



UAE Banking Pulse Quarter 2, 2017



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q2 '17 edition of the UAE Banking Pulse (“The Pulse”). In this quarterly series, we share results from our research examining the largest 10 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: Decline in ROE due to lower non-interest income and leverage, offset by an increase in NIM

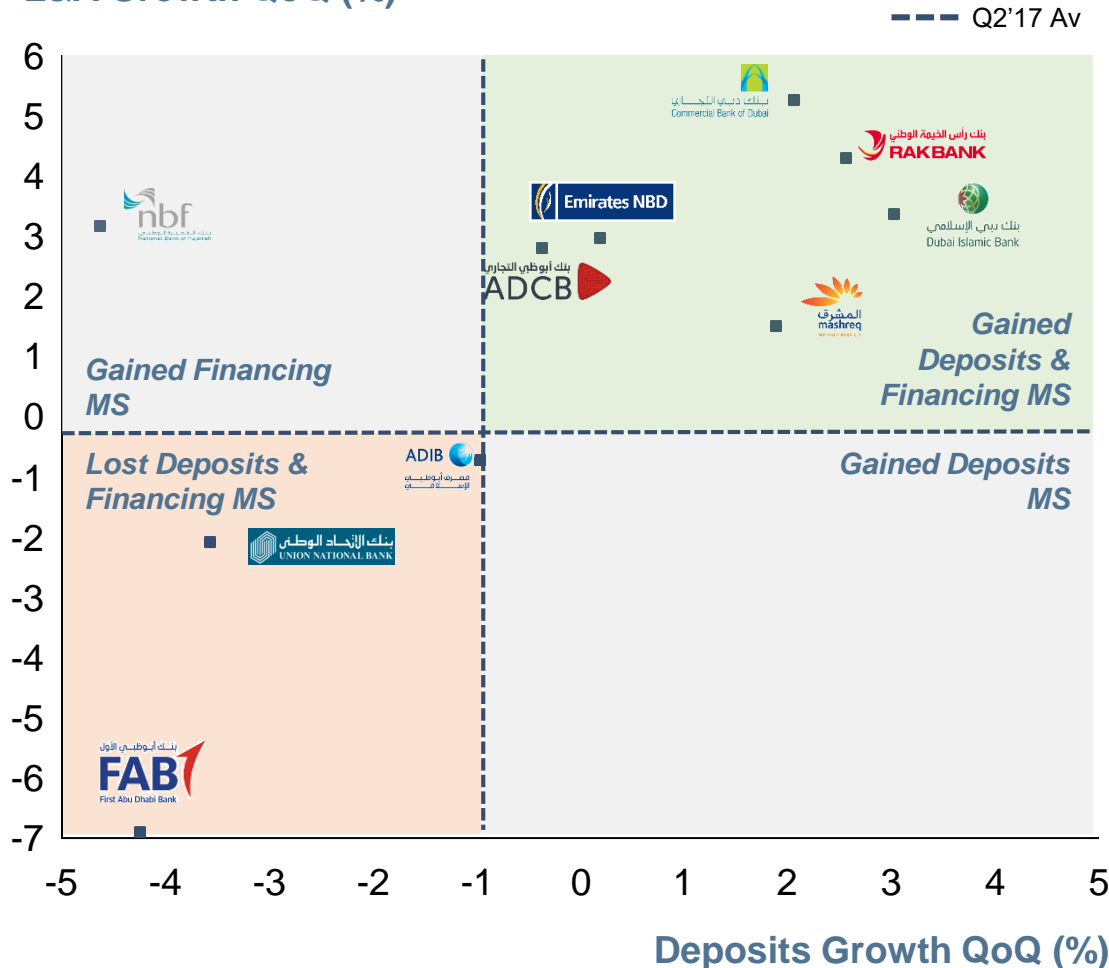
● Improved ● Stable ● Worsened

| | Metric | Q1 '17 | Q2 '17 | Q2 '16 | Q3 '16 | Q4 '16 | Q1 '17 | Q2 '17 | |
|----------------------------------------|----------------------------------------|----------------|-----------------|--------|--------|--------|--------|--------|-------------------------------------------------------------------------------------------------|
| Size | Loans and Advances Growth (QoQ) | 2.15% | Worsened -0.30% | | | | | | 1 Overall, L&A and deposits shrank in Q2 '17, despite most banks growing both |
| | Deposits Growth (QoQ) | 3.62% | Worsened -1.03% | | | | | | |
| Liquidity | Loan-to-Deposit Ratio (LDR) | 90.0% | Stable 90.6% | | | | | | |
| Income & Operating Efficiency | Operating Income Growth (QoQ) | 1.03% | Worsened -0.69% | | | | | | 2 Operating income growth and margin decreased due to a decrease non-interest income |
| | Operating Income / Assets | 3.62% | Worsened 3.59% | | | | | | |
| | Non-Interest Income / Operating Income | 33.5% | Worsened 31.1% | | | | | | 3 NIM increased, on the back of an increase in YoC and LDR, reversing previous trend |
| | Yield on Credit (YoC) | 5.80% | Improved 5.94% | | | | | | |
| | Cost of Funds (CoF) | 1.39% | Worsened 1.44% | | | | | | |
| | Net Interest Margin (NIM) | 2.45% | Improved 2.52% | | | | | | |
| Risk | Cost-to-Income Ratio (C/I) | 33.1% | Improved 32.8% | | | | | | 4 C/I ratio decreased further, continuing previous quarter trend |
| | Coverage Ratio | 119% | Stable 113% | | | | | | 5 Risk metrics showed mixed performance with decline in both coverage ratio and cost of risk |
| Profitability | Cost of Risk (CoR) | 0.99% | Stable 0.98% | | | | | | |
| | Return on Equity (RoE) | 14.4% | Worsened 14.0% | | | | | | 6 ROE and ROA decreased in Q2 '17 on the back of a decrease in both income margins and leverage |
| | Return on Assets (RoA) | 1.76% | Worsened 1.74% | | | | | | |
| Return on Risk-Weighted Assets (RoRWA) | 2.72% | Worsened 2.31% | | | | | | | |
| Capital | Capital Adequacy Ratio (CAR) | 17.8% | Improved 18.2% | | | | | | |

