



UAE Banking Market Pulse

2016



Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to launch the inaugural edition of the UAE Banking Sector Market Pulse. In the first issue of this quarterly series, we will 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.

We hope that you will find the Pulse useful and informative. We look forward to hearing from you on how we can make it even more relevant.

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 analyse their particular situation before acting on any of the information contained herein.

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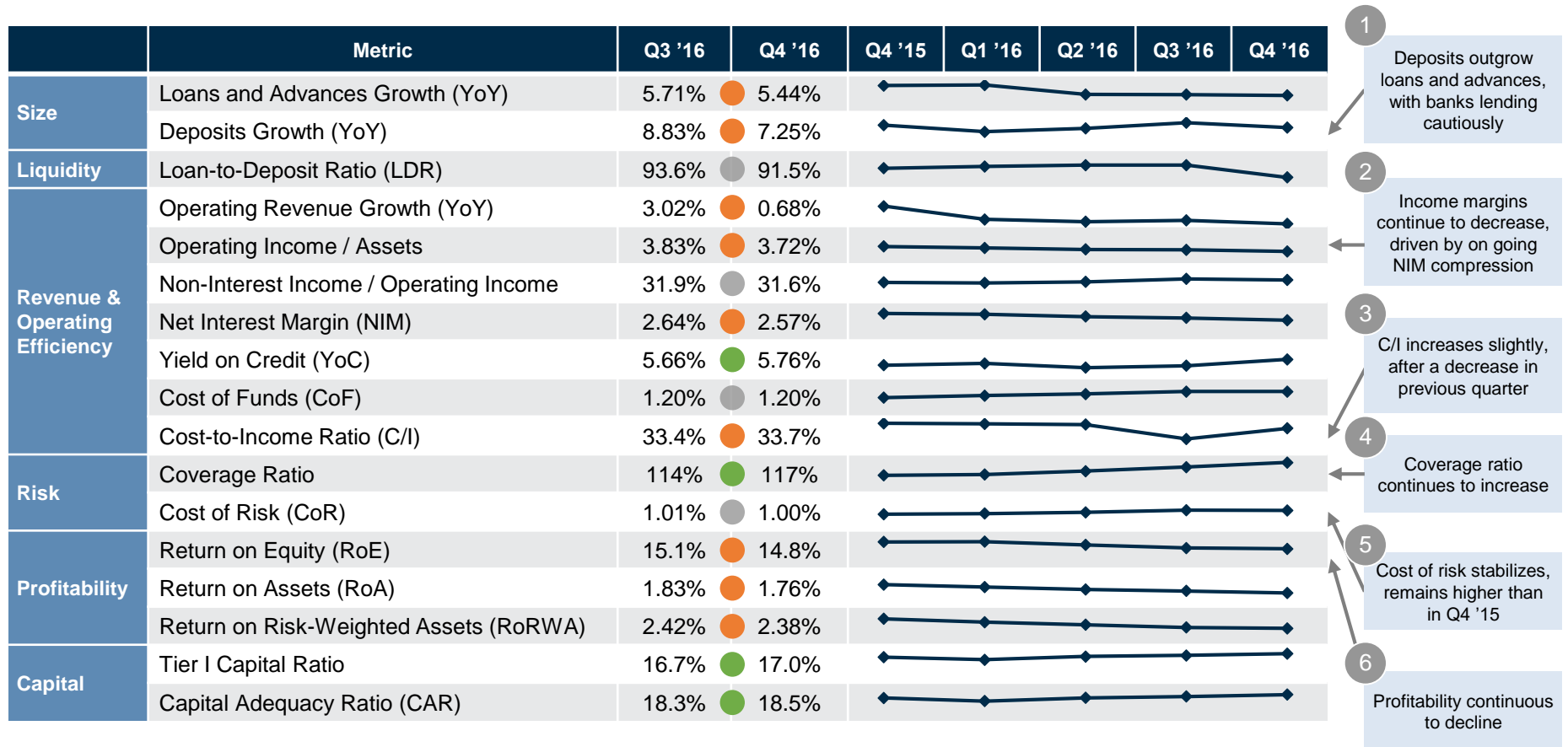


