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# UAE Banking Pulse

Quarter 4, 2018

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# Foreword

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Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q4 '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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**Dr. Saeeda Jaffar**

**Lead Author, Managing Director  
Middle East office Co-Head**

- 15+ years of international experience in management consulting and industry
- Focuses on strategic and performance-related issues in financial institutions, sovereign wealth funds, family businesses, real estate, private equity and private investments
- Emirati National, frequent speaker and moderator in Banking and Finance events
- Board member of Bahrain Fintech Bay

**Contact Details:**

FinancialServices-me@alvarezandmarsal.com  
Phone: +971-45671065



**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
- Expertise in Financial Inclusion and creation of digital wholesale and retail banks
- Served as CEO of banks in the UAE and Kenya

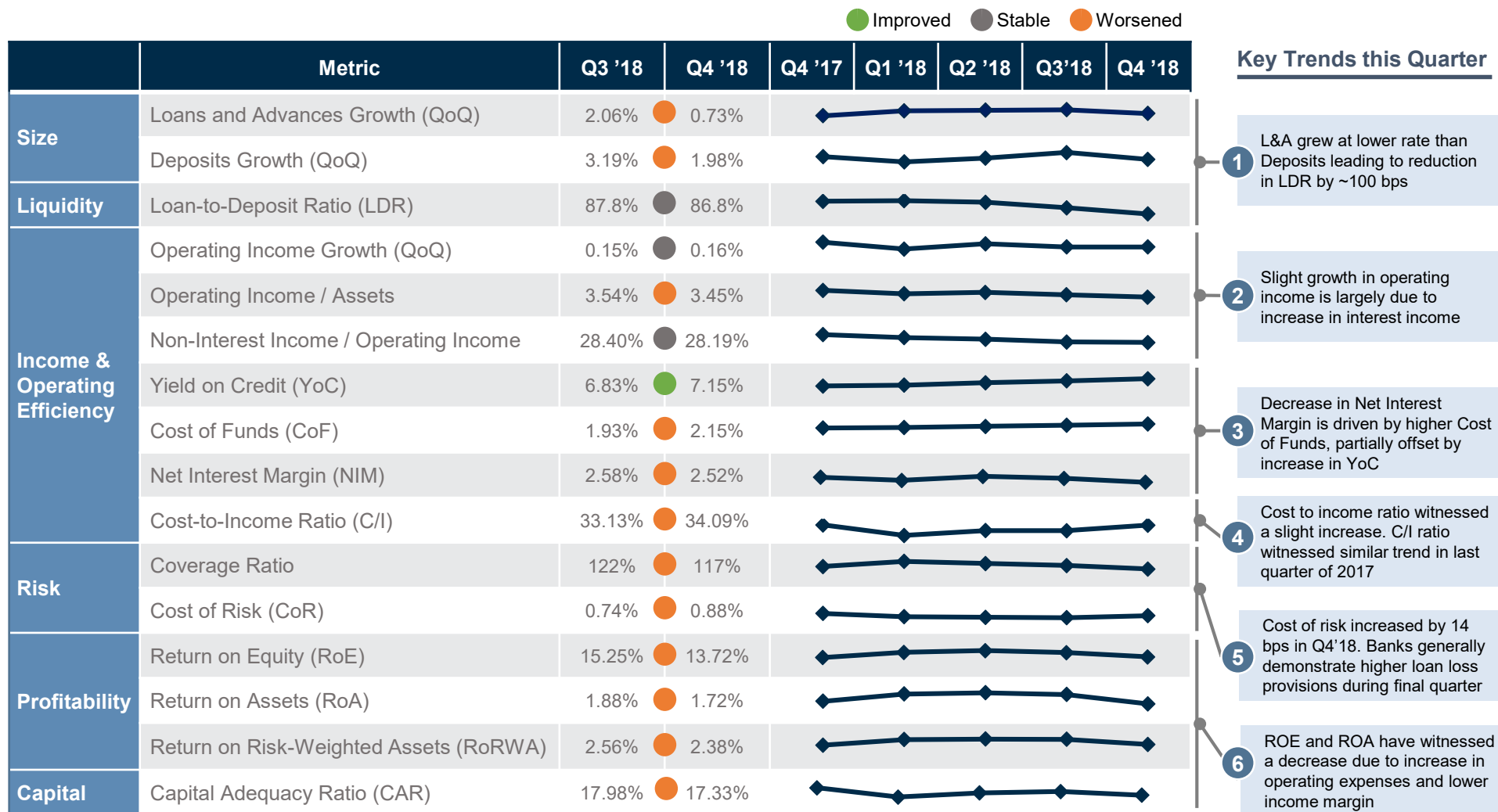


**Neil Hayward**

**Co-Author, Managing Director  
Middle East office Co-Head**

- 18+ years of experience in turnaround and restructuring in the Middle East, Europe and US
- Focuses on financial services and is an expert in restructuring both conventional finance and Islamic finance facilities
- Advises financially distressed companies, including playing a major role as a board member

