



UAE Banking Pulse Quarter 1, 2018



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q1 '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



Dr. Saeeda Jaffar

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
- Has worked in the Middle East, Europe and the U.S.

Contact Details

Financialservices
-me@alvarezandmarsal.com
+971 4 567 1065



Asad Ahmed

Co-Author, Managing Director

- 30+ years of experience in banking
- Focuses on performance improvement, turn-around, credit management, and formulating and managing strategic and operational changes in financial institutions
- Served as CEO of banks in the UAE and Kenya



Neil Hayward

Co-Author, Managing Director

- 18+ years experience in turnaround and restructuring
- Focuses on financial services and is an expert in restructuring both conventional finance and Islamic finance facilities
- Has worked in the Middle East, Europe and the U.S.

Pulse: Increase in ROE due to a decrease in cost of risk and cost to income ratio

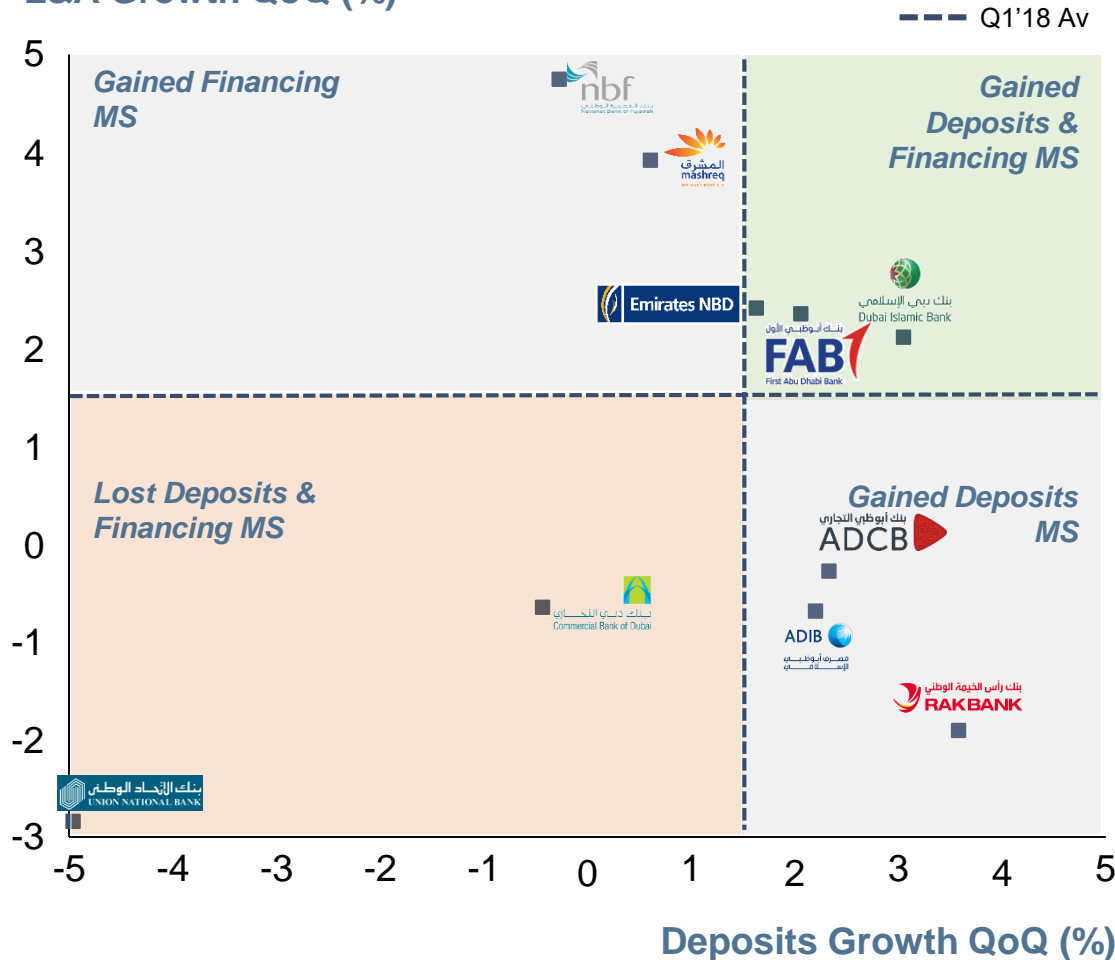
● Improved ● Stable ● Worsened

	Metric	Q4 '17	Q1 '18	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Key Trends This Quarter
Size	Loans and Advances Growth (QoQ)	0.22%	1.41%						1 Deposits and L&A witnessed similar growths, resulting in a stable LDR for Q1 '18; However, on a stand alone basis, deposits growth has declined
	Deposits Growth (QoQ)	2.47%	1.53%						
Liquidity	Loan-to-Deposit Ratio (LDR)	89.2%	89.1%						2 Operating income declined along with non-interest income
Income & Operating Efficiency	Operating Income Growth (QoQ)	3.46%	-1.37%						3 NIMs compressed, despite a rise in Yield on credit, driven by an increased cost of funds
	Operating Income / Assets	3.69%	3.57%						
	Non-Interest Income / Operating Income	31.0%	29.9%						
	Yield on Credit (YoC)	6.12%	6.23%						4 C/I ratio decreased, reversing last quarter's increase and continuing previous trend
	Cost of Funds (CoF)	1.44%	1.51%						
Risk	Net Interest Margin (NIM)	2.59%	2.55%						5 Cost of risk fell significantly, due to decreased loan loss provisions
	Cost-to-Income Ratio (C/I)	34.2%	32.3%						
Profitability	Coverage Ratio	115%	127%						6 ROE and ROA have both increased due to a decrease in cost of risk and operating expenses. This came at the expense of a decrease in CAR
	Cost of Risk (CoR)	1.04%	0.81%						
	Return on Equity (RoE)	14.1%	15.8%						
Capital	Return on Assets (RoA)	1.76%	1.95%						
	Return on Risk-Weighted Assets (RoRWA)	2.35%	2.55%						
Capital	Capital Adequacy Ratio (CAR)	17.9%	15.6%						