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, L&A and deposits for the top 10 decreased, despite most banks growing both

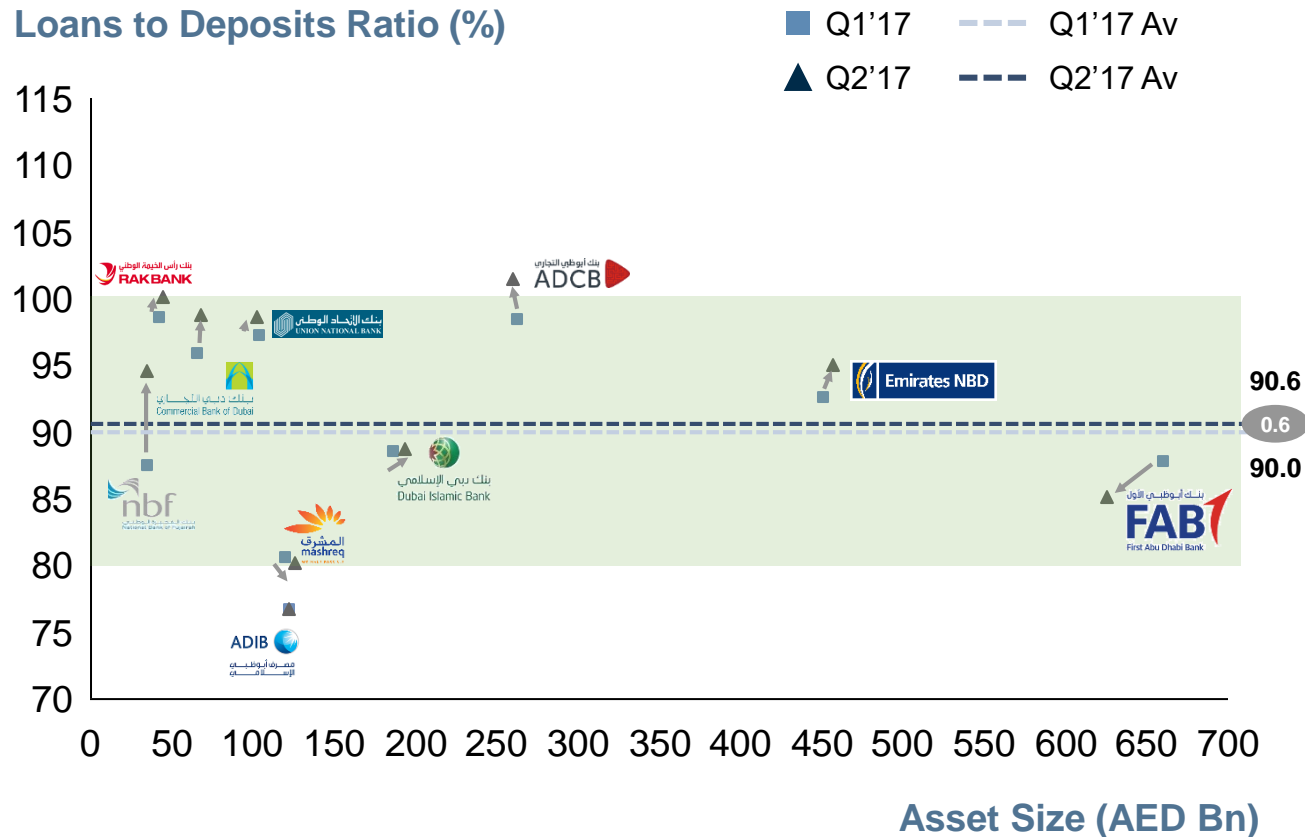
L&A Growth QoQ (%)



- Seven of the top 10 grew their L&A market share and six banks grew their deposits market share
- DIB, CBD and RAK significantly outgrew the market in both L&A and deposits
- FAB showed the biggest decline in L&A due to a combination of low demand for loans, wind-down of the trade finance portfolio and a balance sheet optimization