# Pulse: ROE and ROA have witnessed a decrease due to increase in operating expenses and lower income margin



Note 1: QoQ stand for quarter over quarter

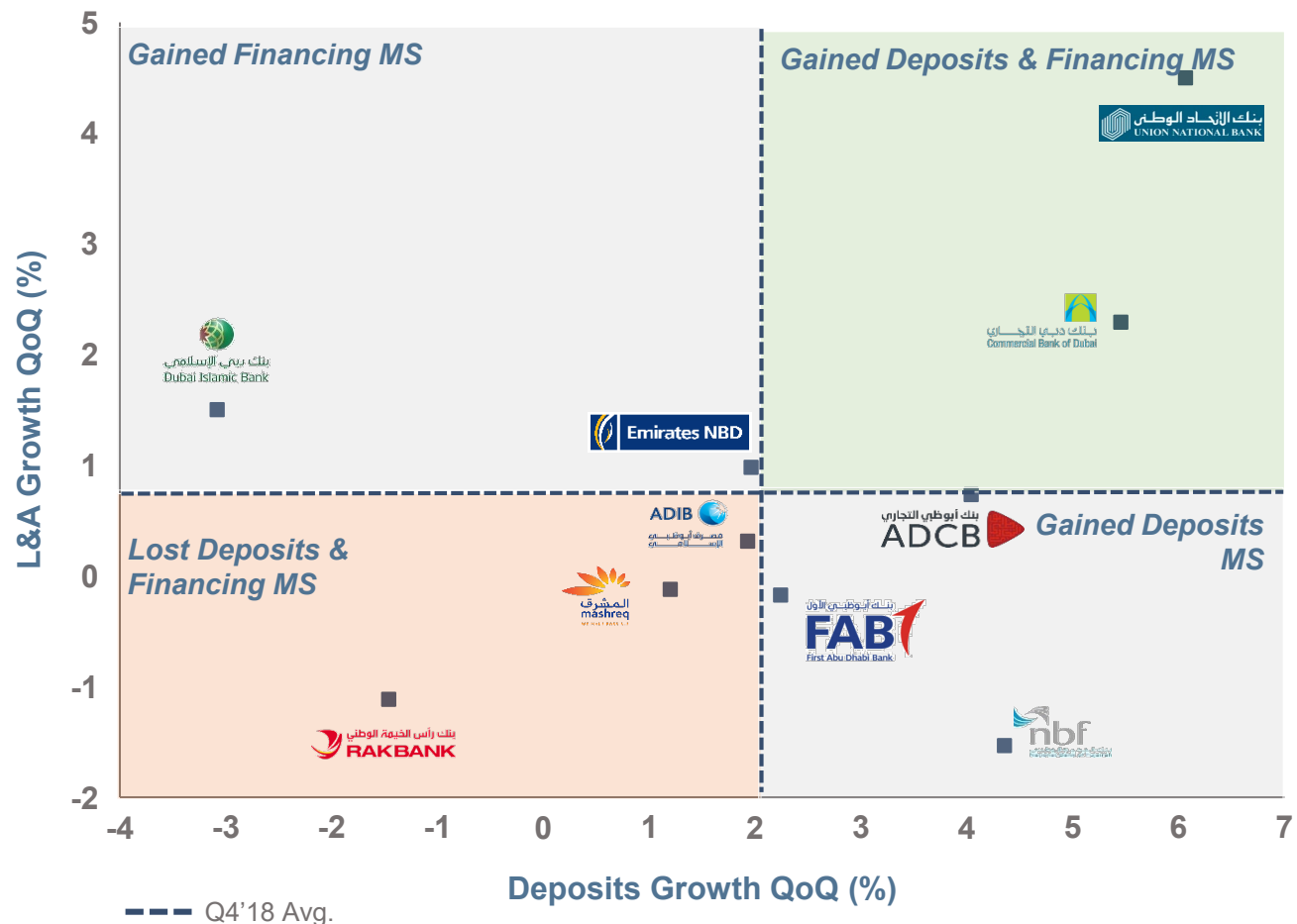
Note 2: Growth in loans & advances and deposits was presented QoQ instead of YoY