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 Deposits and loans and advances grew at a similar rate, keeping LDR at 89.1% in Q1 '18

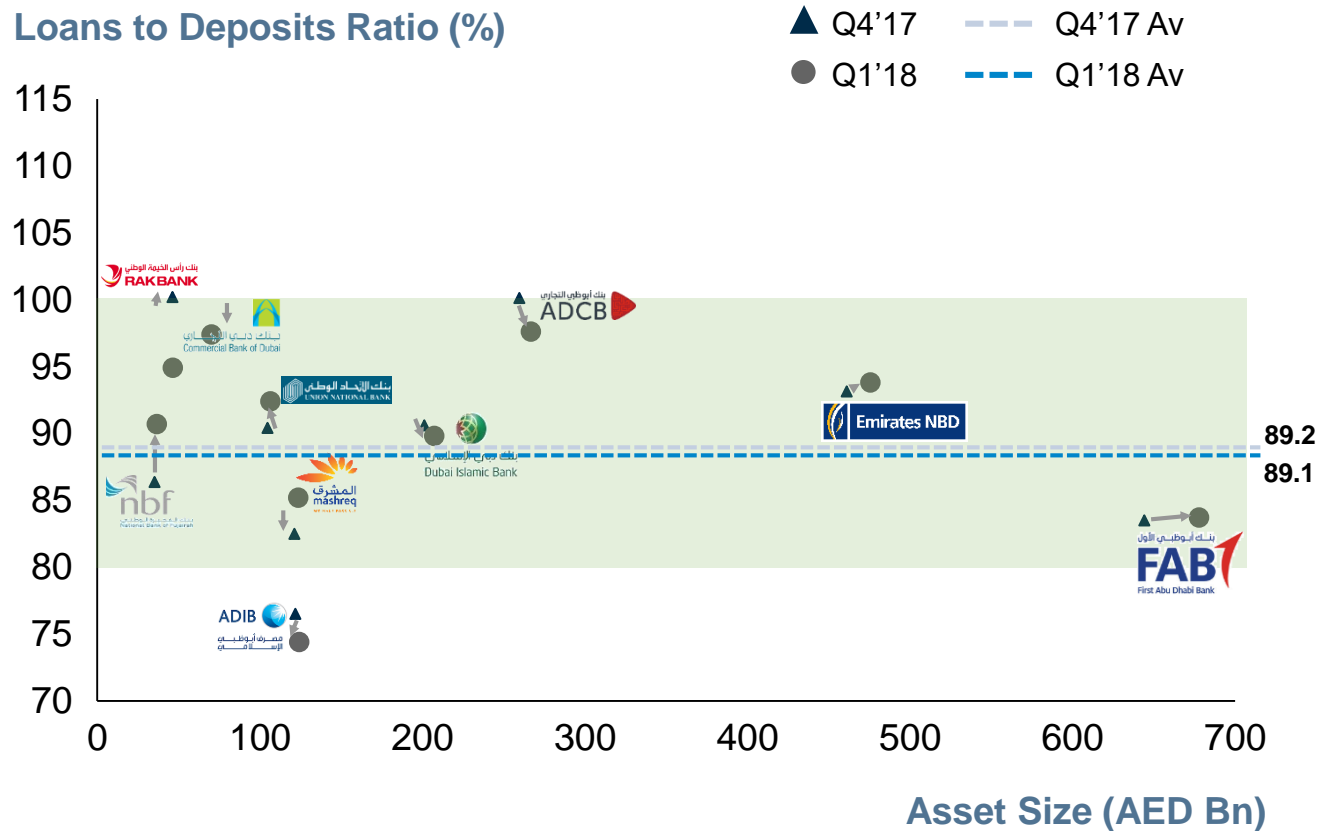
L&A Growth QoQ (%)



- Overall L&A grew at 1.41% while deposits grew at 1.53%
- Five of the top 10 grew their L&A market share and six banks grew their deposits market share
- DIB, FAB, and ENBD outgrew the market in both L&A and deposits
- CBD and UNB lost deposits and financing market share in Q1 '18 with CBD the biggest loser

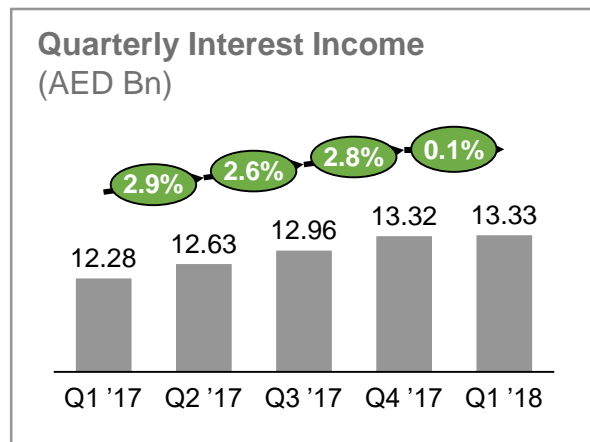
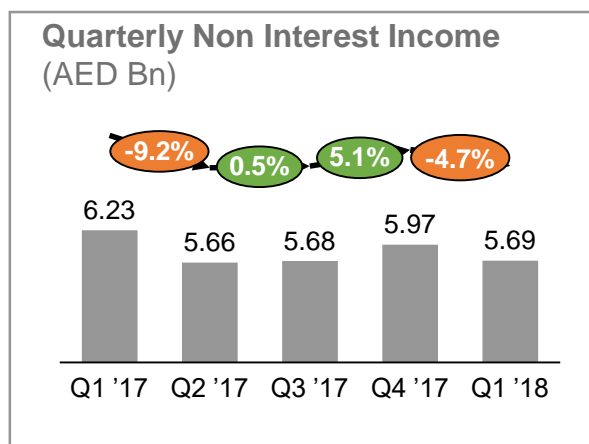
1 Overall, LDR remained stable with nine of the top 10 in the green zone