Stephen Millington

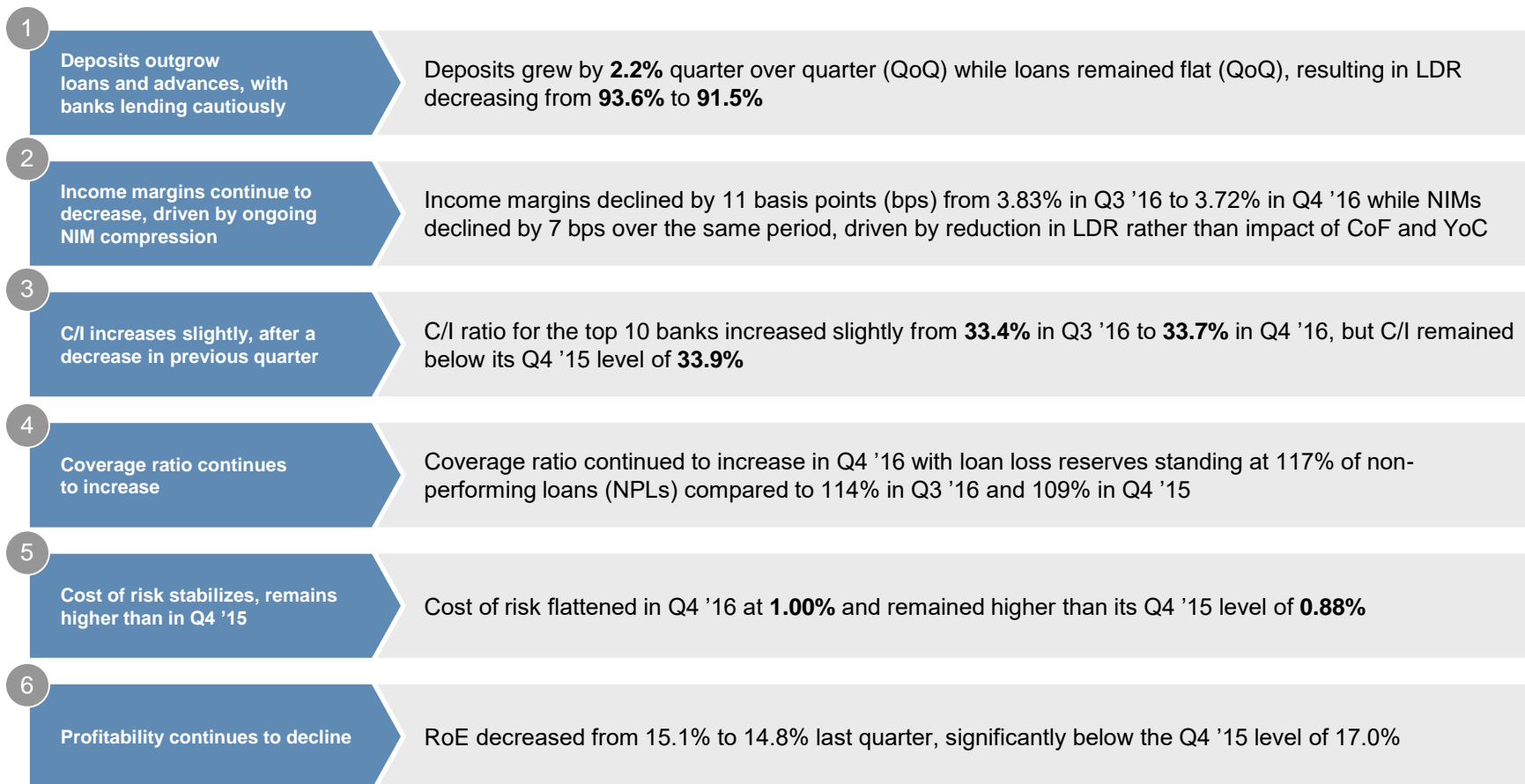
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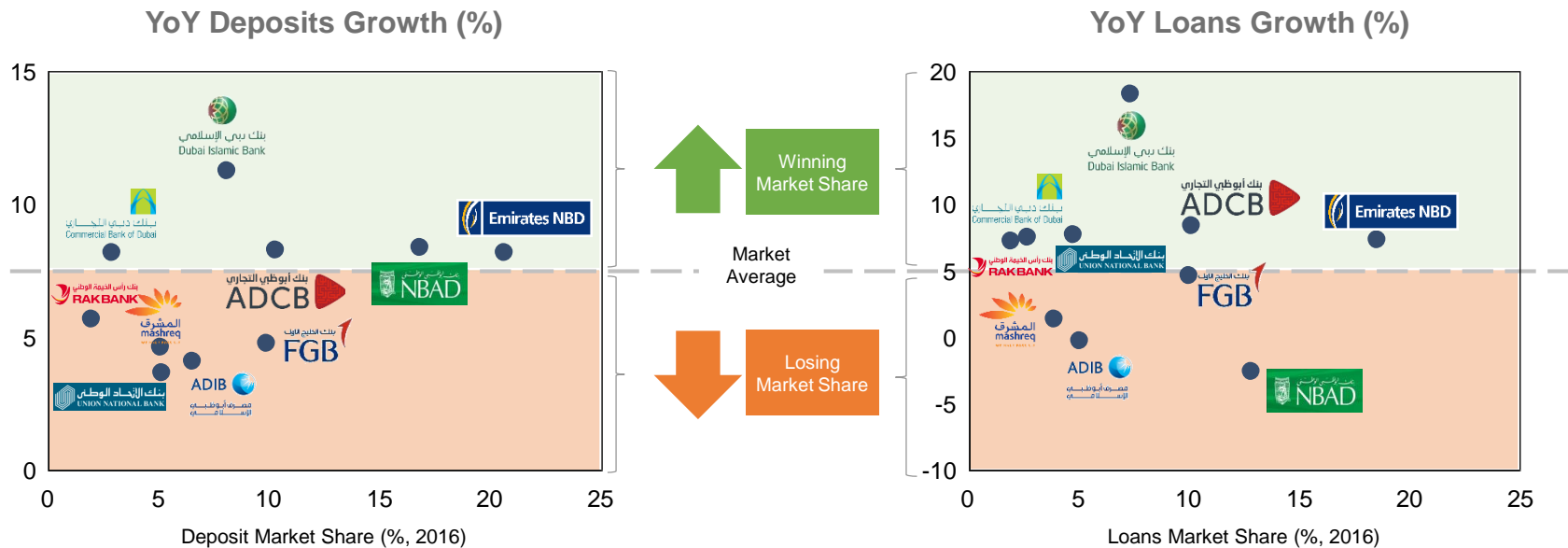
Pulse: profitability continues to be under pressure, largely driven by conservative lending; liquidity profile and risk metrics strengthening



