Marmore
Industry Report

UAE
Banking Sector 2018

Credit Growth | Liquidity | NPL | Fed | IFRS | FinTech | M&A

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INDUSTRY RESEARCH REPORT

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Executive Summary

Under IFRS 9 (international financial reporting standards) implemented from Jan 1st 2018, banks will have to set aside provisions in advance, based on their loss expectations. Switching to IFRS9 could be challenging for UAE banks. The absence of a long default history, coupled with difficulties in correctly assessing collateral values and time frames for realizations, makes it particularly tricky to assess expected loan losses.

UAE banks are undergoing a healthy competition to provide increased digital banking services to their clients. This will limit the business that could be lost to fintech in the next five years, while fund transfer and brokerage will remain the main business lines that are most likely to be disrupted. In UAE, regulators such as Dubai International Financial Centre (DIFC) and Dubai Financial Services Authority (DFSA) and government are taking a proactive role in nurturing FinTech infrastructure.

About 50 banks operate in the UAE, making it a crowded market for a population of about 9 million people. Slower economic growth, increasing non-performing loans (NPLs), tightened liquidity and higher expenses make it a challenging environment for the UAE banks to operate in. Given these challenges, consolidation is the ideal solution, as it facilitates the challenges aforementioned and for these very reasons, we can expect more mergers, in the UAE banking industry.

The UAE hiked its key interest rates on all three occasions when the Federal Reserve announced an increase on their Fed funds rate in 2017. As a result, the UAE Repo rates saw a cumulative increase of 75 bps in 2017, increasing it from 1.00% to 1.75%. UAE banks post the rate hike and with improved credit conditions - witnessed a marginal expansion in interest margins resulting in improved earnings in 2017. The gross loan-to-deposit (L-to-D) ratio moderated to 97.1% in December-2017, down from 99.4% at the end of 2016, with deposit growth outpacing credit growth. Improved liquidity, rising interest rates and low operating expenses gave a boost to profitability.

The loan book of UAE banks continue to be skewed in favor of State Owned Entities (SoE's) and Real Estate, which continues to be a cause of concern. If there were to be a reversal of real-estate prices and default of Dubai's restructured debt, this could lead to comeback of asset-quality problems in the UAE. However, the loan performance of the GRI and large corporates is expected to remain resilient.

UAE banks continue to maintain high levels of non-remunerated deposits, which lower the cost of funding. The UAE banks' deposits stood at USD 443 billion at the end of 2017, as against USD 426 billion at the end of 2016. The stabilizing oil prices contributed to 14% y-o-y surge in Government deposits and it reached USD 57.7 billion as of 2017. The flow of deposits and contraction in the credit growth helped the UAE banking industry to return to its status of being a net depositor.

Banks in the United Arab Emirates are optimistic about 2018 with faster economic growth and higher interest rates set to boost earnings. Non-oil sector growth will be underpinned by investment in infrastructure, with the public sector driving this investment. Banks are expected to raise lending by about 4% to 6% in 2018 as Dubai prepares to host the Expo 2020. Household consumption is likely to be constrained against a backdrop of modest job and wage growth, higher taxes and increased fuel costs.

2

Where will be the source of credit growth for Banks?

Growth in banking assets is usually highly correlated with the growth in GDP. While slow economic growth, fiscal and geopolitical risks are expected to pose challenges to credit growth, profitability and loan quality of the region's banks, strong capitalization levels with high loan-loss reserves will provide banks strong loss-absorption capacity.

Table 2.1: Banking Sector asset value as of Nov 2017

Country	Asset Value (USD Bn)
UAE	**731.6**
Saudi Arabia	614.7
Qatar	367.0
Bahrain	215.4
Kuwait	208.3
Oman	72.0

Source: Respective Central Banks

Banks in the United Arab Emirates are optimistic about 2018 with faster economic growth and higher interest rates set to boost earnings. Economic growth is expected to accelerate to 3.4% in 2018 from an estimated 1.8% in 2017 . The slowdown in 2017 was primarily due to oil production cuts and crude output should recover this year. The recovery in oil prices will allow the government to restart delayed projects and may persuade companies to increase investments, all of which will need financing.