Loans to Deposits Ratio (%)

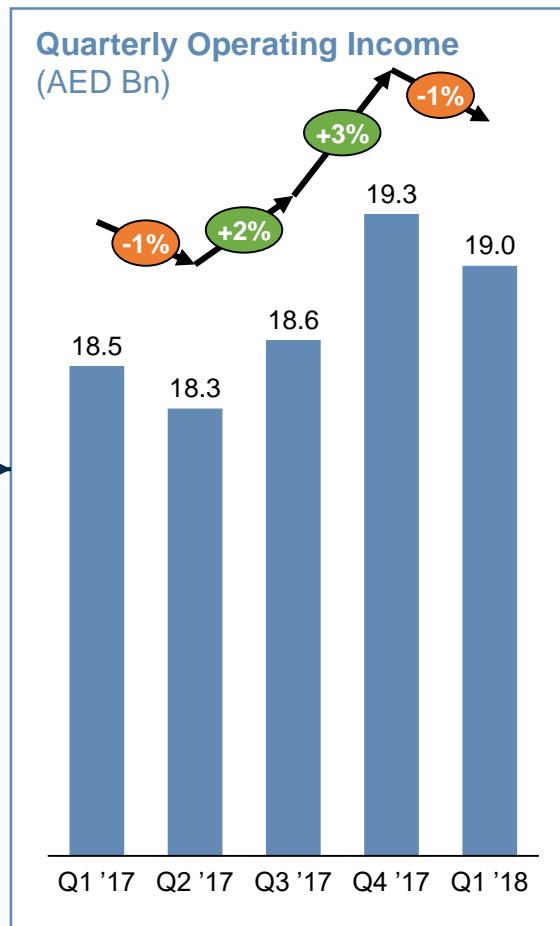


- LDR of five of the top 10 decreased
- Nine of the top 10 are in the green zone
- Liquidity expected to remain healthy in 2018, with LDR decreasing slightly to 89.1%

2 Operating income decreased largely due to a decrease in non-interest income

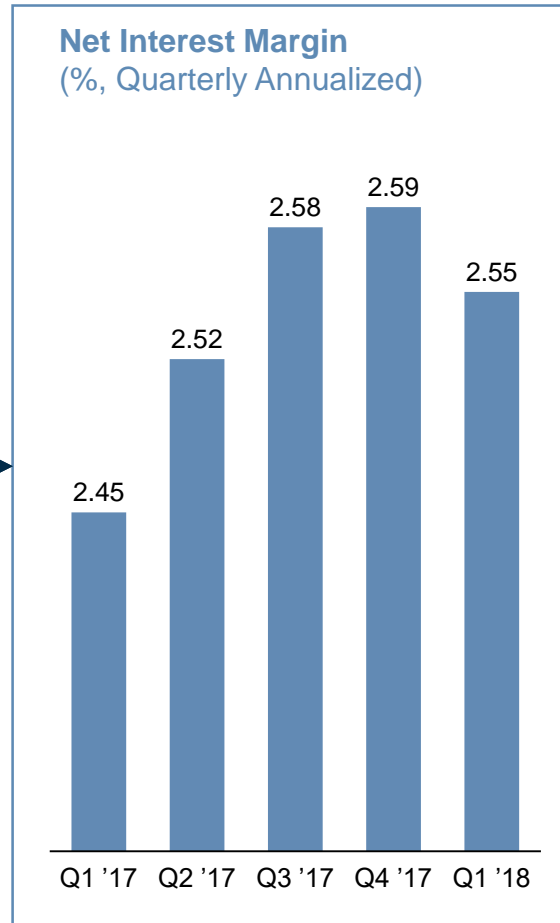
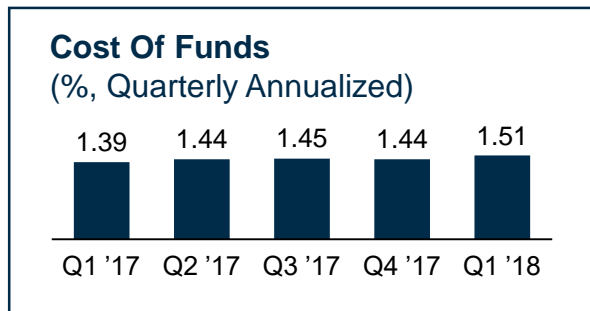
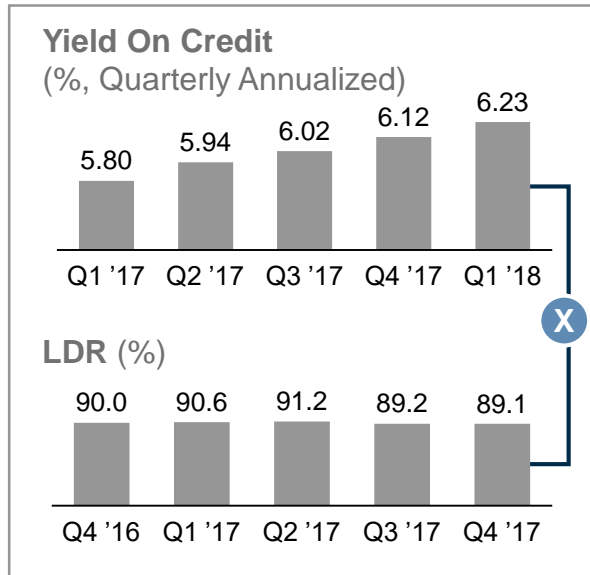