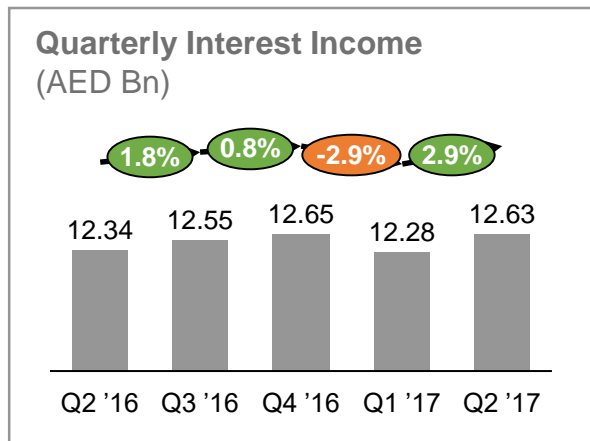
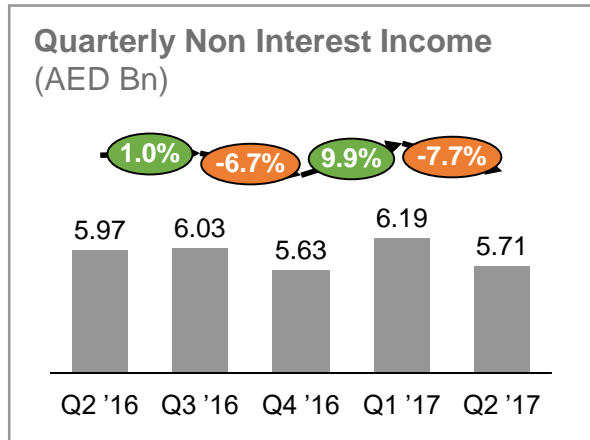
1 Overall, LDR increased with seven of the top 10 in the green zone

Loans to Deposits Ratio (%)

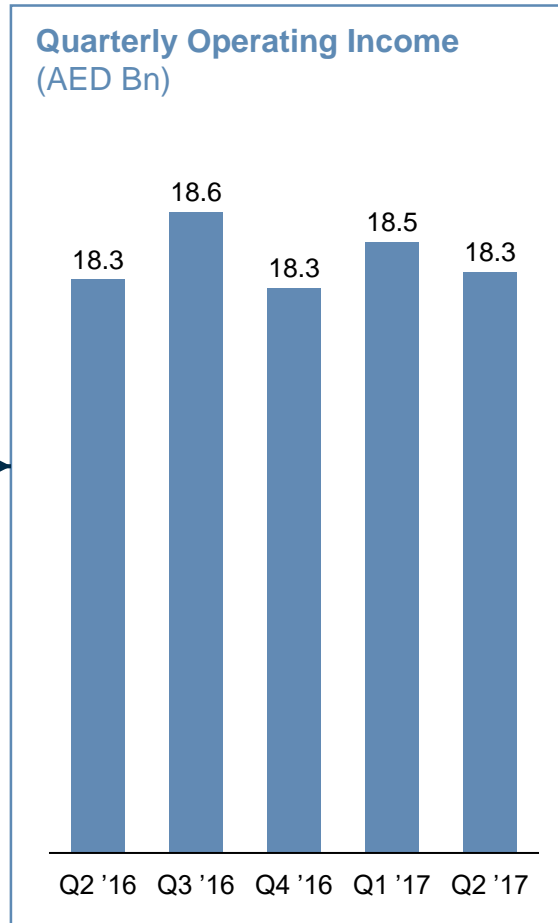


- LDR of seven of the top 10 increased, while two banks decreased and one remained the same
- Seven of the top 10 are in the green zone
- RAK and ADCB decreased their liquidity and moved out of the green zone
- Liquidity expected to remain healthy in 2017, particularly for larger banks

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

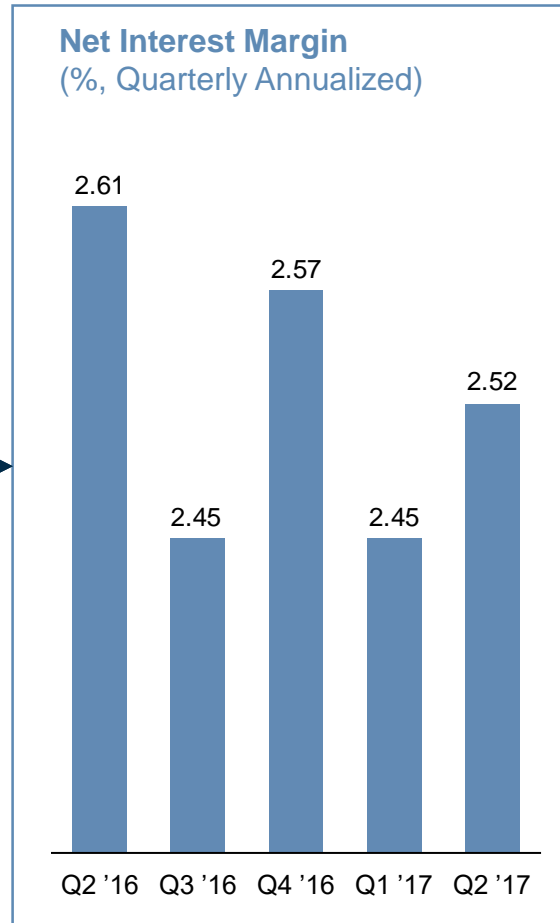
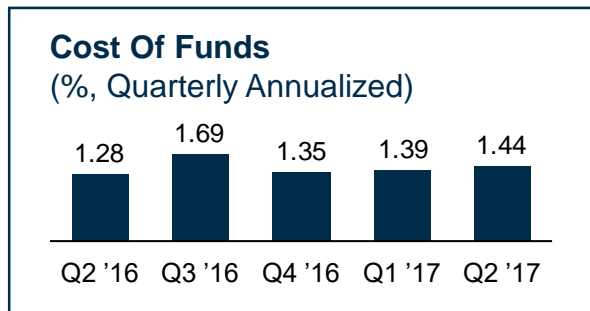
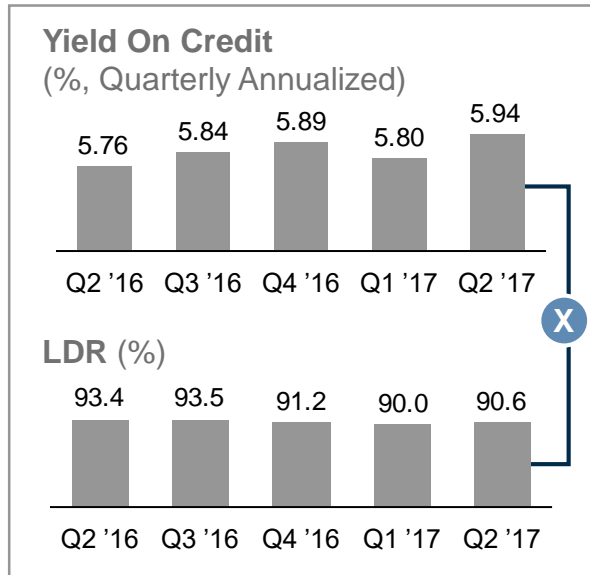