Strengthening liquidity profile leading to LDR decrease, further compressing NIM; profitability declining despite improvements in C/I and risk metrics



1 Most large top 10 banks grew deposits faster than market, with varying appetites for loan growth

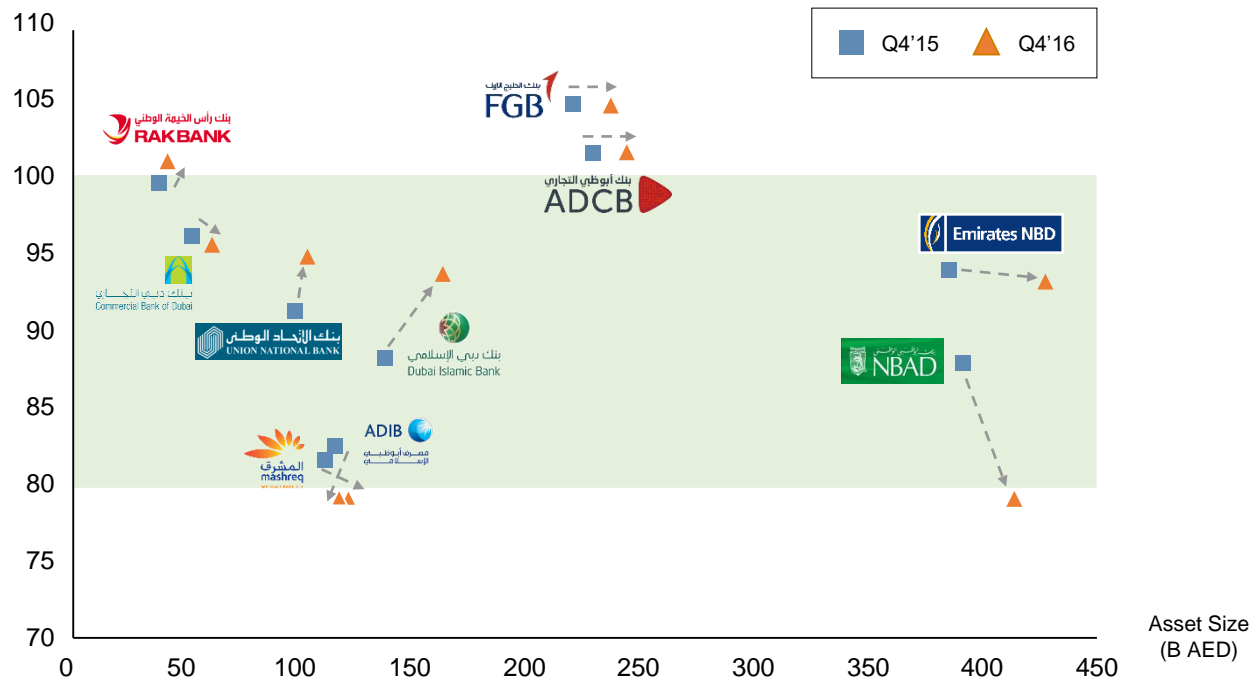


- ENBD, NBAD and ADCB, largest banks by assets size, gained market share, in part by targeting more expensive deposits
- DIB and CBD outperformed similar-sized peers and gained deposit market share

- Most banks either maintained loans market share, or grew close to market growth rate
- Outliers were DIB growing above market and NBAD losing market share driven by conservative lending