+



- ~1% decrease in overall quarterly operating income due to a decrease in non interest income
- Six banks decreased their operating income, while ENBD, ADCB, UNB and NBF showed increasing operating income

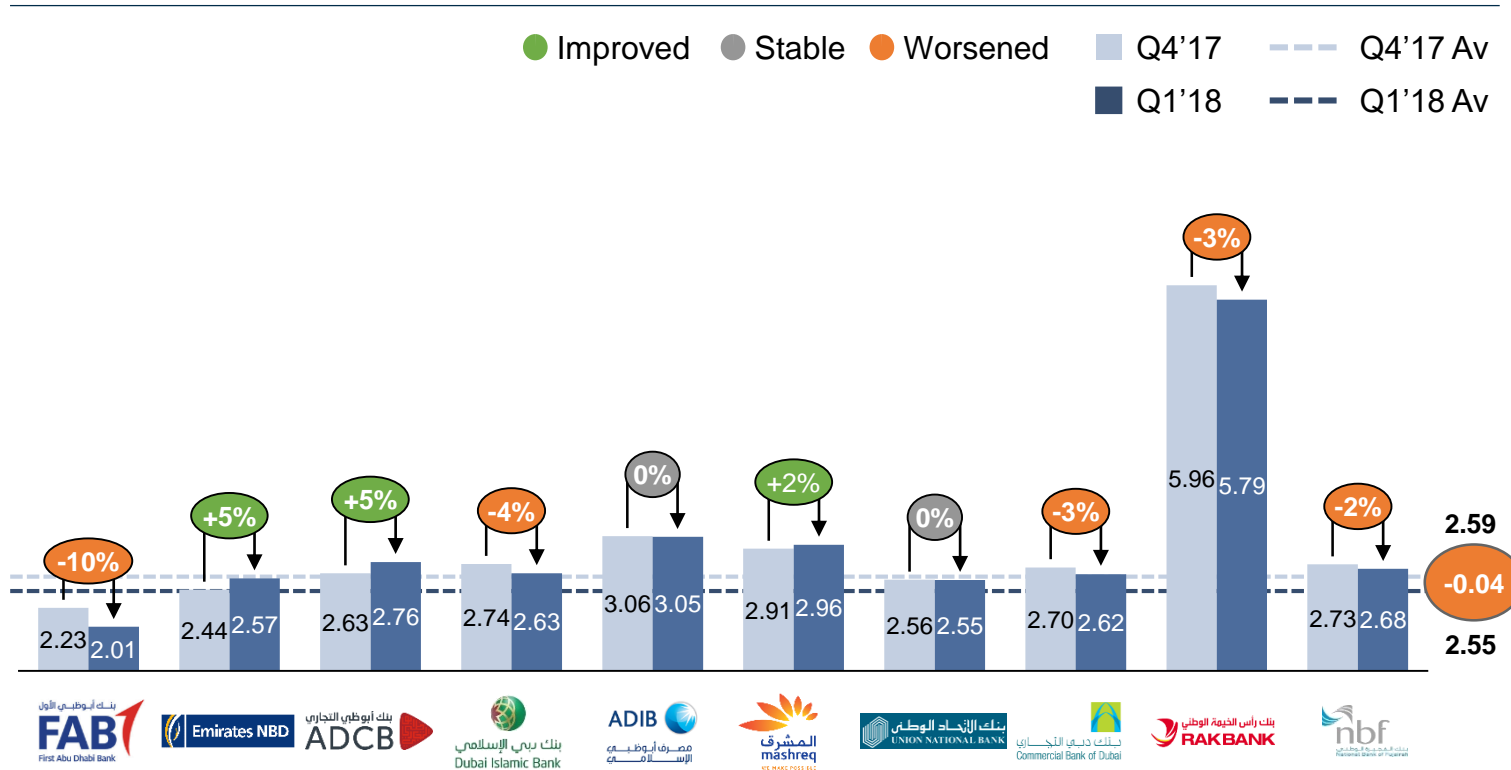
3 NIM decreased this quarter driven by an increase in cost of funds



- NIM decreased by ~4 bps this quarter
- Yield on credit increased by ~11 bps this quarter compared to last quarter
- LDR offset the increase in yield on credit as deposits increased more than loans issued
- Cost of Funds increased by ~7 bps for Q1 '18 vs previous quarter