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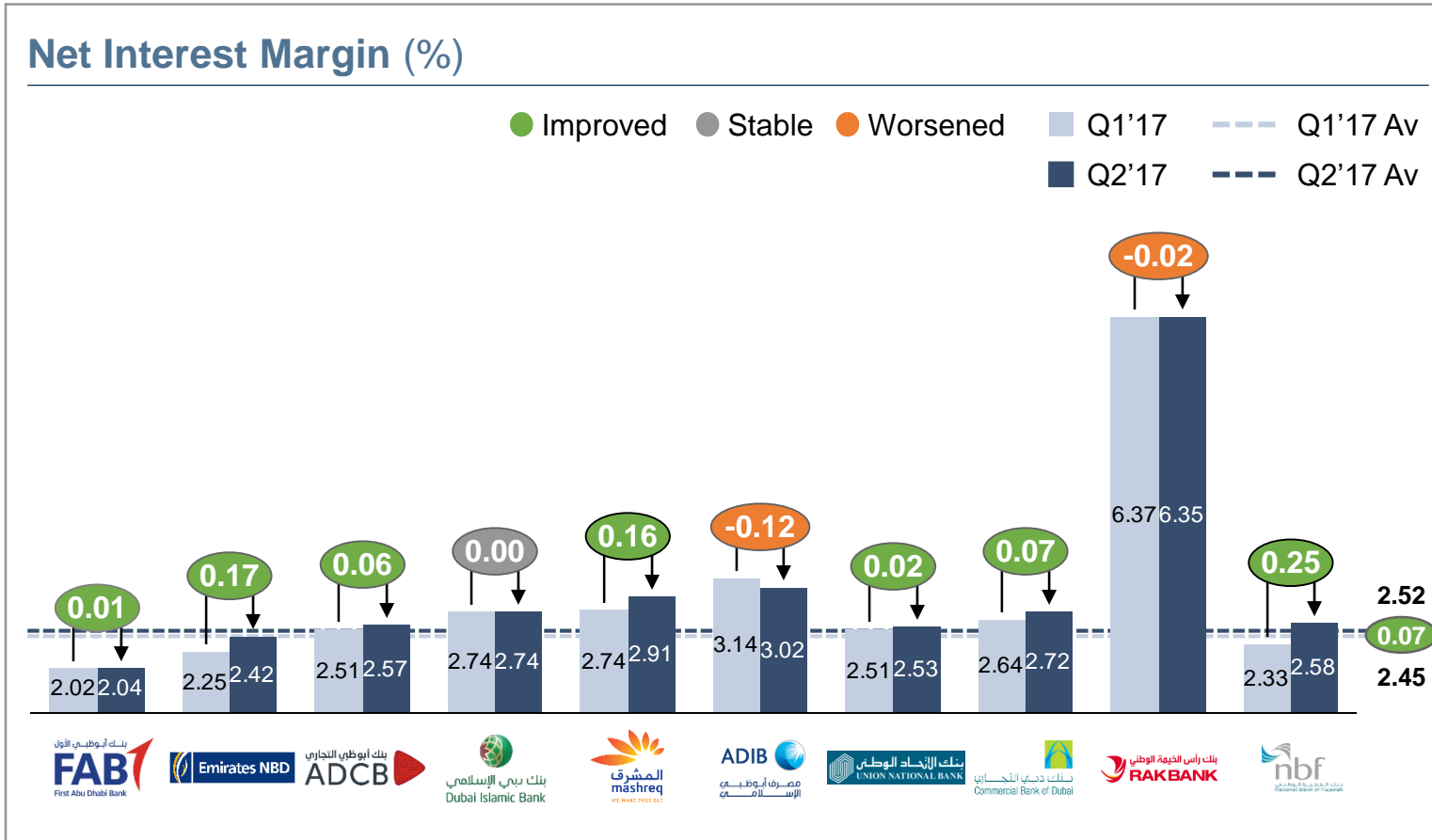
- Drop in overall quarterly operating income due to a decrease in non interest income, partially offset by an increase in net interest income
- Banks showed mixed results with eight banks showing an increase in operating income