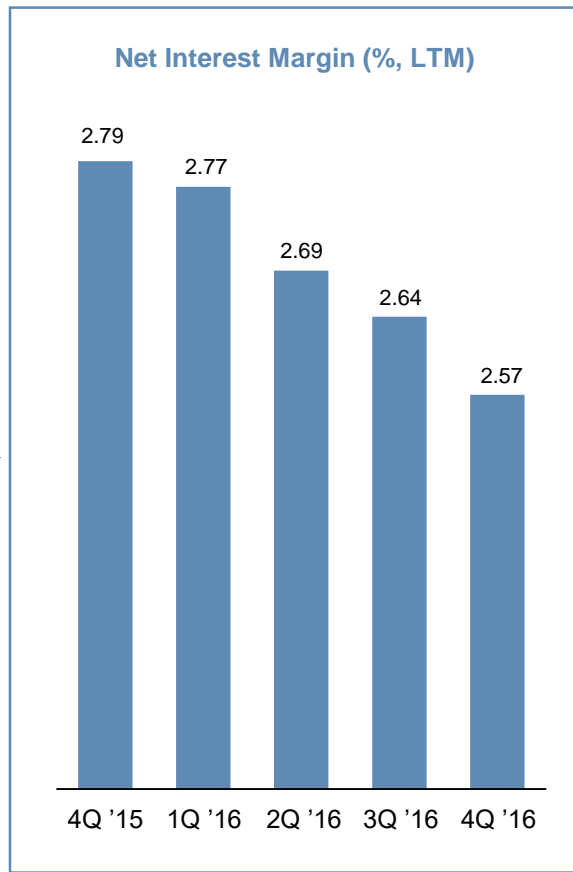
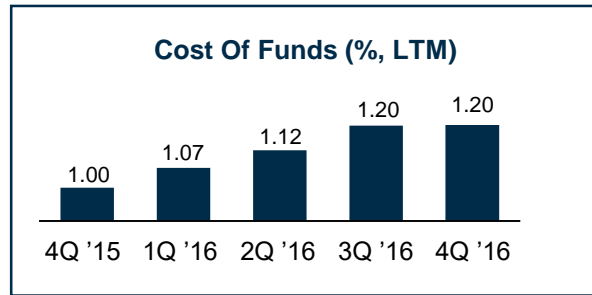
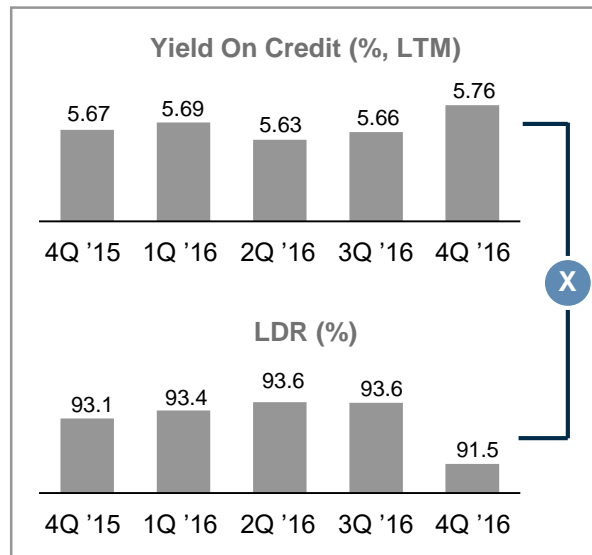
1 Most top 10 banks maintain healthy LDR with outliers staying close to the green zone

Loan to Deposits Ratio (%)



- Four of top 10 banks remain in the green zone
- NBAD, ADIB and ENBD materially increased their liquidity
- FGB, ADCB and RAK have LDRs higher than 100%

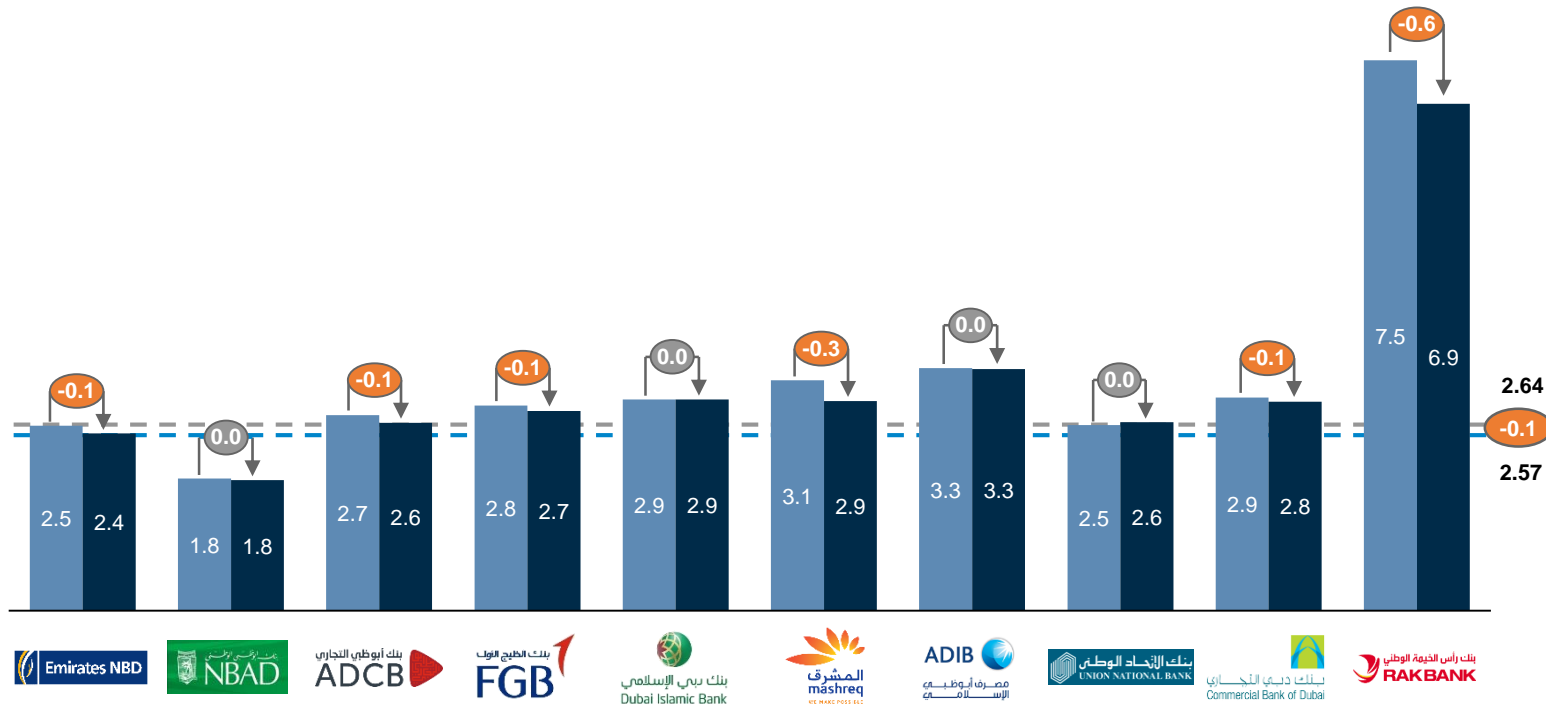
2 Net interest margin has continued declining, driven by decrease in LDR and offset by increase in yield on credit