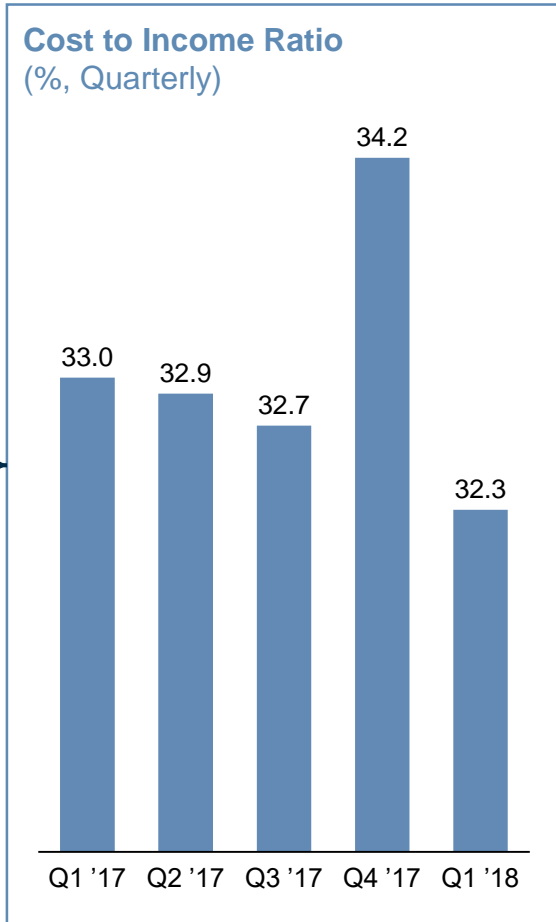
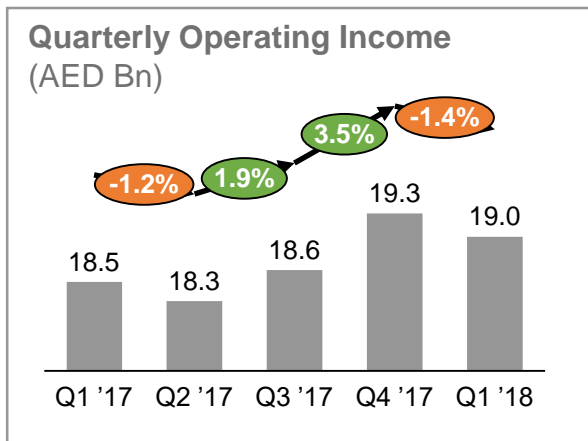
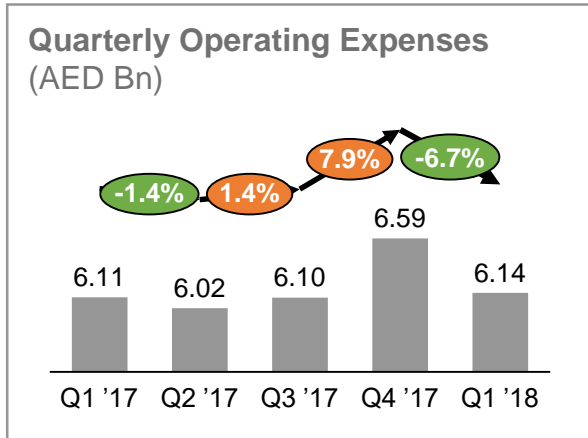
3 NIM for five of the top banks worsened, resulting in a market decrease of ~4 bps

Net Interest Margin (%)



- Five of the top 10 witnessed a decrease in NIM
- ENBD and ADCB witnessed NIM expansion of ~13 bps each
- FAB had the largest decrease in NIM, ~22 bps for Q1 '18 vs previous quarter

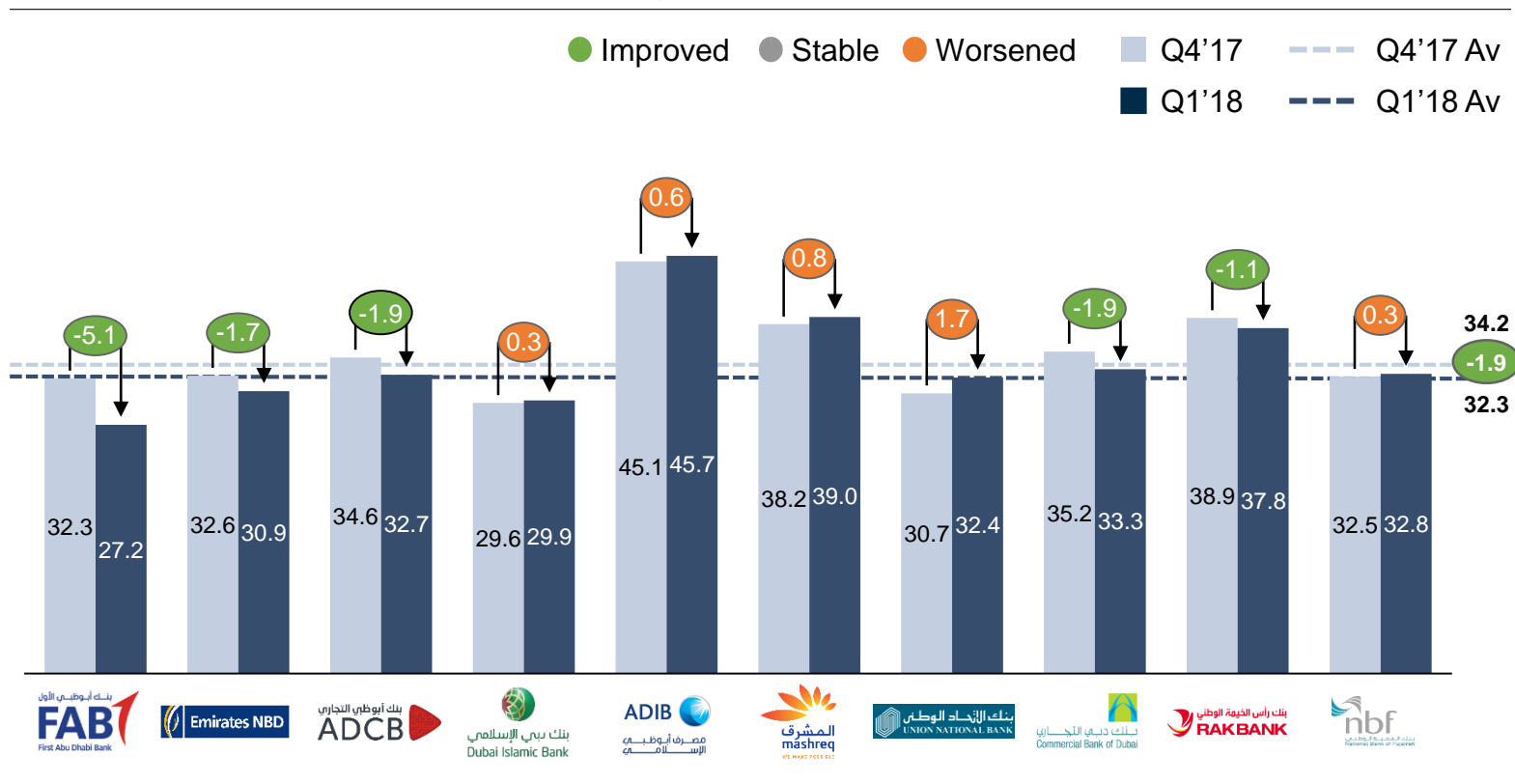
4 Cost to income ratio decreased significantly due to a sharp decrease in operating expenses