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

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

# UNB and CBD managed to increase their L&A and deposits market share

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



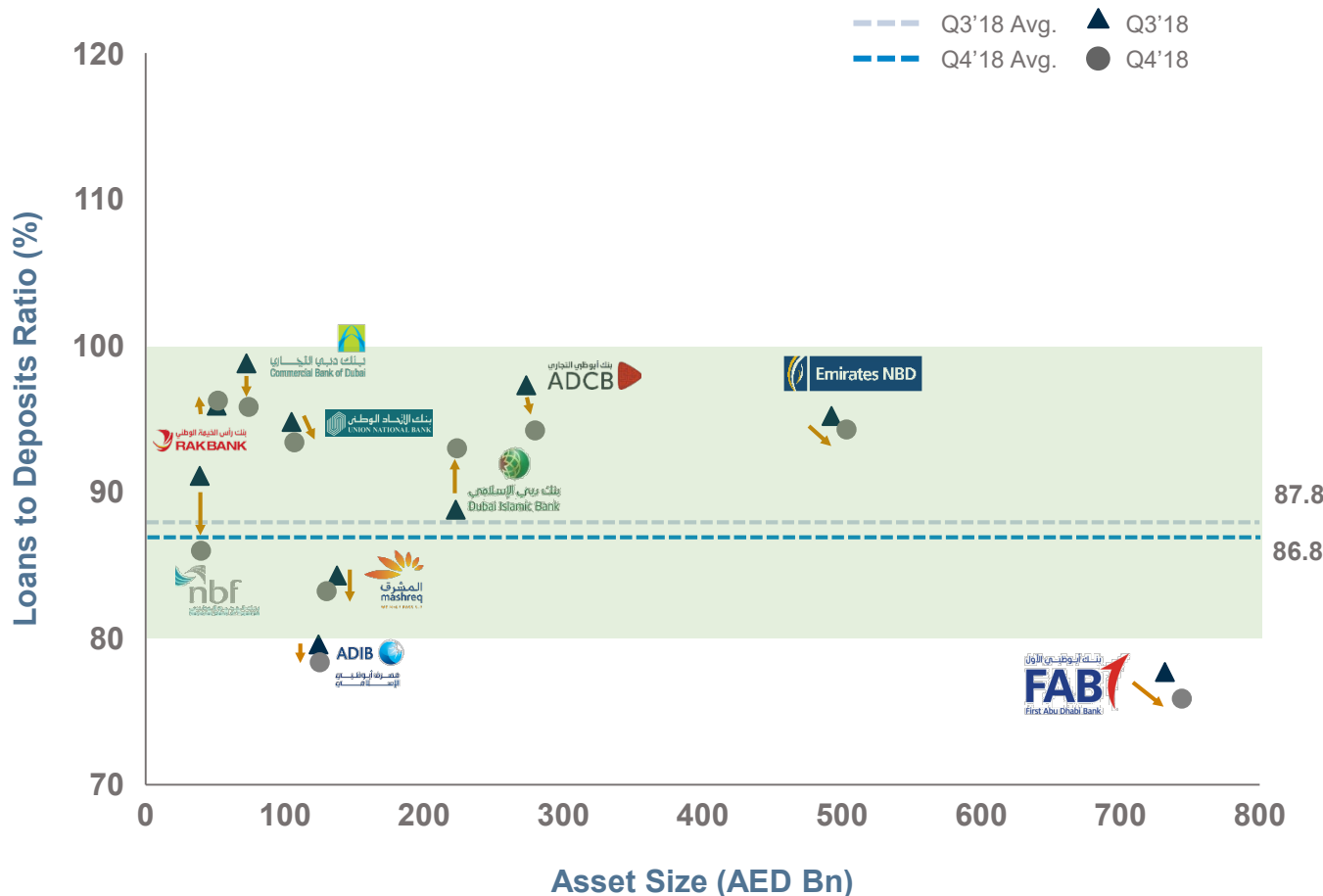
## Key Remarks

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

# LDR decreased slightly but eight out of ten banks remained in green zone

Loans-to-deposit vs. Asset Size (Q4'18)

Key Remarks

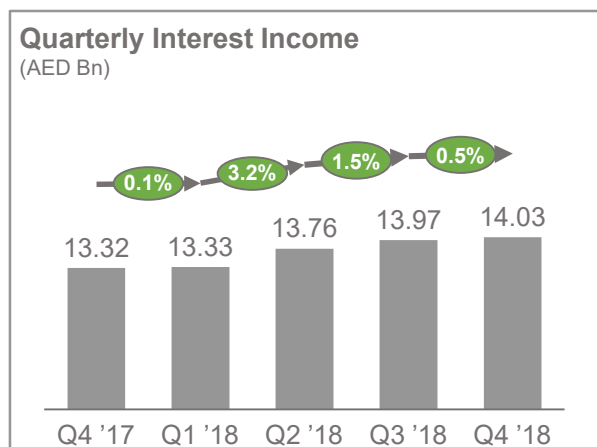
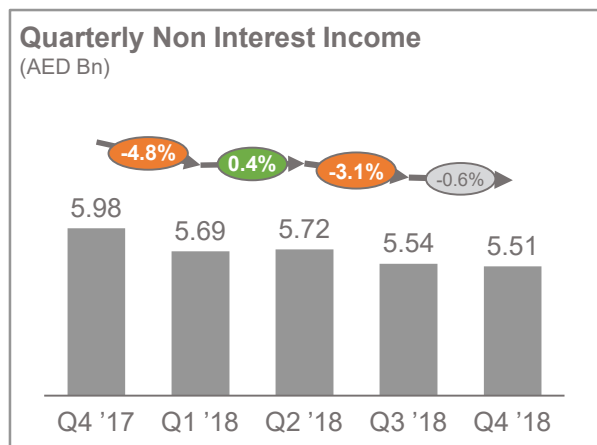


- Slight decrease in average LDR ratio from 87.8% in Q3'18 to 86.8% in Q4'18
- FAB has lowest LDR followed by ADIB
- All banks except RAK and DIB have witnessed a drop in LDR ratio in Q4'18

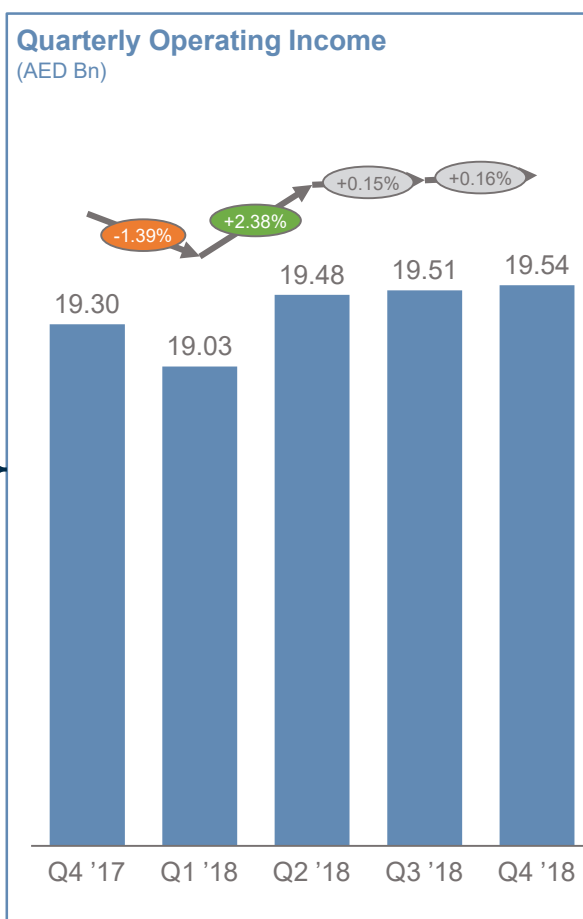
Note: The green zone is an area of healthy liquidity  
 Source: Financial statements, A&M analysis