- NIM declined further by ~7 bps this quarter; overall NIM has declined by ~22 bps since Q4 '15
- Cost of funds stabilized in Q4 '16, with an overall increase of ~20 bps since Q4 '15
- LDR decreased from 93.6% to 91.5% this quarter, resulting in NIM compression as banks became conservative on lending
- Yield on credit improved to 5.76% after bottoming out in Q2 at 5.63%

2 Six banks saw decline in NIM

Net Interest Margin (%)



- Six of the top 10 banks witnessed a decline in NIM while four remained constant
- RAK witnessed largest fall in NIM as higher yielding assets were replaced with lower yielding assets, with NIM compression expected to continue in 2017 albeit at a slower rate

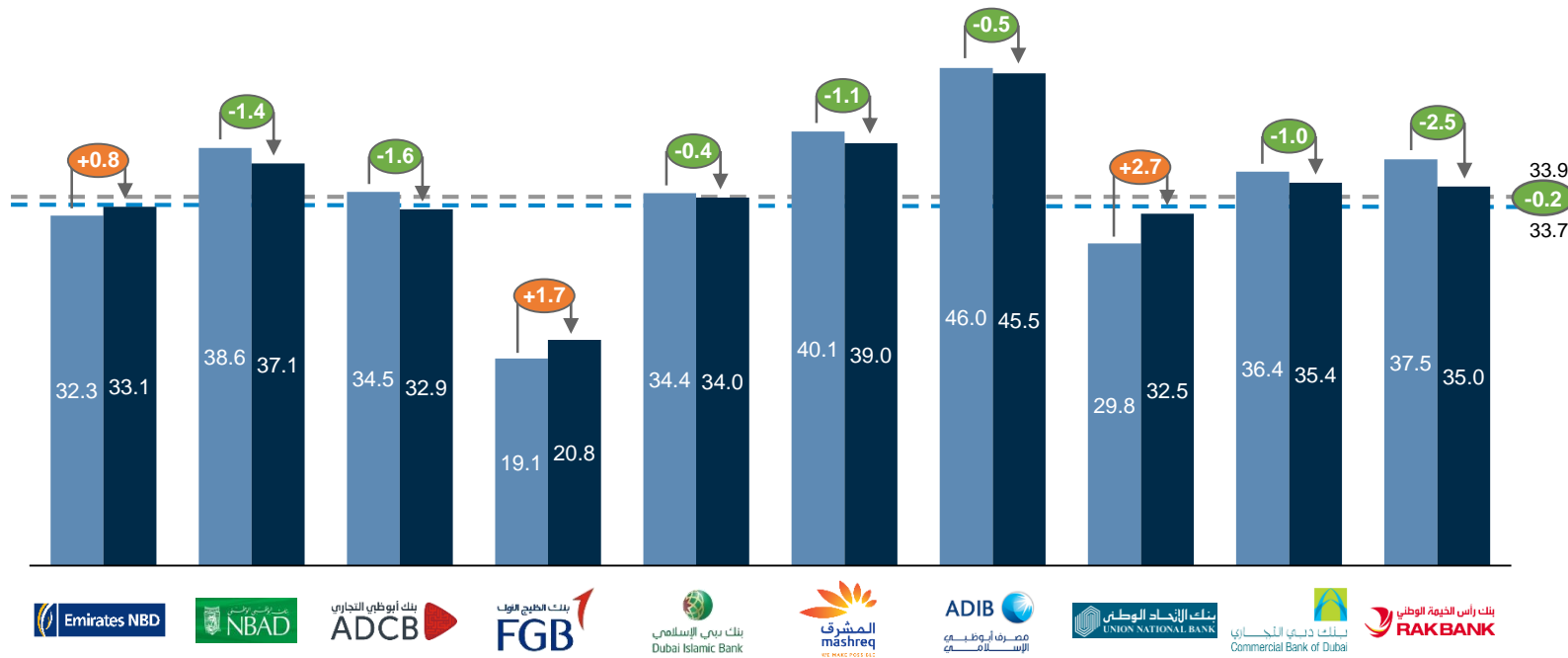
● Improved ● Stable ● Worsened

■ Q3'16 ■ Q4'16

--- Q3'16 Av --- Q4'16 Av

3 Most banks improved their C/I with RAK, ADCB And NBAD leading the top 10

Cost to Income Ratio (%)



