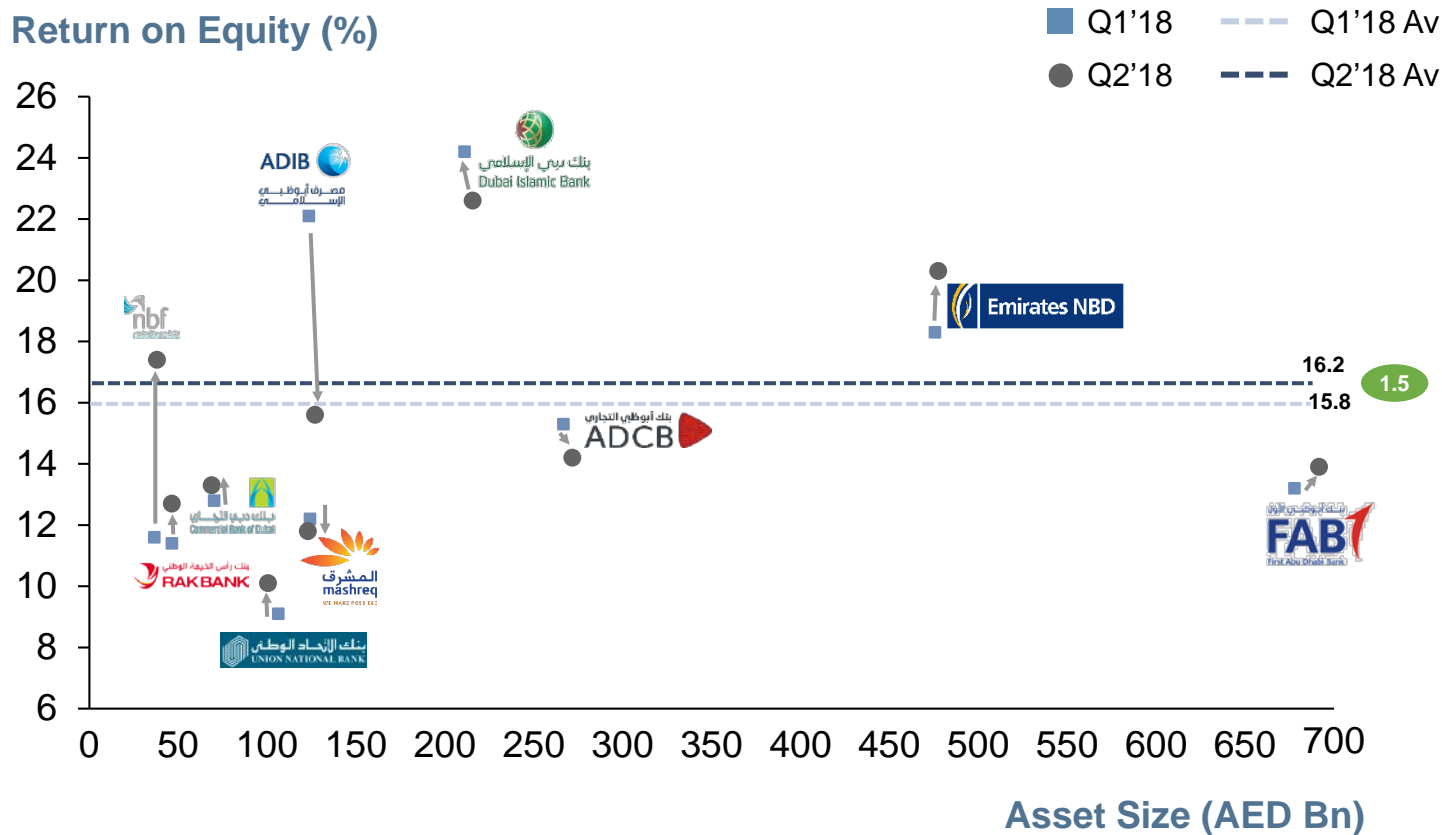


- Mashreq and ENBD realized the highest decrease in cost of risk
- CBD and DIB showed the greatest increase in cost of risk followed by ADIB
- ADIB, CBD, DIB NBF and ADCB are the only banks to show an increase in cost of risk