# Operating income is steady for the third quarter in a row

## Top 10 Operating Income (AED Bn)



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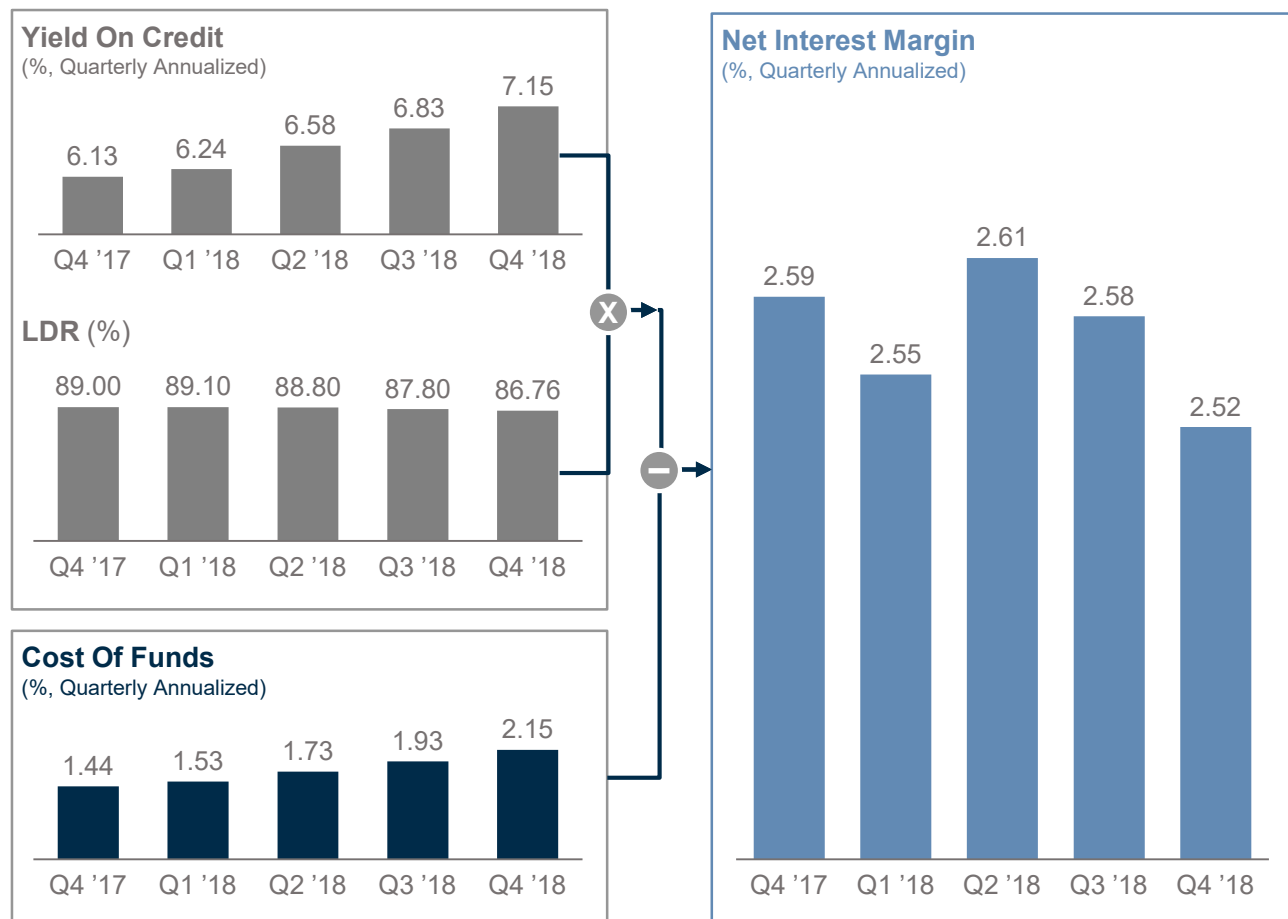
● Improved ● Stable ● Worsened

## Key Remarks

- Operating income remained steady driven by mixed results of interest and non-interest income
- Non-interest income slightly decreased by 0.6% in Q4'18 compared to Q3'18
- Interest income continued the upward trend since Q4'17 and reported a 0.5% increase this quarter

# Slight decrease in NIM despite a ~32 bps increase in yield of credit

## Top 10 Operating Income (AED Bn)



## Key Remarks

- NIM decreased by 6 bps continuing the downward trend, despite the increase in yield on credit
- Yield on credit increased by 32 bps and continued the upward trend for fifth quarter
- Cost of Funds increased by ~22 bps in Q4'18 when compared to the last quarter

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

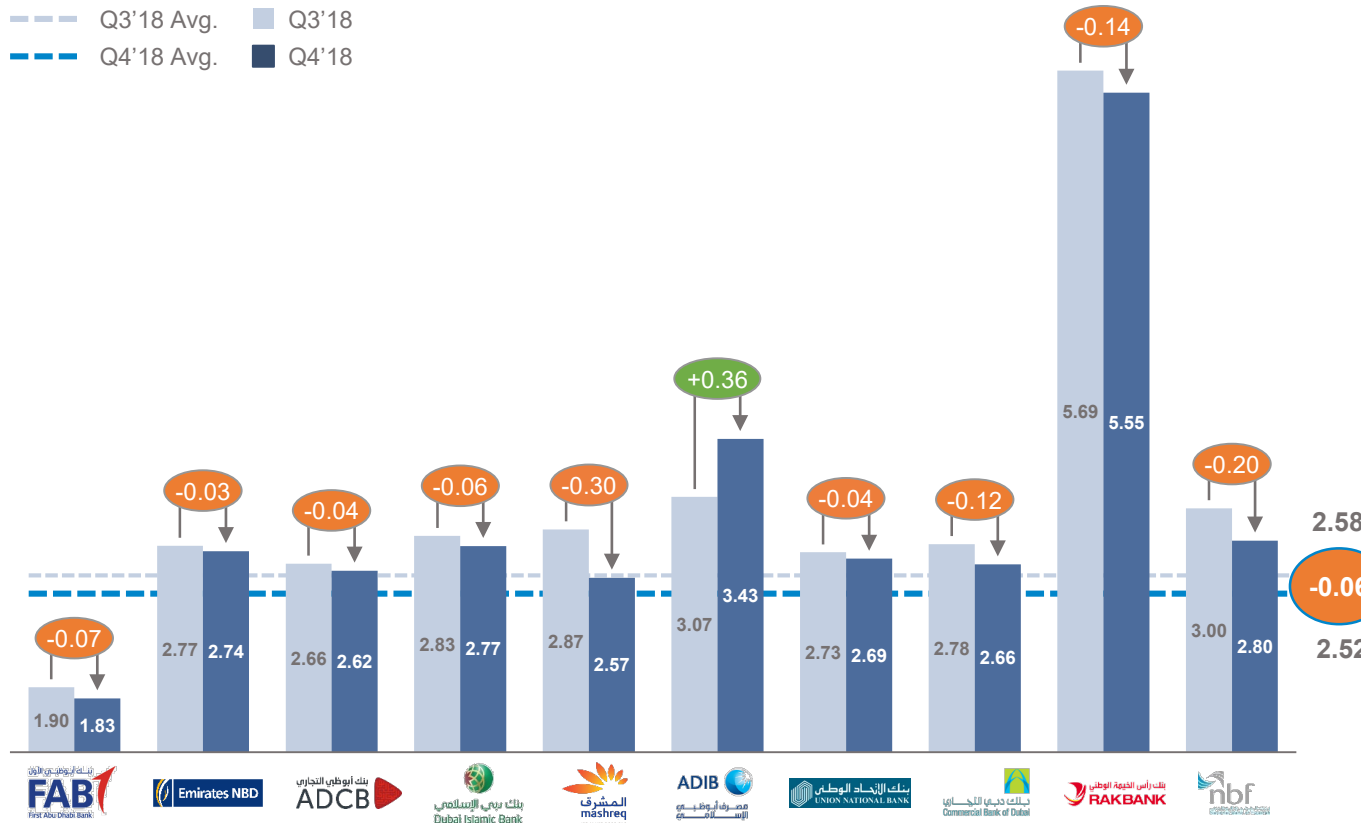
Source: Financial statements, Investor presentations, A&M analysis