- Seven of top 10 banks improved their C/I ratio compared to Q4 '15, based on prudent cost management by delaying investments and hiring
- RAK showed the largest decline driven by decrease in headcount and lower bonuses, expected to inch up in 2017

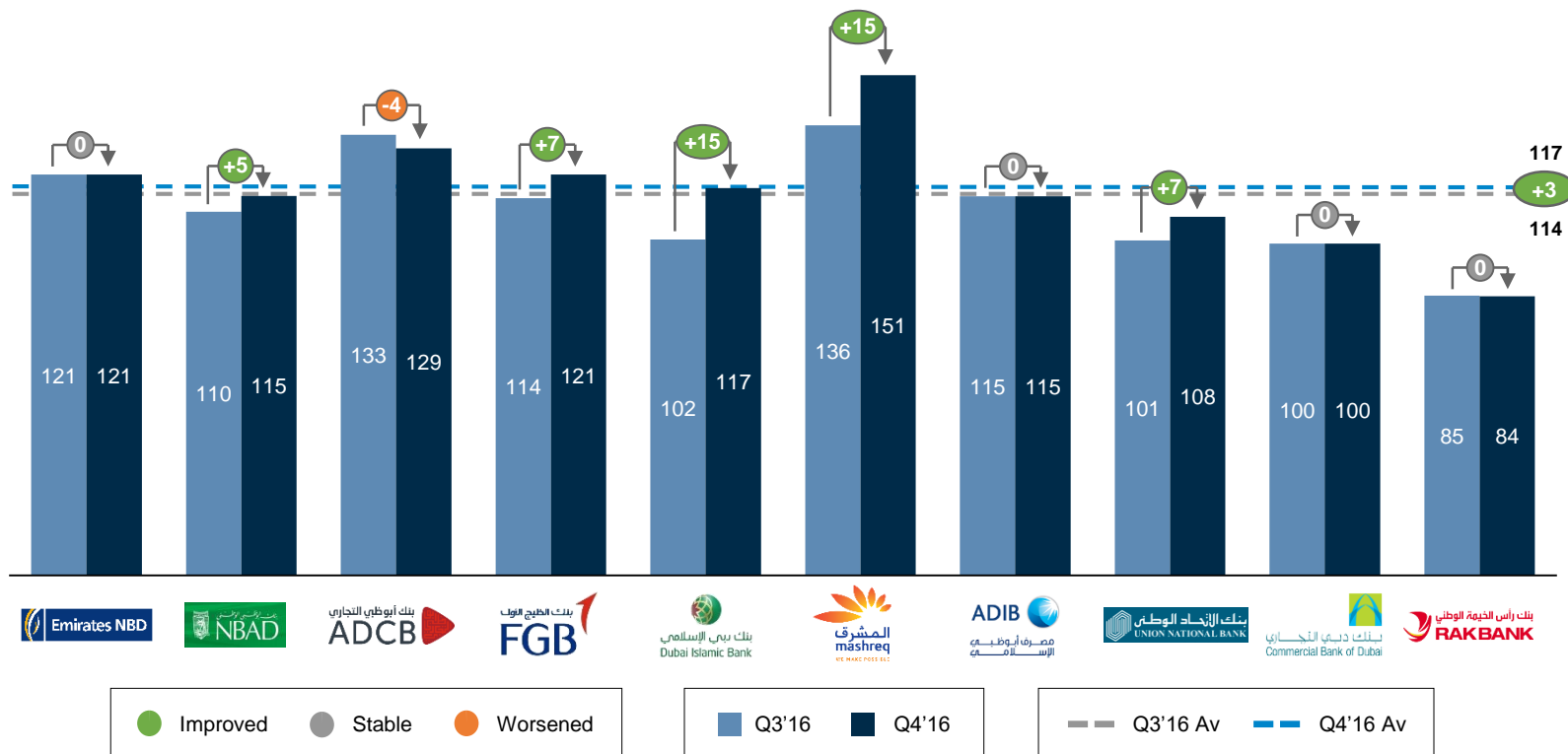
● Improved
 ● Stable
 ● Worsened

■ Q4'15
 ■ Q4'16

Q4'15 Av
 Q4'16 Av

4 Most banks increased coverage ratio with Mashreq leading the top 10

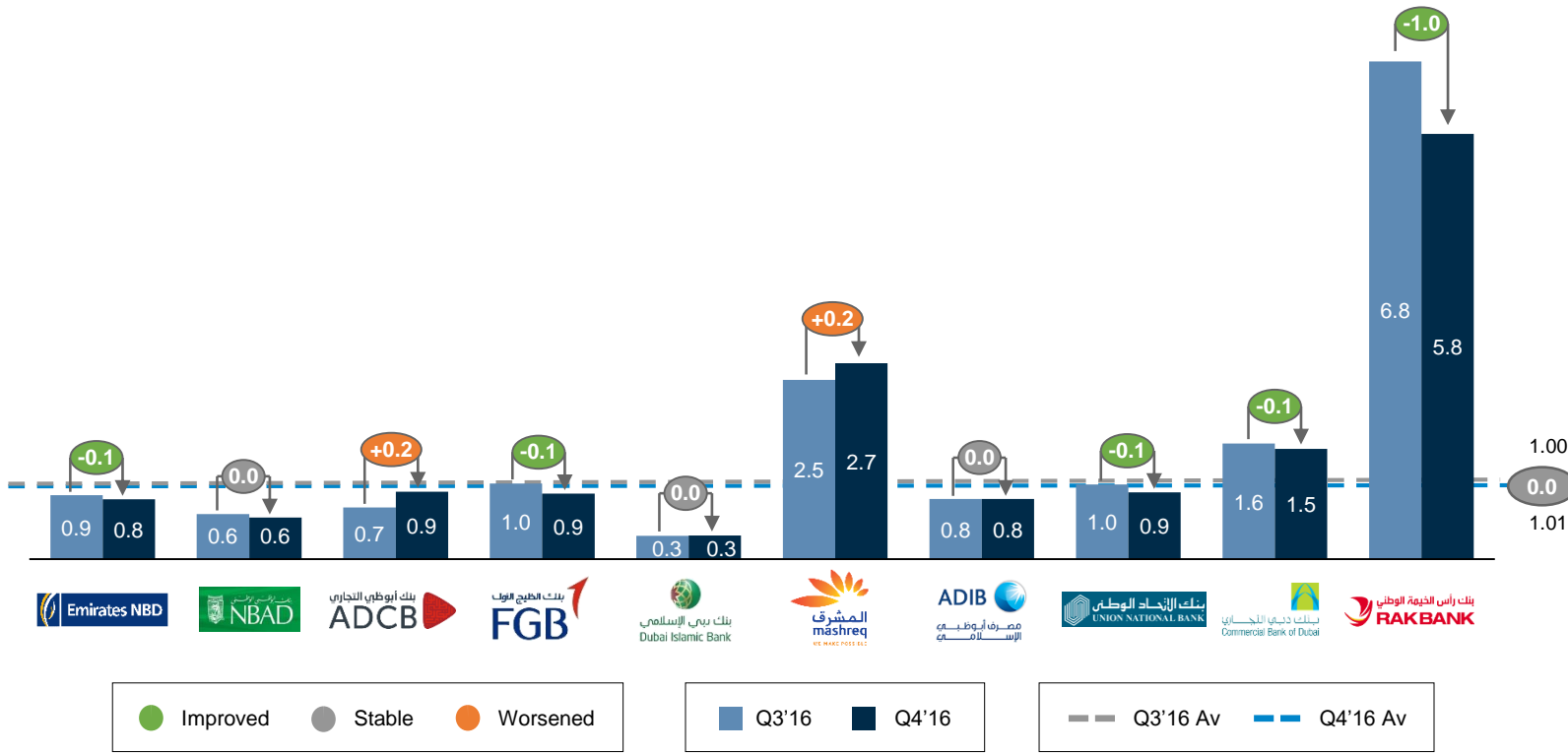