3 Increase in NIM despite a rise in cost of funds driven by an increase in LDR and yield on credit



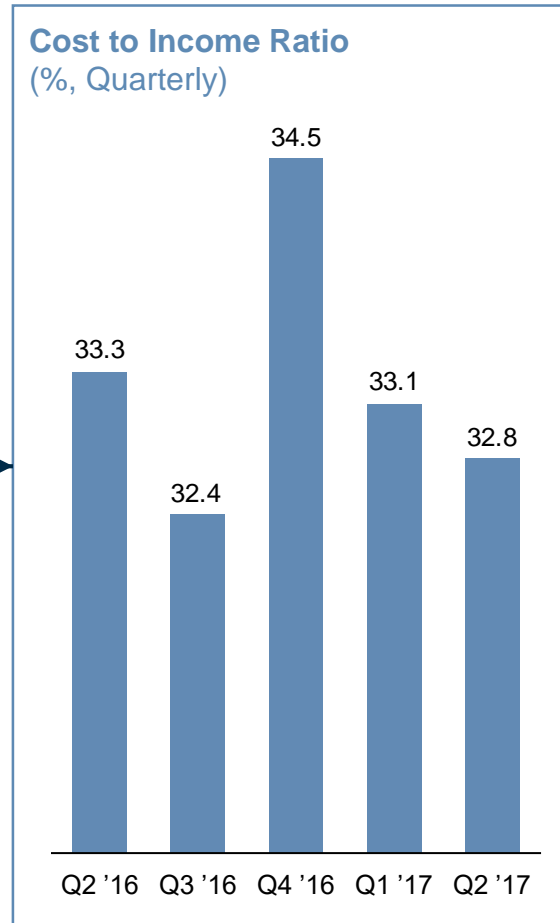
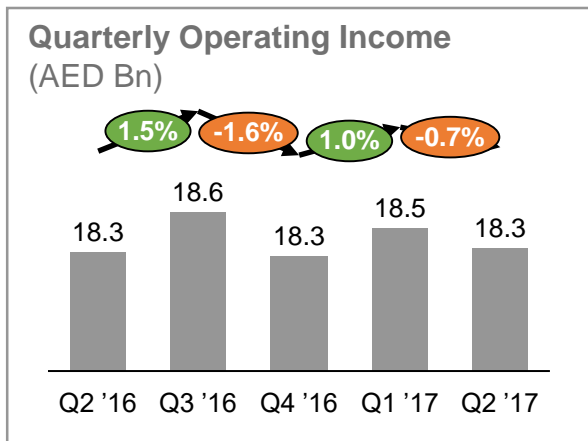
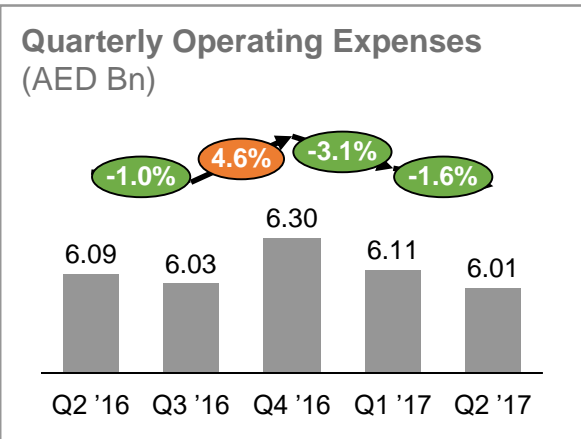
- NIM increased by ~7 bps this quarter compared to last quarter
- Yield on credit increased by ~14 bps this quarter compared to last quarter due to the recent rise in interest rates
- LDR increased by 67 bps this quarter compared to last quarter as loans decreased less than deposits
- Cost of funds increased further by ~5 bps this quarter compared to last quarter

3 Seven banks improved their NIM and one bank remained stable



- Seven of the top 10 witnessed an increase in NIM
- ADIB and RAK witnessed a decrease in NIM, the former due to a decrease in YoC and the latter due to an increase in CoF