- Overall C/I ratio decreased significantly driven by a decrease in operating expenses of ~45 bps
- Overall C/I ratio continues previous downward trends, with exception of Q4 '17, which saw an increase in C/I ratio
- Quarterly income decreased by ~ 30 bps, though not sufficient to increase C/I ratio

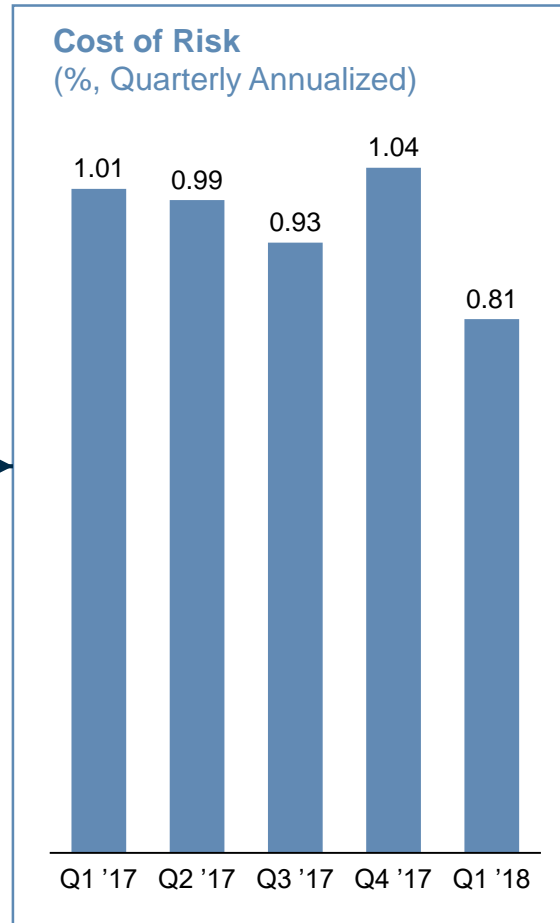
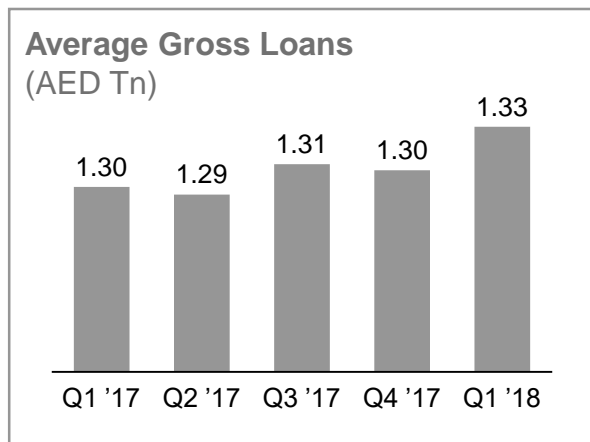
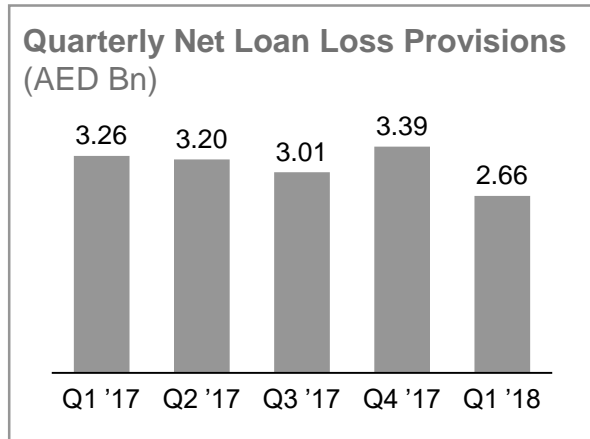
4 Overall C/I ratio decreased, but five of the top 10 increased their C/I ratio

Cost to Income Ratio (% , Quarterly)



- DIB, ADIB, Mashreq, UNB and NBF all increased their C/I ratio
- FAB witnessed the largest drop in C/I ratio while UNB had the largest increase