Non-oil sector growth will be underpinned by investment in infrastructure, with the public sector driving this investment. Banks are expected to raise lending by about 4% to 6% in 2018 as Dubai prepares to host the Expo 2020. Household consumption is likely to be constrained against a backdrop of modest job and wage growth, higher taxes and increased fuel costs. VAT is being introduced at a time when the economy is in relatively good shape and able to absorb its impact. Interest rate increases by the Federal Reserve, which is shadowed by Gulf central banks, will also allow banks to raise loan pricing and improve net interest margins.

Table 2.2: Sector-wise Credit distribution by UAE Banks

Sectors	2013	2014	2015	2016	2017
Transport, Storage and Communication	9.4%	11.9%	14.7%	18.8%	20.7%
Financial Institutions	9.5%	27.6%	22.1%	21.4%	20.0%
All Others	19.7%	11.2%	13.4%	13.8%	15.6%
Manufacturing	12.4%	12.7%	15.0%	57.6%	10.0%
Food , Beverages and Tobacco	1.1%	1.0%	0.5%	0.6%	0.8%
Textile and Leather Products	0.2%	0.2%	0.3%	0.3%	0.7%
Furniture and Other Wood Products	0.3%	0.1%	0.0%	0.3%	0.3%
Paper And Paper Products	0.0%	0.0%	0.0%	0.0%	0.0%
Chemical Products and Petroleum	5.0%	6.1%	8.8%	5.7%	4.6%
Basic Metal Products	2.4%	2.0%	2.5%	2.1%	1.7%
Fabricated Metal Products	0.3%	0.9%	0.5%	0.1%	1.1%
Other Manufactured Products	3.1%	2.4%	2.3%	2.5%	1.0%
Trade	24.3%	13.8%	8.8%	129.5%	8.9%
Wholesale	13.0%	8.1%	6.1%	5.3%	4.7%
Retail	11.3%	5.6%	2.8%	2.4%	4.2%
Construction and Real Estate	10.2%	8.1%	8.0%	9.0%	8.5%
Mining and Quarrying	3.5%	6.4%	7.6%	6.5%	5.0%
Government	1.2%	0.8%	3.5%	2.2%	3.6%
Personal Loans for Consumption Purposes	3.5%	3.0%	3.4%	3.3%	3.0%
Electricity, Gas and Water	2.4%	2.7%	2.1%	2.8%	2.7%
Personal Loans for Business Purposes	3.8%	1.8%	1.3%	2.9%	1.9%
Agriculture	0.3%	0.2%	0.0%	0.0%	0.0%