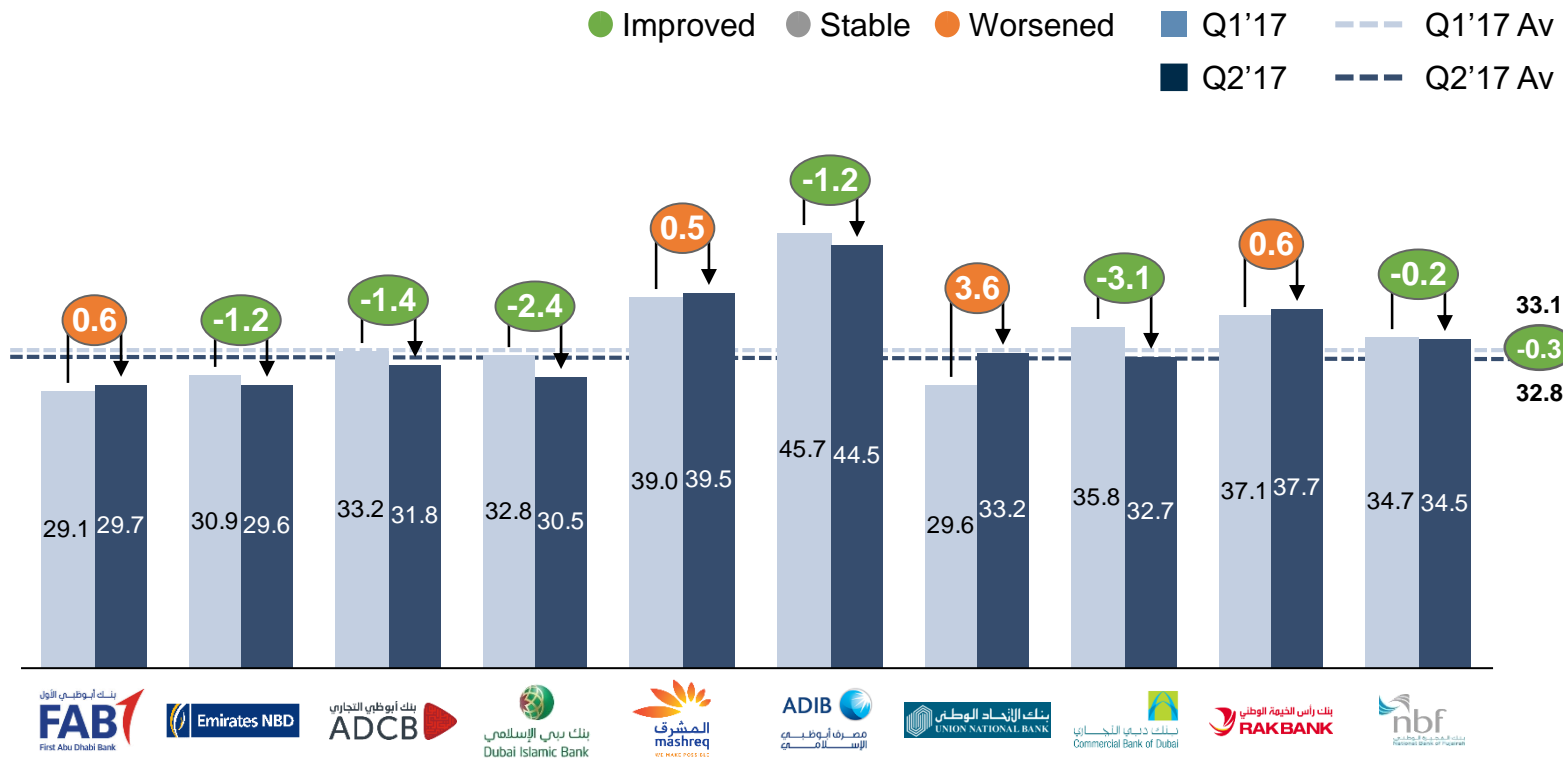
4 Cost to income ratio continued to decrease, led by a decrease in operating expense



- C/I ratio decreased driven by a decrease in operating expenses, despite a decrease in operating income
- Largest decrease in operating expenses is due to realization of cost synergies of FAB merger

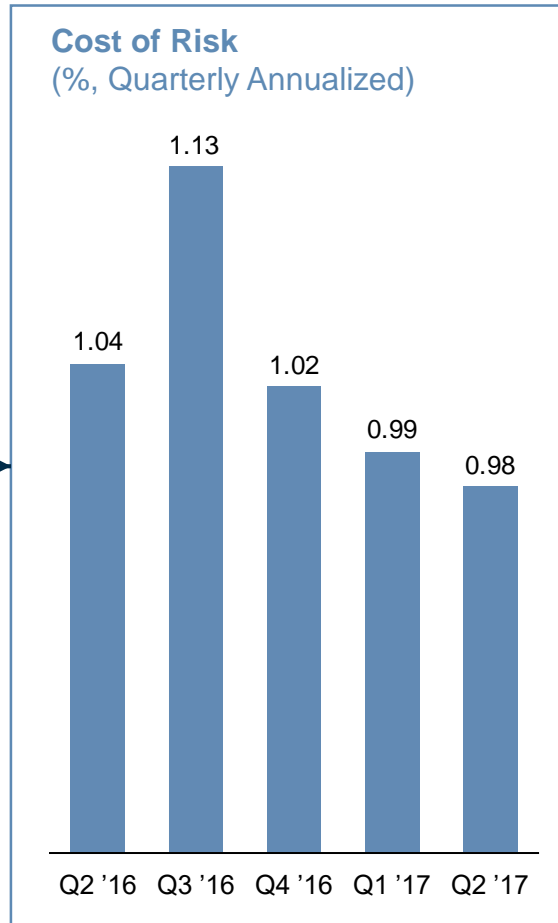
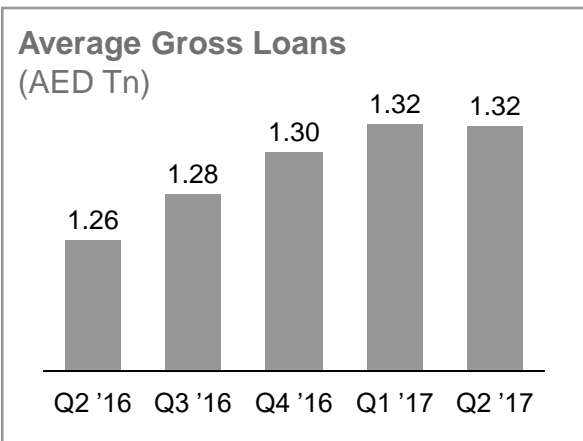
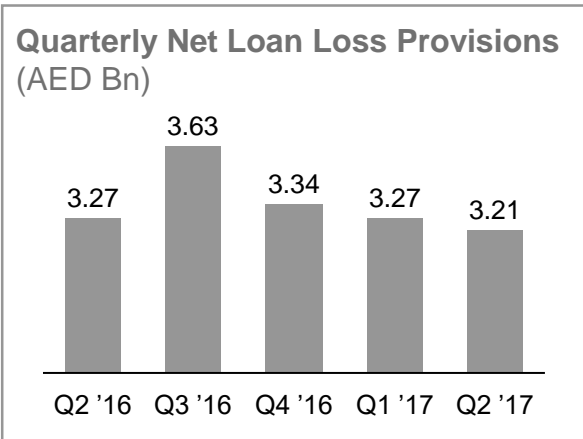
4 Six of the top 10 improved their C/I ratio