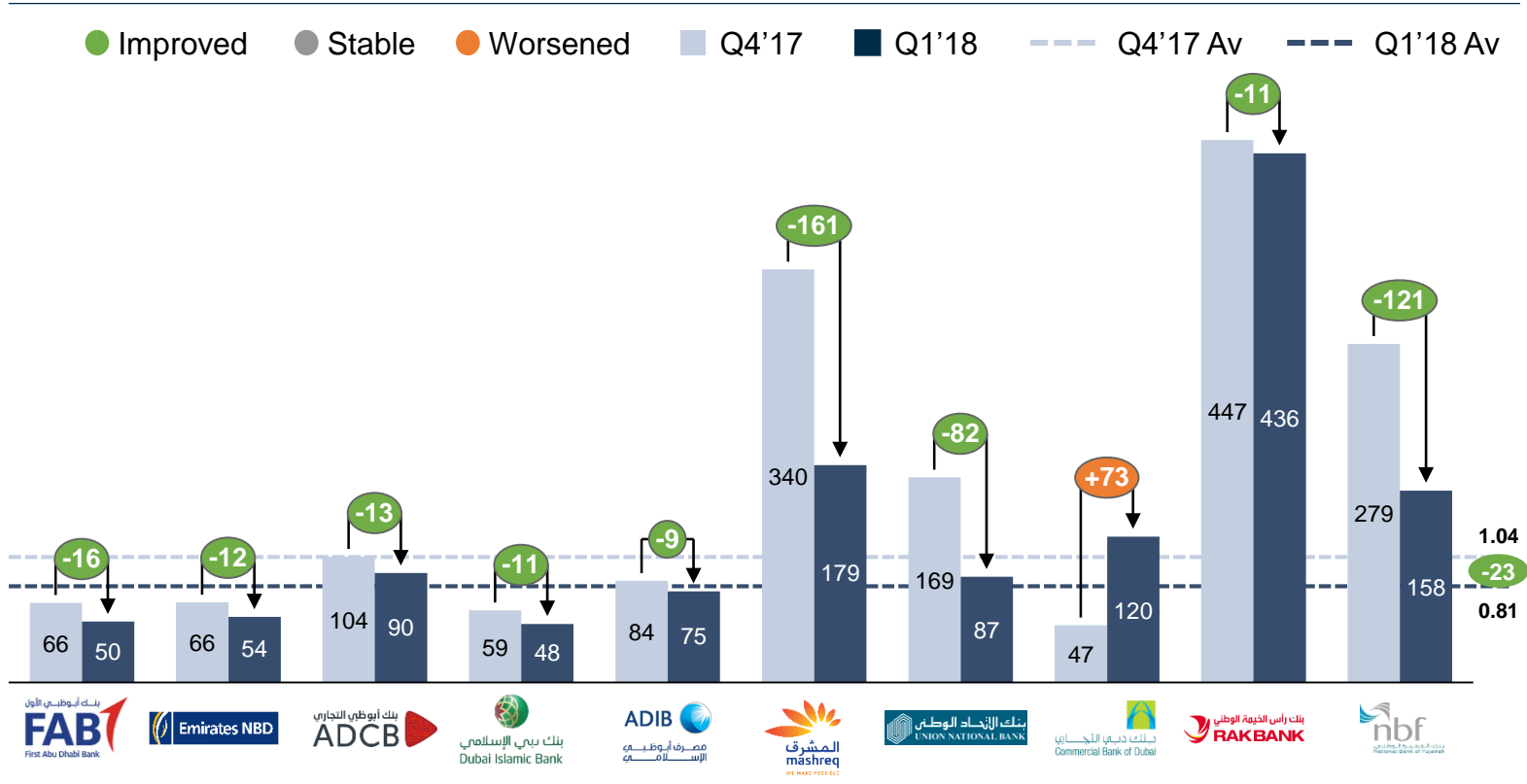
5 Cost of risk decreased significantly due to a sharp fall in loan loss provisions



- Cost of risk fell to 0.81% in Q1 '18, continuing previous trends from Q1 '17 till Q3 '17
- Decrease in cost of risk was driven by significant decrease in provisioning and increase in average gross loans

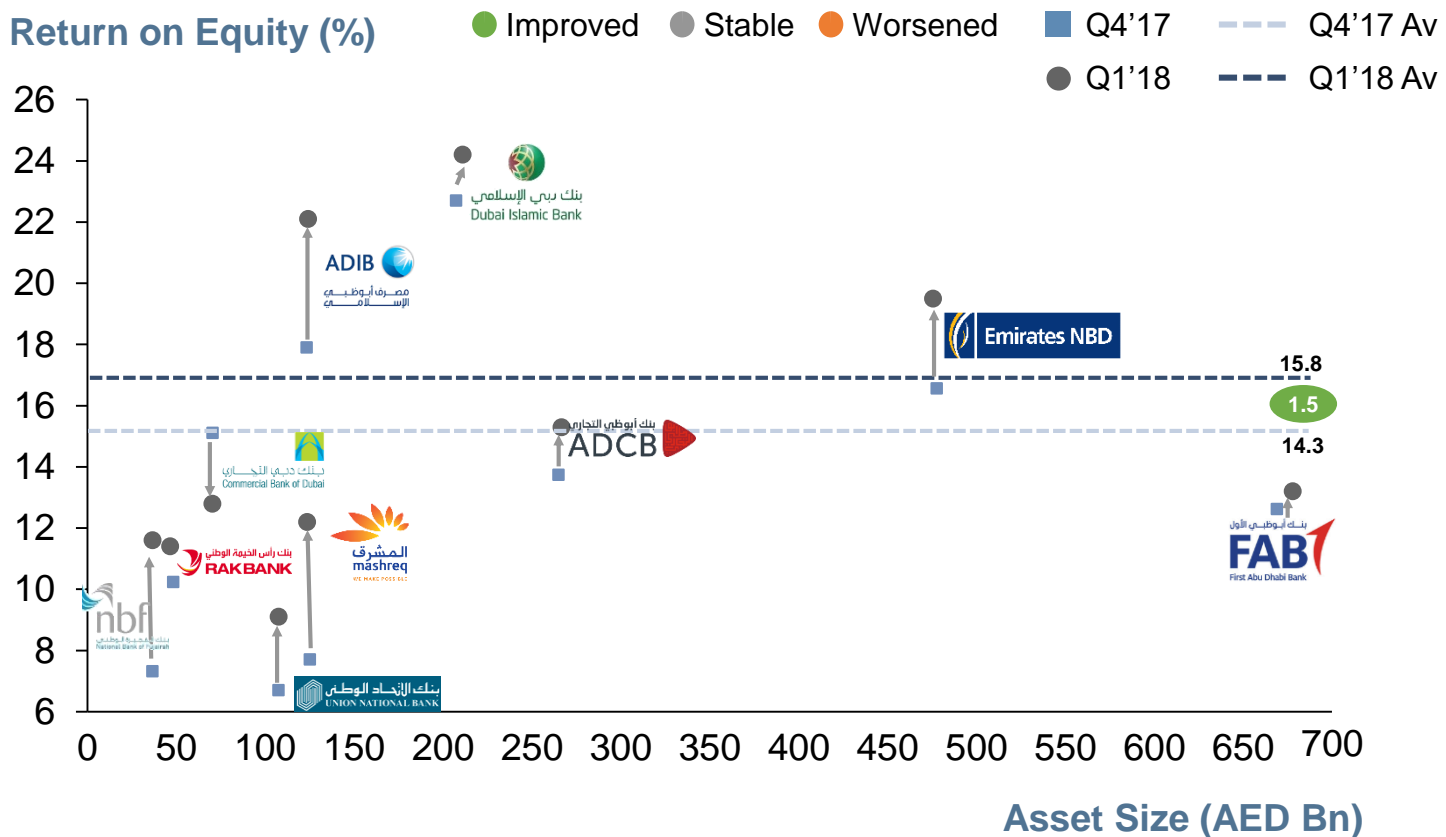
5 Nine out of the top ten banks have shown a decrease in cost of risk