Coverage Ratio (%)



- Five of top 10 banks witnessed an increase in coverage ratio in the last quarter
- Mashreq has continued implementing prudent provisioning policy, allocating AED 425 million net for impaired assets in 4Q 2016, leading to a jump in coverage ratio

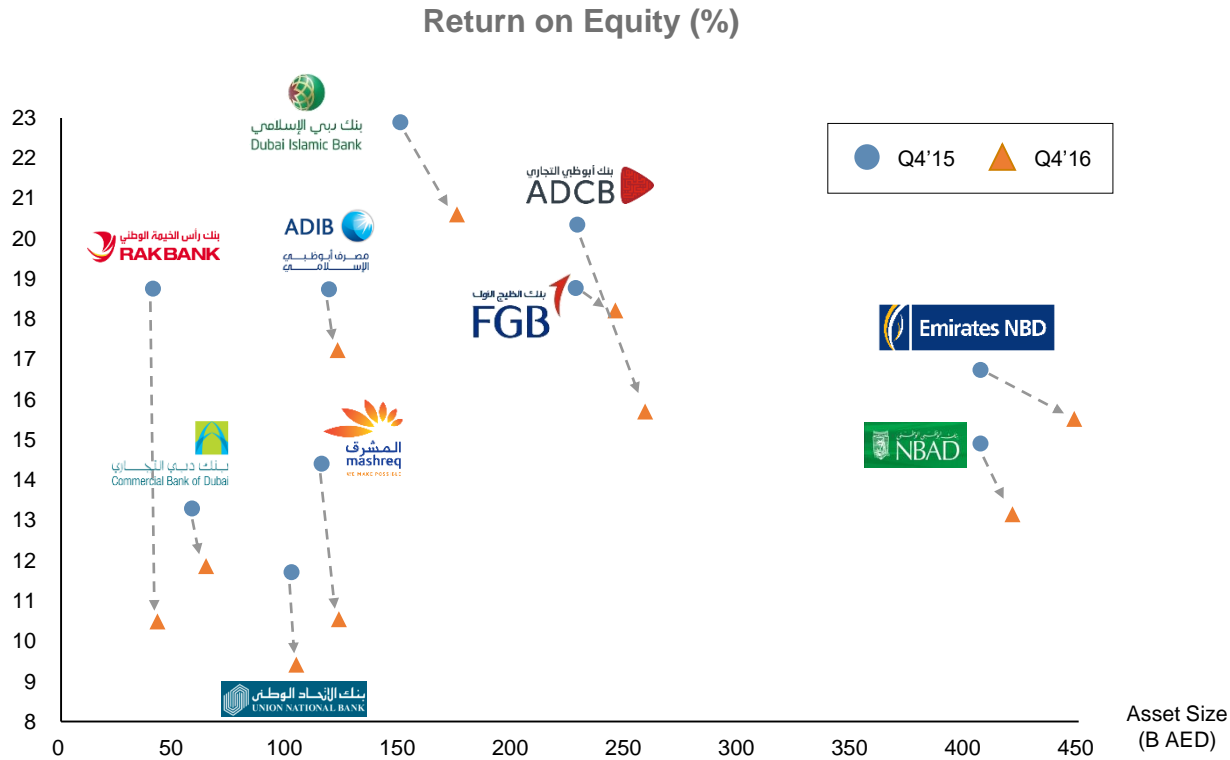
5 Cost of risk for the top 10 banks remained flat in the last quarter — ENBD, FGB, CBD and RAK performed better than market