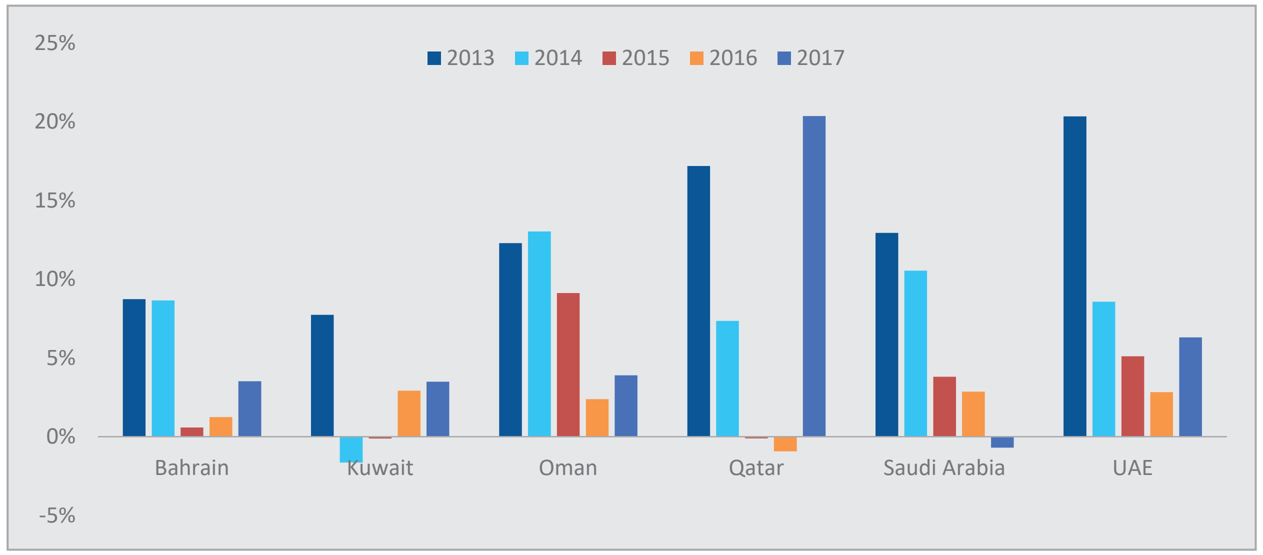
[1] *Bloomberg*

3 Liquidity in UAE Banks- Abundant as of now

The current liquidity situation in the UAE is much more comfortable due to surging oil prices as compared to previous two years. Loan-to-deposit ratios have been on an improving trend over the past 12 months, meaning that deployment of funds rather than lack of liquidity is the new theme amid slowing credit demand. The gross loan-to-deposit (L-to-D) ratio moderated to 97.1% in December-2017, down from 99.4% at the end of 2016, with deposit growth outpacing credit growth. If the recovery in oil prices is sustained through 2018, it could boost the government oil revenues, reducing pressure on government deposits at banks and lowering governments' financing needs.

UAE banks continue to maintain high levels of non-remunerated deposits, which lower the cost of funding. The UAE banks' deposits stood at USD 443 billion at the end of 2017, as against USD 426 billion at the end of 2016. The stabilizing oil prices contributed to 14% y-o-y surge in Government deposits and it reached USD 57.7 billion as of 2017. The flow of deposits and contraction in the credit growth helped the UAE banking industry to return to its status of being a net depositor.

Figure 3.1: M2 Money Supply 2013-Nov 2017, YoY percentage change



Source: Reuters

Table 3.1: Net Loans to Deposit Ratio in Percentage

Country	2012	2013	2014	2015	2016
Bahrain	72%	73%	74%	70%	77%
Kuwait	75%	72%	71%	73%	74%
Oman	-	88%	88%	81%	94%
Qatar	90%	91%	93%	96%	94%
Saudi Arabia	76%	80%	80%	83%	84%
UAE	**87%**	**83%**	**82%**	**82%**	**87%**

Source: Reuters, Marmore Research

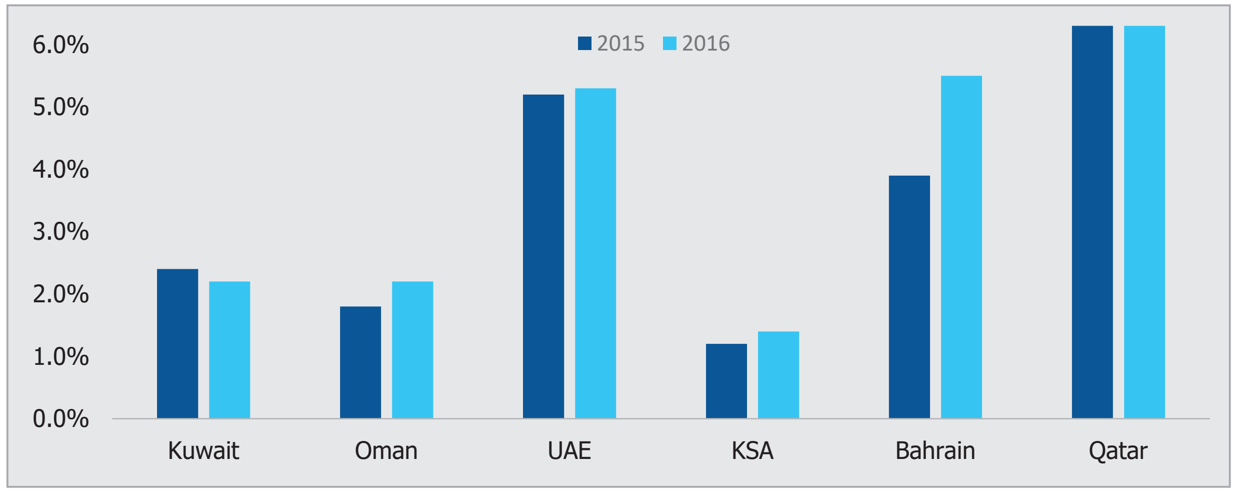
UAE banks enjoyed some positive liquidity thanks to oil price rebound and heightened bond issuances. The abundant liquidity translated into meaningful (not fabulous) credit growth, deposit growth (especially from government) and profitability in terms of margins and return ratios. However, the excess liquidity and booming regional debt market, with attractive yield has driven the UAE banks to invest in the debt securities.