# ADIB is the only bank out of the top ten to report an increase in NIM

## Net Interest Margin (%)

--- Q3'18 Avg.    ■ Q3'18  
 - - - Q4'18 Avg.    ■ Q4'18



## Key Remarks

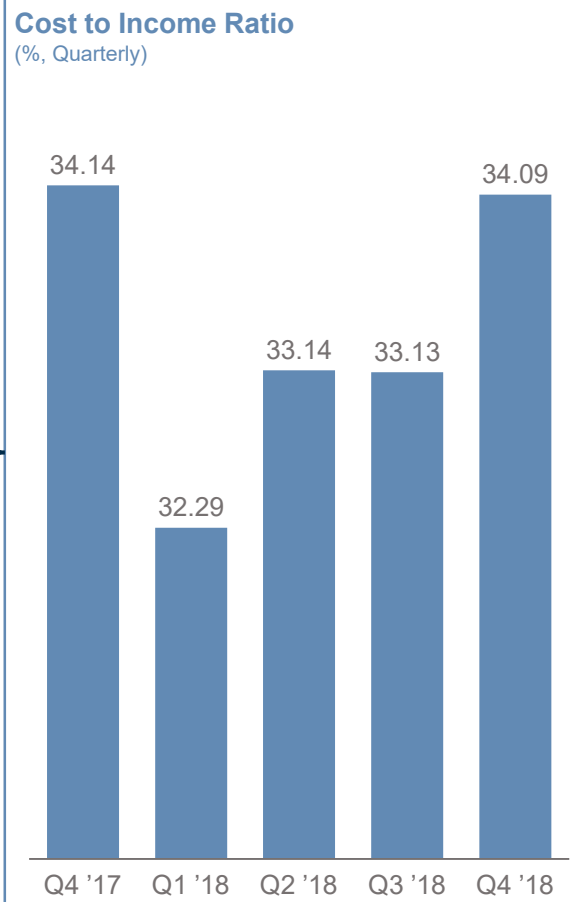
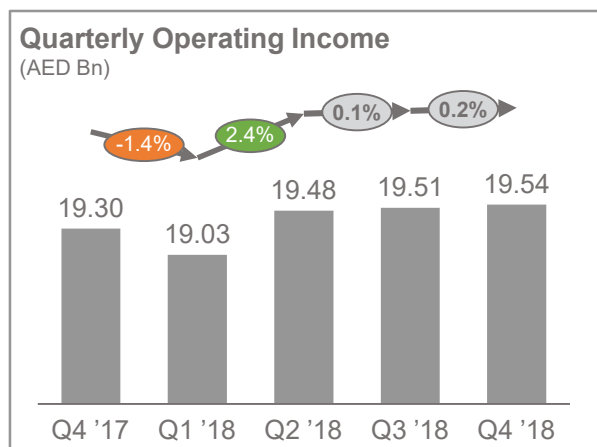
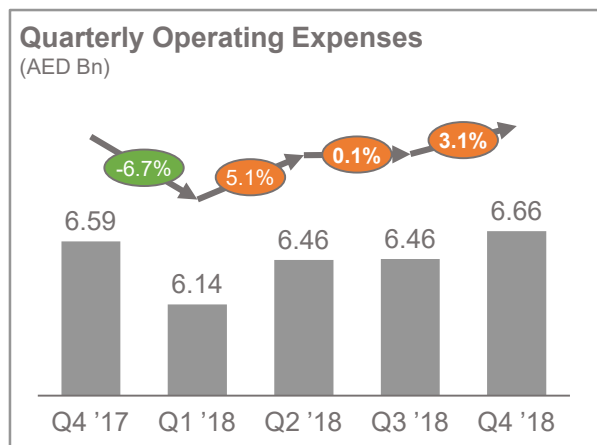
- Nine out of ten banks saw declining NIMs compared to the last quarter
- Mashreq and NBF reported the steepest decline in NIMs followed by RAK bank
- ADIB is the only bank to witness an increase in NIM because of increase in Net interest income in Q4'18

● 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 increased due to an increase in operating expenses