Cost Of Risk (%)



- Five of top 10 banks improved their cost of risk (CoR) in the last quarter
- RAK has the highest CoR and showed the largest decline – trend expected to continue over 2017

6 All banks experienced a decline in RoE



- Profitability of most banks over the year was impacted by deteriorating asset quality and tightening liquidity leading to increase in cost of funds
- Decrease in DIB's RoE is partly attributed to the rights issue
- FGB, ENBD and ADIB had the smallest relative decline in profitability
- In general, Islamic banks DIB and ADIB maintained higher profitability than most of their peers

6 Profitability continues to decline mainly driven by cost of funds and LDR



- RoE and RoA have both decreased YoY, on the back of lower LDR and increase in cost of funds and cost of risk
- Cost of funds appears to have stabilized and is expected to slowly decrease as banks roll off expensive long term deposits
- Cost of risk appears to be stabilizing but banks remain cautious










Glossary



Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		YoY growth in net loans and advances for the top 10 banks
	Deposits Growth (YoY)		YoY growth in customer deposits for the top 10 banks
Liquidity	Loan-to-Deposit Ratio	LDR	Net EOP loans and advances as percent of EOP customer deposits for the top 10 banks
Revenue & Operating Efficiency	Operating Revenue Growth (YoY)		YoY growth in aggregate operating revenue generated by top 10 banks
	Operating Income / Assets		LTM operating income as percent of one-year average assets for the top 10 banks
	Non-Interest Income / Operating Income		LTM non-interest income as percent of LTM operating income
	Net Interest Margin	NIM	(Aggregate LTM net interest income) / (one-year average earning assets) Earnings assets are defined as total assets excluding goodwill; intangible assets; and property and equipment
	Yield on Credit	YoC	(LTM gross interest income generated by the top 10 banks) / (one-year average loans & advances)
	Cost of Funds	CoF	(LTM interest expense + LTM capital notes & tier II sukuk interest) / (one-year average liabilities + one-year average capital notes & tier I sukuk interest) for top 10 banks
	Cost-to-Income Ratio	C/I	LTM operating expenses as percent of LTM operating income for top 10 banks
Risk	Coverage Ratio		Loan loss reserves as percent of non-performing loans for top 10 banks
	Cost of Risk	CoR	LTM provision expenses / one-year average gross loans
Profitability	Return on Equity	RoE	(LTM net profit attributable to the equity holders of the banks – LTM coupons on capital notes) / (one-year average equity excluding capital notes)
	Return on Assets	RoA	(LTM net profit generated by top 10 banks) / (one-year average assets)
	Return on Risk-Weighted Assets	RoRWA	(LTM net profit generated by top 10 banks) / (one-year average risk-weighted assets)
Capital	Tier I Capital Ratio		(top 10 banks EOP tier I capital) / (EOP risk-weighted assets)
	Capital Adequacy Ratio	CAR	(top 10 banks EOP tier I capital + tier II capital) / (EOP risk-weighted assets)

Glossary (Cont'd)

Bank	Assets (AED B)	Abbreviation	Logo
Emirates NBD	448.0	ENBD	
National Bank of Abu Dhabi	420.7	NBAD	
Abu Dhabi Commercial Bank	258.3	ADCB	
First Gulf Bank	245.1	FGB	
Dubai Islamic Bank	175.0	DIB	
Mashreq Bank	122.8	Mashreq	
Abu Dhabi Islamic Bank	122.3	ADIB	
Union National Bank	103.9	UNB	
Commercial Bank of Dubai	64.1	CBD	
National Bank of Ras Al-Khaimah	42.5	RAK	