4 NPL's for UAE Banks-Mostly in Control

The 2018 sector outlook for UAE banks remains stable as faster economic growth in UAE is expected to support credit growth. According to Moody's, credit growth is forecasted at 5% for 2018, after a lower growth of 2% in 2017, compared to 5.8% in 2016 and 8% in 2015. The sluggish economic activity in 2017, have repercussion on the loan performance and can push the NPLs in the range of 5.5%- 6% in 2018 compared to expected 5.3% in 2017.

The loan book of UAE banks continue to be skewed in favor of State Owned Entities (SoE's) and Real Estate, which continues to be a cause of concern. If there were to be a reversal of real-estate prices and default of Dubai's restructured debt, this could lead to comeback of asset-quality problems in the UAE. However, the loan performance of the GRI and large corporates is expected to remain resilient.

Figure 4.1: Non-Performing Loans to Gross Loans (%)



Source: IIF

Sectors sensitive to fiscal consolidation such as contracting, construction, real estate, retail and small and medium-sized enterprises are likely to face higher loan impairments. Consumer confidence remains weak with the limited pay increased and lackluster employment backdrop, with some areas continuing to see jobs losses. This would weaken the loan performance of the household and retail borrowers, as job losses and employment uncertainty constrain borrowers' repayment capacity.

Moreover, Loan performance is also negatively impacted by subsidy cuts and VAT implementation in the UAE. These measures are expected to dent consumer disposable income and debt servicing ability. This will weaken the performance of consumer loans and of retail and commercial industries. Retail loans account for one-fourth of the UAE banking's total loans, a weak loan performance in this segment could have heightened repercussions.

The quality of the loans to SMEs is also expected to remain under stress. Defaults in the segment reflect the softer economy, which is affecting small businesses and individuals excessively. Since the financial developments in UAE and oil price developments are interlinked, the extent of oil price recovery in the coming years will play a crucial role in determining the improvement in the asset quality.

The banks in the country are also enhancing their risk management and implementing countercyclical capital buffers and loan loss provisions to limit systemic financial sector risks.

Table 4.1: UAE listed banks NPL to Gross Loans Ratio in 2017

Company	NPL
Emirates Islamic Bank	9.7%
United Arab Bank	9.2%
Commercial Bank International	8.1%
Invest Bank	8.0%
Commercial Bank of Dubai	7.6%
Emirates NBD	7.3%
Bank of Sharjah	7.2%
National Bank of Fujairah	6.1%
Sharjah Islamic Bank	4.7%
Dubai Islamic Bank	4.3%
Union National Bank	4.3%
Ajman Bank	4.0%
National Bank of Ras Al Khaimah	4.0%
First Abu Dhabi Bank	3.9%
Finance House	3.8%
National Bank of Umm Al Qaiwain	3.5%
Abu Dhabi Islamic Bank	3.3%
Mashreqbank	2.6%
Abu Dhabi Commercial Bank	2.2%
Emirates Investment Bank	0.1%