## Cost to Income Ratio



● Improved ● Stable ● Worsened

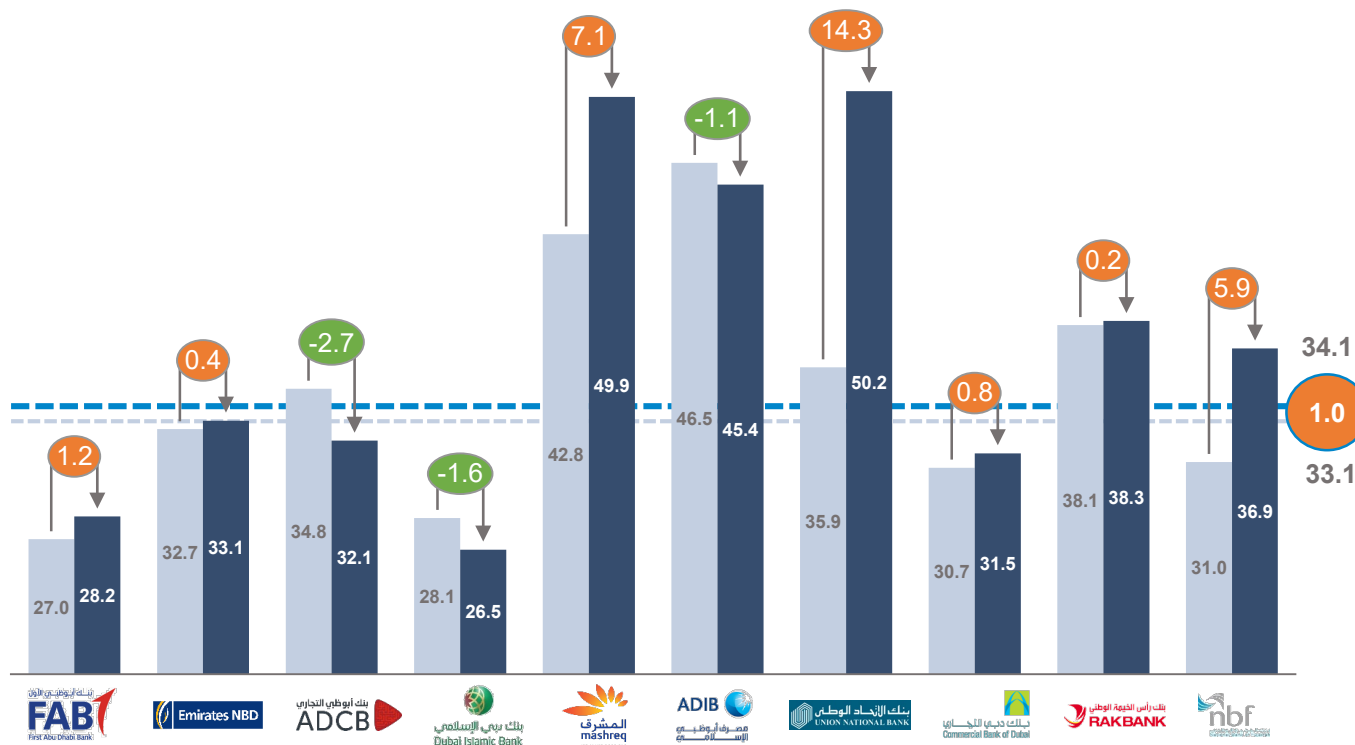
## Key Remarks

- Cost to income ratio increased by 96 bps compared to the last quarter
- High increase in Cost to Income ratio is driven by an increase in operating expenses in Q4'18 and almost stagnant Operating Income
- Similar increase in Cost to Income ratio was witnessed in Q4'17

# Mashreq and UNBs' Cost to income ratio ~50%, driven by increased operating expenses

Cost to Income Ratio (% , Quarterly)

--- Q3'18 Avg.    ■ Q3'18  
 - - - Q4'18 Avg.    ■ Q4'18



Key Remarks

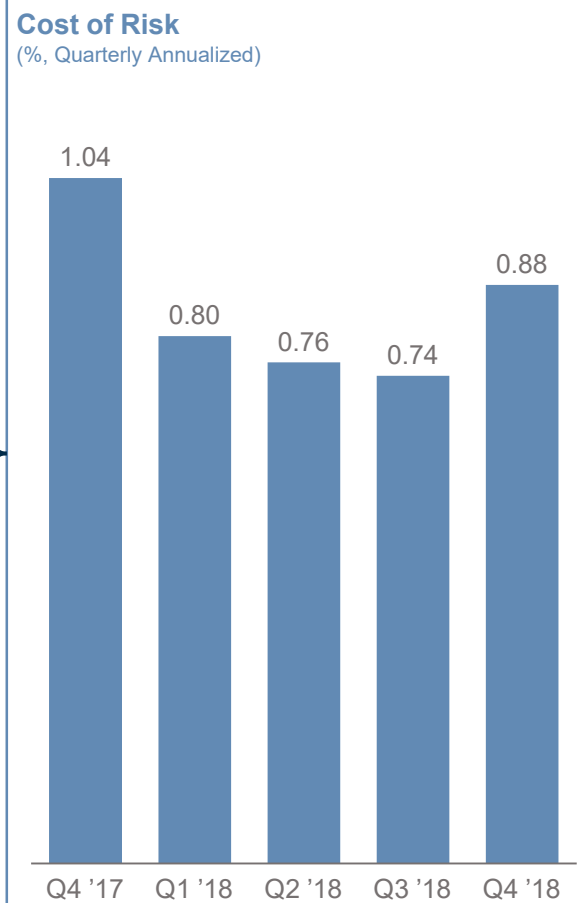
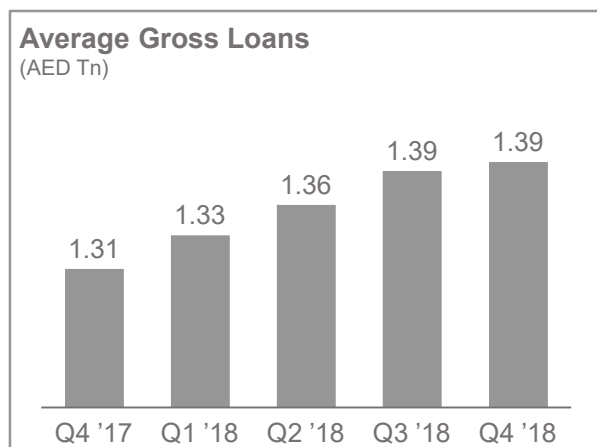
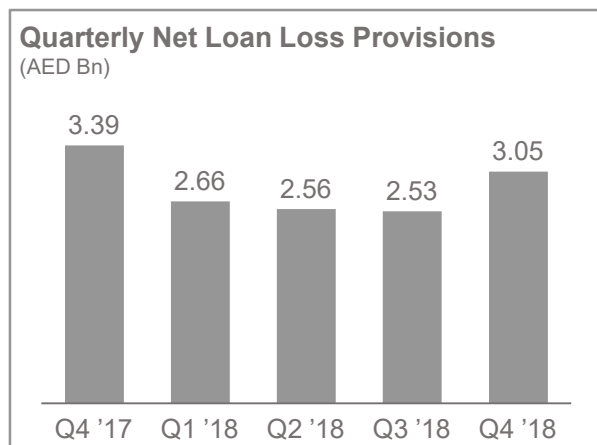
- Seven out of top ten banks reported an increase in cost to income ratio from last quarter
- Only ADCB, DIB and ADIB recorded a decrease in cost to income ratio with ADCB reporting the highest decrease
- UNB experienced the highest increase due to ~24% drop in operating income