Cost to Income Ratio (% , Quarterly)



- Six of the top 10 decreased their C/I ratio compared to Q1 '17
- CBD and DIB led the top 10, on the back of rigorous cost controls

5 Overall, CoR continued to decrease driven by lower provisioning

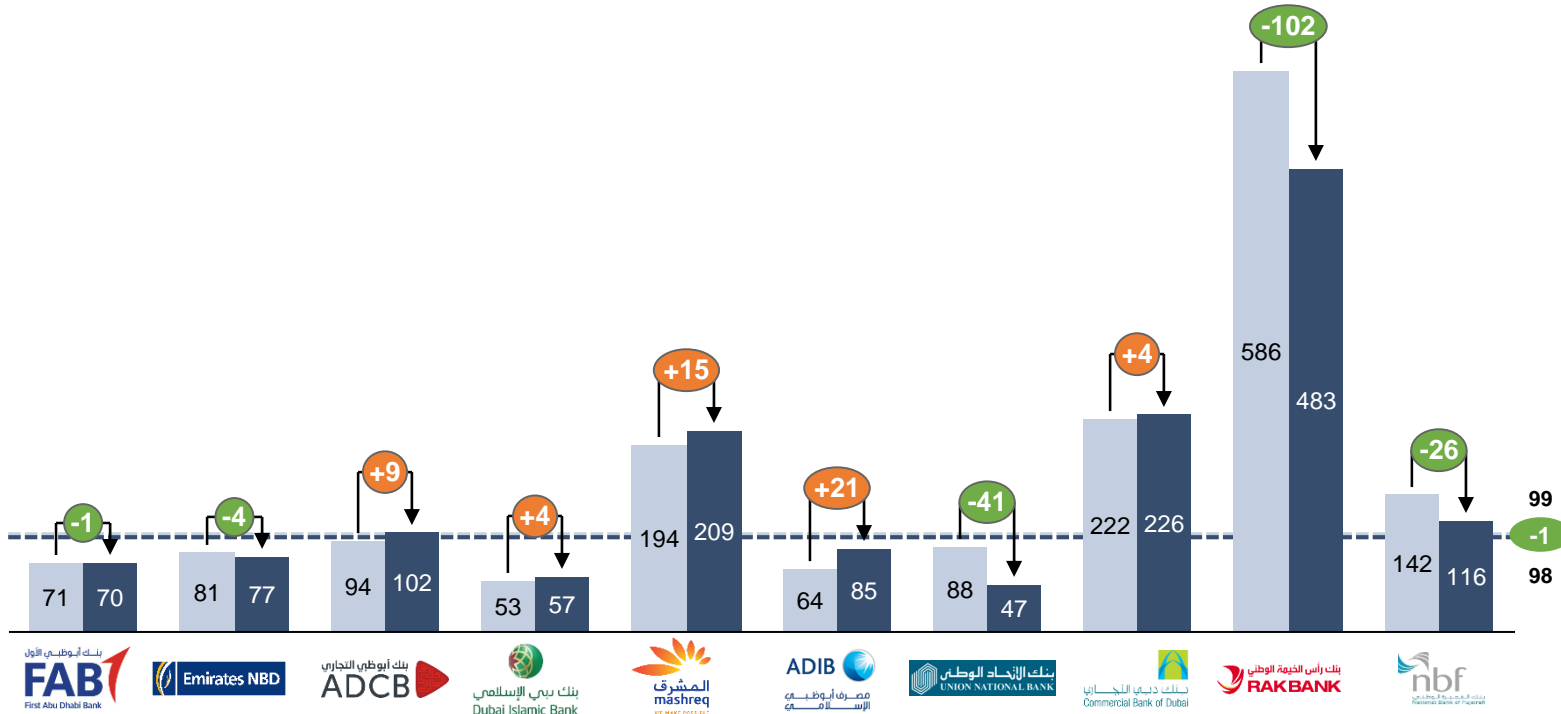


- Cost of risk decreased to 0.98% in Q2 '17, continuing the downward trend that started in Q4 '17
- Decrease in cost of risk was driven by a decrease in provisioning rather than an increase in the loans portfolio