Cost of Risk (bps) - net of reversals



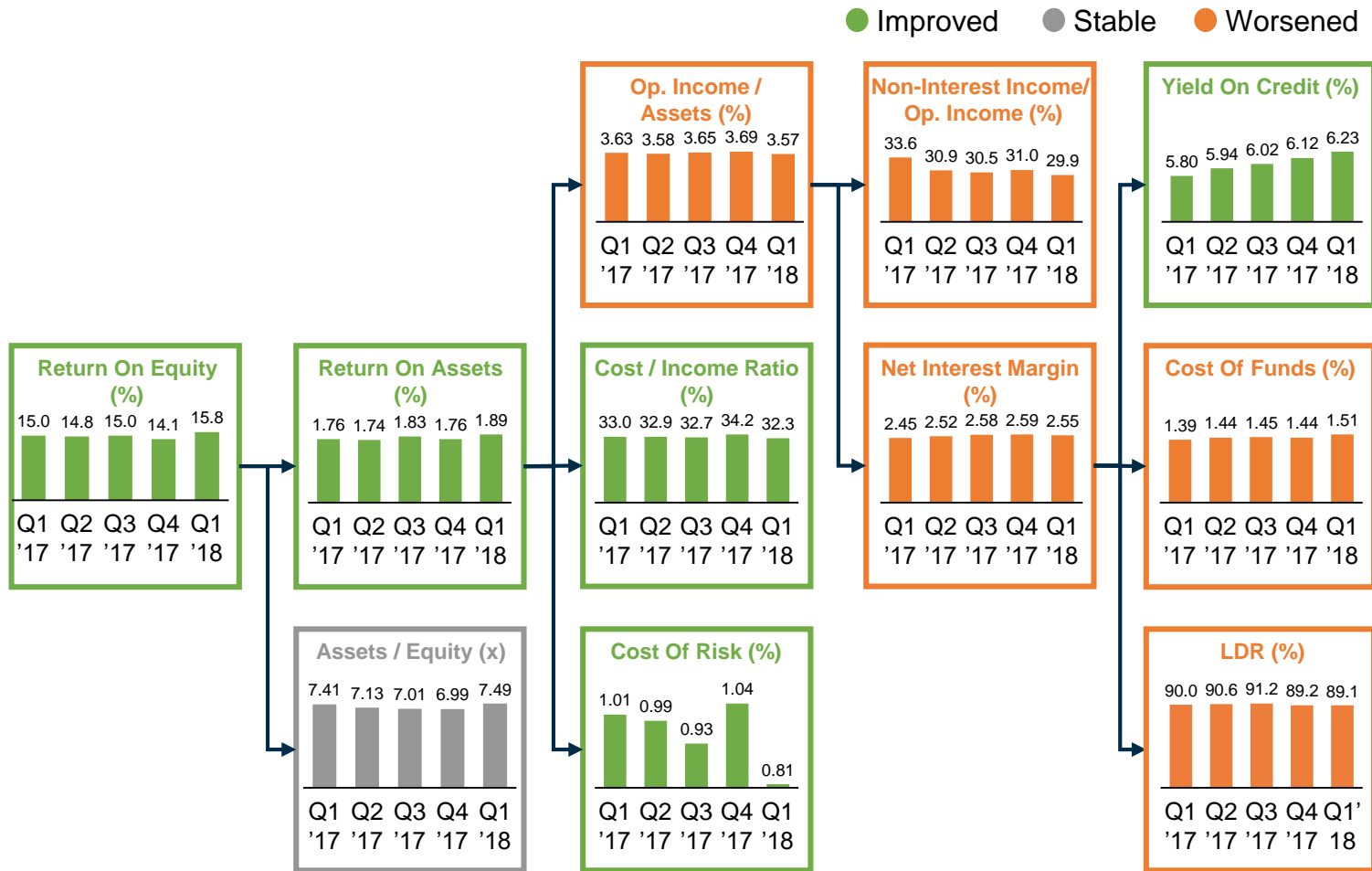
- Nine out of the ten banks showed decreasing cost of risk
- Mashreq showed the greatest decrease in cost of risk followed by NBF. Both of which had exceptionally high provisioning in Q4 '17
- CBD is the only bank to show an increased cost of risk

6 ROE has increased for 9 out of the 10 banks



- Average ROE increased to 15.8% in Q1'18, from 14.3% in Q4'17
- CBD is the only bank showing a decline on ROE with nine remaining banks all showing increasing ROEs

6 ROE increased due to a higher ROA caused by a decrease in cost of risk and cost to income ratio



- ROE increased due to a significant decrease in cost of risk and cost to income ratio, despite a decrease in operating income to assets ratio
- Net interest margin decreased driven by 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	677.8	FAB	
Emirates NBD	475.6	ENBD	
Abu Dhabi Commercial Bank	266.6	ADCB	
Dubai Islamic Bank	211.1	DIB	
Abu Dhabi Islamic Bank	124.1	ADIB	
Mashreq Bank	123.5	Mashreq	
Union National Bank	106.3	UNB	
Commercial Bank of Dubai	70.2	CBD	
National Bank of Ras Al-Khaimah	46.4	RAK	
National Bank of Fujairah	36.6	NBF	