● 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 increased due to increase in Net loan loss provisions

## Cost of Risk



## Key Remarks

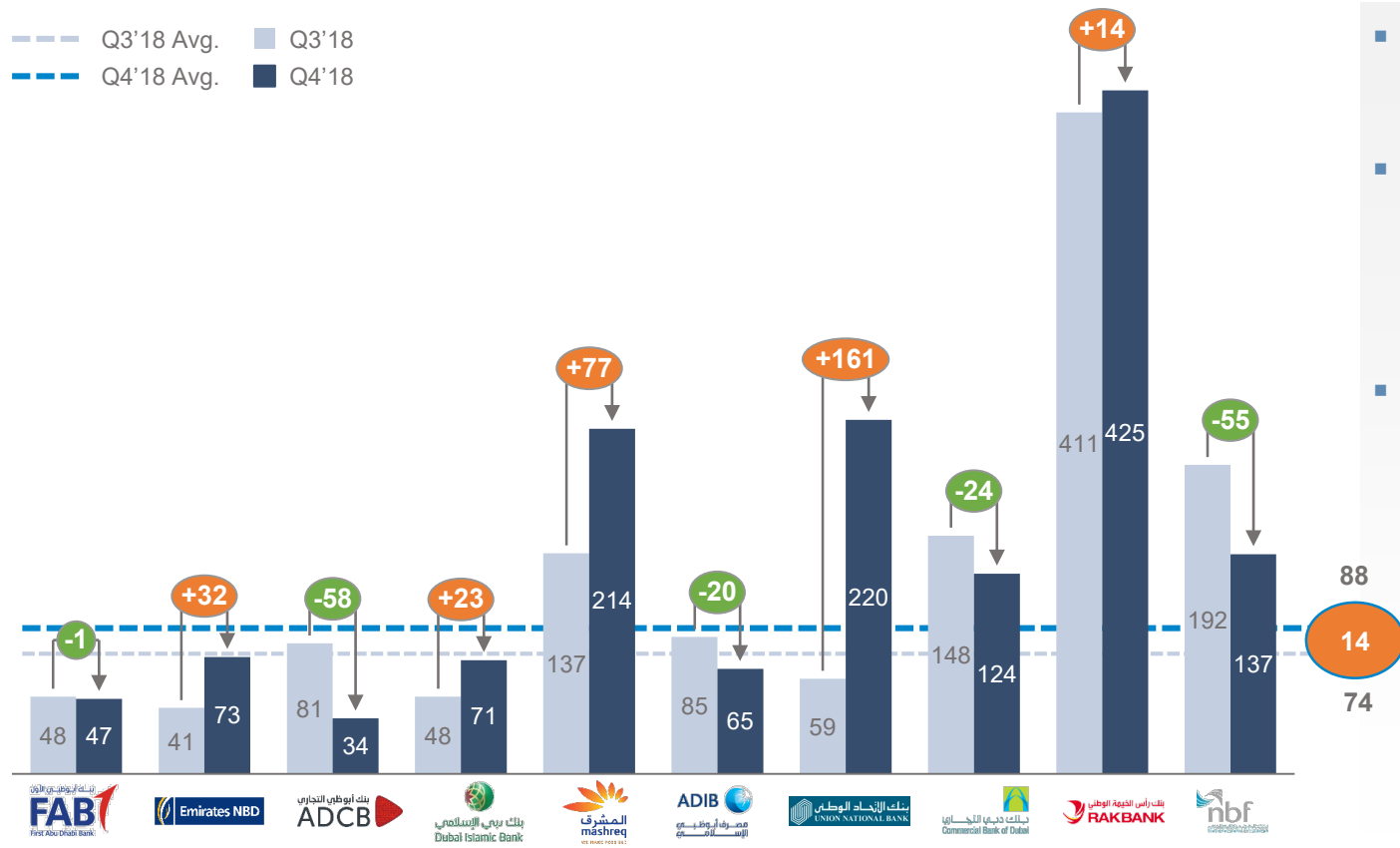
- Cost of the risk jumped to 0.88% in Q4 '18, reversing the downward trend that started in Q1 '18
- The increase in cost of risk was driven by significant increase in Loan loss provisions
- Similar increase in Cost of risk was witnessed in Q4 '17