5 Banks show mixed results in cost of risk

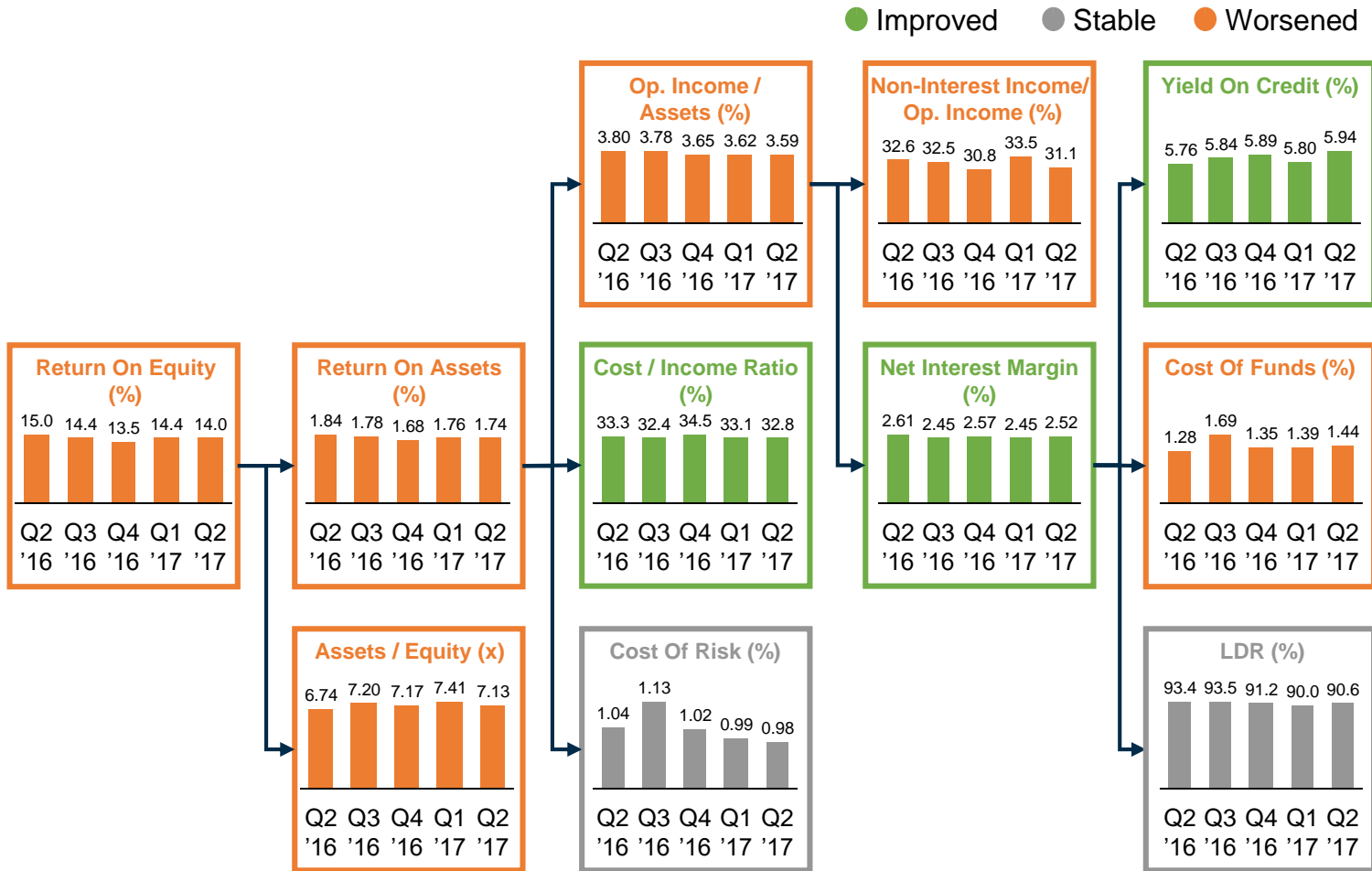
Cost of Risk (bps) - net of reversals

● Improved ● Stable ● Worsened ■ Q1'17 ■ Q2'17 - - - Q1'17 Av - - - Q2'17 Av



- Five of the top 10 saw improved cost of risk
- RAK, UNB and NBF witnessed the largest decreases in cost of risk
- ADIB witnessed a 21 bps increase in cost of risk on the back of heavy provisioning in Q2 '17

6 ROE decreased on the back of a decrease in both income margins and leverage



- ROE decreased on the back of a decline in ROA and a decrease in leverage
- ROA decreased on the back of a decline in income margins, offset by a decrease in NIM and stabilizing cost of risk
- Operating income margin decreased due to a decline non-interest income, offset by an increase in NIM

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 II 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 II 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 | 624.6 | FAB | |
| Emirates NBD | 456.2 | ENBD | |
| Abu Dhabi Commercial Bank | 259.2 | ADCB | |
| Dubai Islamic Bank | 193.1 | DIB | |
| Mashreq Bank | 125.8 | Mashreq | |
| Abu Dhabi Islamic Bank | 122.2 | ADIB | |
| Union National Bank | 102.6 | UNB | |
| Commercial Bank of Dubai | 67.9 | CBD | |
| National Bank of Ras Al-Khaimah | 44.0 | RAK | |
| National Bank of Fujairah | 34.0 | NBF | |