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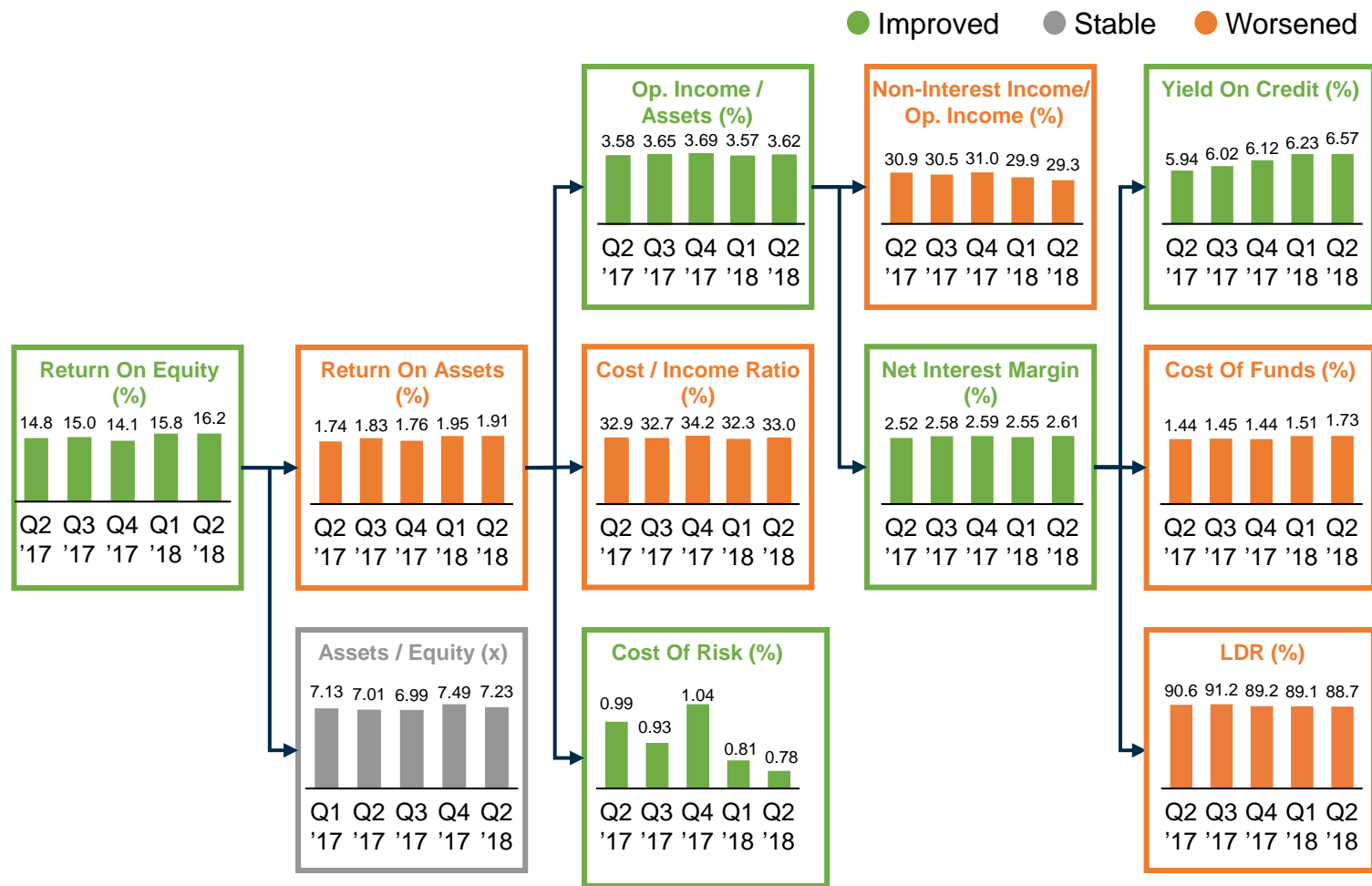
ROE has increased for seven out of the ten banks

Return on Equity (%)



- Average ROE increased to 16.2% in Q2'18, from 15.8% in Q1'18
- ADIB experienced the highest decrease in ROE going from 22.1% to 15.6%
- ADCB, Mashreq and ADIB are the only banks showing a decline on ROE

11 ROE increased due to a higher ROA caused by a decrease in Cost of Risk



- ROE maintains high levels due to Cost of Risk remaining low
- There is a slight increase in Operating Income/Assets
- Net interest margin increased despite a higher cost of funds
- Yield on credit continues upward trend from previous quarters

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	691.7	FAB	
Emirates NBD	477.5	ENBD	
Abu Dhabi Commercial Bank	271.7	ADCB	
Dubai Islamic Bank	215.7	DIB	
Mashreq Bank	127.0	Mashreq	
Abu Dhabi Islamic Bank	122.9	ADIB	
Union National Bank	100.6	UNB	
Commercial Bank of Dubai	68.9	CBD	
National Bank of Ras Al-Khaimah	46.4	RAK	
National Bank of Fujairah	38.1	NBF	