



# Alvarez & Marsal Releases The UAE Banking Pulse Report Analyzing Q4 2017 Banking Sector Performance

Published on Alvarez & Marsal | Management Consulting | Professional Services

(<https://www.alvarezandmarsal.com>)

March 12, 2018

**Dubai** – Leading global professional services firm **Alvarez & Marsal (A&M)** today released its latest **UAE Banking Pulse**, the first for 2018, covering the final quarter of 2017. A&M's latest Banking Pulse shows that UAE banks continue to perform well, albeit with lower levels of profitability, largely the result of costs growing at a faster rate than operating income. The rise in costs in the final quarter of the year is a seasonal feature and quite normal, as spending budgets get used up before year end. The other main trend has been an increase in liquidity, as deposits grew at a faster rate than loan advances.

This UAE Banking Pulse report compares the quarterly data of the 10 largest listed UAE banks in the fourth quarter of 2017 (Q4 2017) against the third quarter of 2017 (Q3 2017), and identifies prevailing trends throughout the intervening period.

The report uses independently-sourced published market data and 16 different metrics to assess the key performance areas including size, liquidity, income, operating efficiency, risk, profitability and capital.

The banks analysed in A&M's UAE Banking Pulse include First Abu Dhabi Bank (FAB), Emirates NBD (ENBD), Abu Dhabi Commercial Bank (ADCB), Dubai Islamic Bank (DIB), Mashreq Bank (Mashreq), Abu Dhabi Islamic Bank (ADIB), Union National Bank (UNB), Commercial Bank of Dubai (CBD), National Bank of Ras Al-Khaimah (RAK), and the National Bank of Fujairah (NBF).

## OVERVIEW

The table below (which is explained on page four of the UAE Banking Pulse) sets out the key metrics applied, with some of the major trends identified.

The underlying theme is a small decline in profitability and an increase in liquidity, as loans and advances reduced while deposits increased, on the back of higher interest rates. Non-interest income meant an overall increase in operating income, with costs increasing at a faster rate, banks saw reduced returns on equity.

CATEGORY
----------

METRIC
--------

Q3 '17
--------

Q4 '17
--------

Size
------

Loans and Advances Growth (QoQ)

1.26%

0.22%

Deposits Growth (QoQ)

0.61%

2.47%

Liquidity

Loan-to-Deposit Ratio (LDR)

91.2%

89.2%

Income & Operating Efficiency

Operating Income Growth (QoQ)

1.92%

3.46%

Operating Income / Assets

3.65%

3.69%

Non-Interest Income / Operating Income

30.2%

31.0%

Yield on Credit (YoC)

6.02%

6.12%

Cost of Funds (CoF)

1.43%

1.43%

Net Interest Margin (NIM)

2.58%

2.59%

Cost-to-Income Ratio (C/I)

32.7%

34.2%

## **Risk**

Coverage Ratio

114%

115%

Cost of Risk (CoR)

0.93%

1.04%

## **Profitability**

Return on Equity (RoE)

15.1%

14.3%

Return on Assets (RoA)

1.83%

1.76%

Return on Risk-Weighted Assets (RoRWA)

2.41%

2.35%

## **Capital**

Capital Adequacy Ratio (CAR)

18.0%

17.9%

*Source: Financial statements, investor presentations, A&M analysis*

## **Trends identified:**

1. Loans and advances (L&A) for the top 10 banks grew at a significantly slower rate (0.22%) than deposits (2.47%), meaning that the Loan-to-Deposit ratios of 9 of the top 10 banks are in the “green zone” of 80% to 100%, an indication of greater liquidity in line with increases in interest rates during Q4'17.
2. Operating income growth showed a sharp increase, driven mainly by higher levels of non-interest income such as fees and commissions; 7 out of 10 banks reported growth in operating income.
3. Net interest margin was steady, with an increase in yield on credit on the back of higher interest rates offset by reduced LDR.
4. Banks' cost-to-income ratio increased from 32.7% to 34.2%, bucking the downward trend of the previous three quarters,

as banks increased their operating expenditure in the final quarter of the year.

5. Overall cost of risk increased, as banks adopted a more conservative approach and made higher levels of provisioning, with three banks also having to increase allowances for impairment;
6. 9 out of the 10 banks saw reduced Returns on Equity, driven by higher operating expenses and a higher cost of risk.

A&M Managing Directors in the firm's Financial Institutions Advisory Services practice [Dr. Saeeda Jaffar](#) and [Asad Ahmed](#) served as lead author and co-author respectively. [Neil Hayward](#), a Managing Director, specializing in turnaround and restructuring, also served as a co-author.

Dr. Jaffar commented:

"Although profitability in the final quarter of the year saw a modest reduction compared with the previous quarter, this was mainly due to a more conservative approach adopted by the banks, as demonstrated by an increased cost of risk. The increase in operating costs, which is quite usual for the final quarter, also had an impact. Lending activity was overtaken by deposits from customers as a result of higher interest rates, leading to an increased level of liquidity. Our overall analysis suggests that, while both banks and customers are exercising some caution, the sector is in good health, and is well placed to achieve further growth during the year. We expect to see banks increasingly digitising their operations to underpin this growth, a strategy which will compliment the need to focus on customer acquisition and retention."

To access the report from Q1 2017, click [here](#).

To access the report from Q2 2017, click [here](#).

To access the report from Q3 2017, click [here](#).

## About Alvarez & Marsal

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 3000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

When action matters, find us at [alvarezandmarsal.com](http://alvarezandmarsal.com). Follow A&M on [LinkedIn](#), [Twitter](#) and [Facebook](#).

###

## CONTACT:

Yasmine Kassem / Sylvia Sarkies  
Hanover Middle East  
+971 55 5597400 or +971 55 1969553

Sandra Sokoloff, Senior Director of Global Public Relations  
Alvarez & Marsal  
+1 212 763 9853

**Source URL:** <https://www.alvarezandmarsal.com/insights/alvarez-marsal-releases-uae-banking-pulse-report-analyzing-q4-2017-banking-sector>