# UNB's cost of risk increased by ~161 bps while ADCB's decreased by ~58 bps

Cost of Risk, Net of Reversals (bps)

Key Remarks



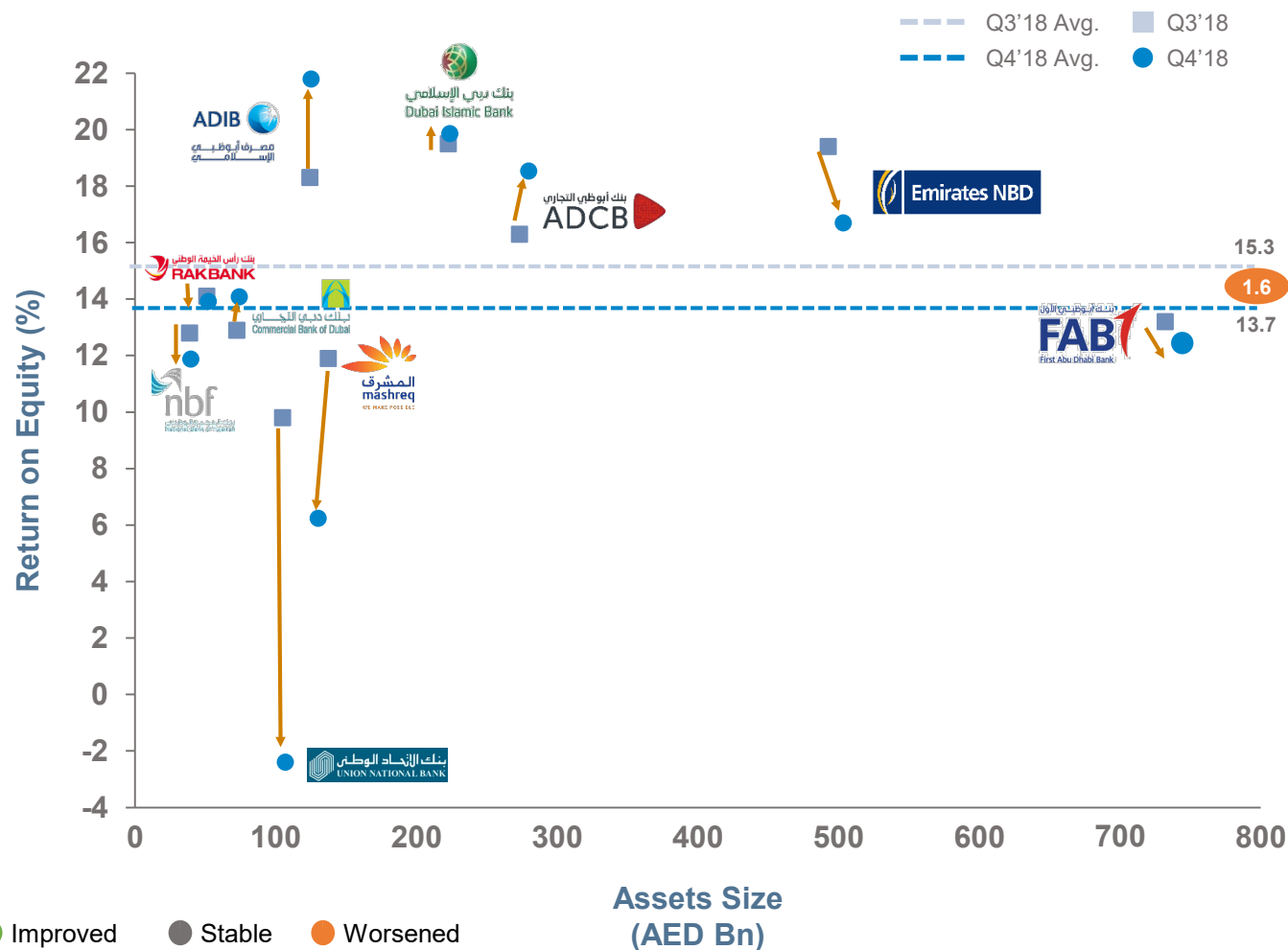
- 5 banks witnessed increase in Cost of Risk in Q4'18
- UNB witnessed a 161 bps increase in cost of risk due to ~4 times increase in Loan loss provisions
- ADCB witnessed the maximum reduction of 58 bps in Cost of Risk followed by NBF which saw a drop of 55 bps

● Improved   ● Stable   ● Worsened

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

# Overall ROE declined by 1.6% compared to the previous quarter, driven by year end provisions

## Return on Equity (Q4'18)



## Key Remarks

- Average ROE decreased from 15.3% Q3'18 to 13.7% in Q4'18
- ADIB, ADCB, CBD and DIB managed to increase their ROE in Q4'18
- UNB and Mashreq witnessed the highest decrease in ROE of ~12% and ~6% bps respectively

# ROE decreased due to higher cost of funds and cost of risk



● 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 continued to decline for the second quarter running declining by 1.6%
- Operating income margin decreased in Q4'18 due to NIM compression
- Cost to Income ratio increased to 34.1% in Q4'18
- Cost of risk increased by 12 bps vs Q3'18



# 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	YoC	(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	CoF	(Annualized quarterly gross interest income / quarterly average loans & advances) for the Top 10
	Net Interest Margin	NIM	(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	744.1	FAB	
Emirates NBD	503.4	ENBD	
Abu Dhabi Commercial Bank	279.8	ADCB	
Dubai Islamic Bank	223.7	DIB	
Mashreq Bank	130.2	Mashreq	
Abu Dhabi Islamic Bank	125.2	ADIB	
Union National Bank	107.0	UNB	
Commercial Bank of Dubai	74.1	CBD	
National Bank of Ras Al-Khaimah	52.1	RAK	
National Bank of Fujairah	39.8	NBF	