Source: Reuters

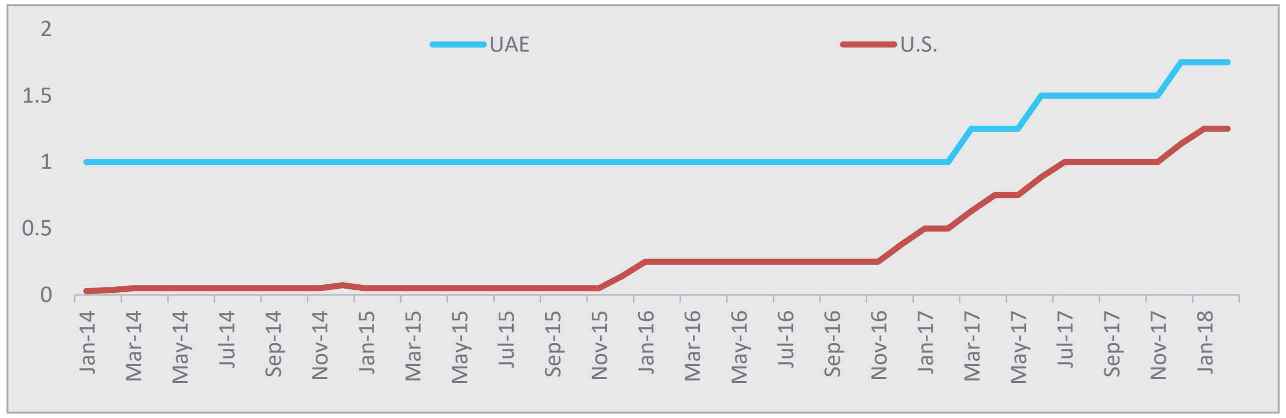
5

U.S Fed Rate Hike- Largely Positive on UAE Banks

The rates were increased on three separate occasions owing to the strengthening economic growth in the U.S. As the UAE Dirham (AED) is pegged to the U.S dollar, the change in fed rates translated to a proportional increase in the country's policy rates. The UAE hiked its key interest rates on all three occasions when the Federal Reserve announced an increase on their Fed funds rate in 2017. As a result, the UAE Repo rates saw a cumulative increase of 75 bps in 2017, increasing it from 1.00% to 1.75%.

Majority of the Federal Open Markets Committee (FOMC) participants have projected three or more interest rate hikes in 2018, which would see the interest rates move to a range of 2% to 2.25% from the current range of 1.25% to 1.5%, implying a change of 75 bps. This would translate into an increase in the UAE repo rate to 2.50% by the end of 2018 from the current 1.75%, if they follow the Fed's interest rates.

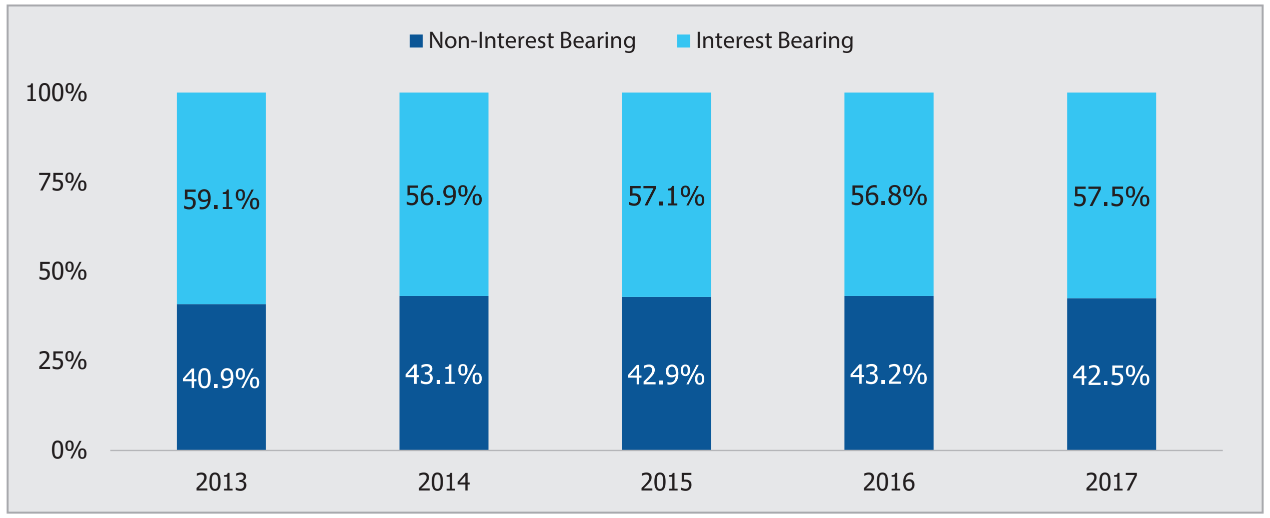
Figure 5.1: UAE policy rates



Source: Reuters

UAE banks post the rate hike and with improved credit conditions - witnessed a marginal expansion in interest margins, resulting in improved earnings in 2017. The interest rate hike has aided the banks to increase the lending rates, while the deposit rates remained unchanged due to sufficient liquidity in the banking system. Moreover, as UAE banks maintain high levels of non-remunerated deposits and repricing their loan books has helped the banks earn htigher interest and incur lower interest expense, thus higher net interest margins. The gross loan-to-deposit (L-to-D) ratio moderated to 97.1% in December-2017, down from 99.4% at the end of 2016, with deposit growth outpacing credit growth. Improved liquidity, rising interest rates and low operating expenses gave a boost to profitability.

Figure 5.2: UAE Deposit Breakdown



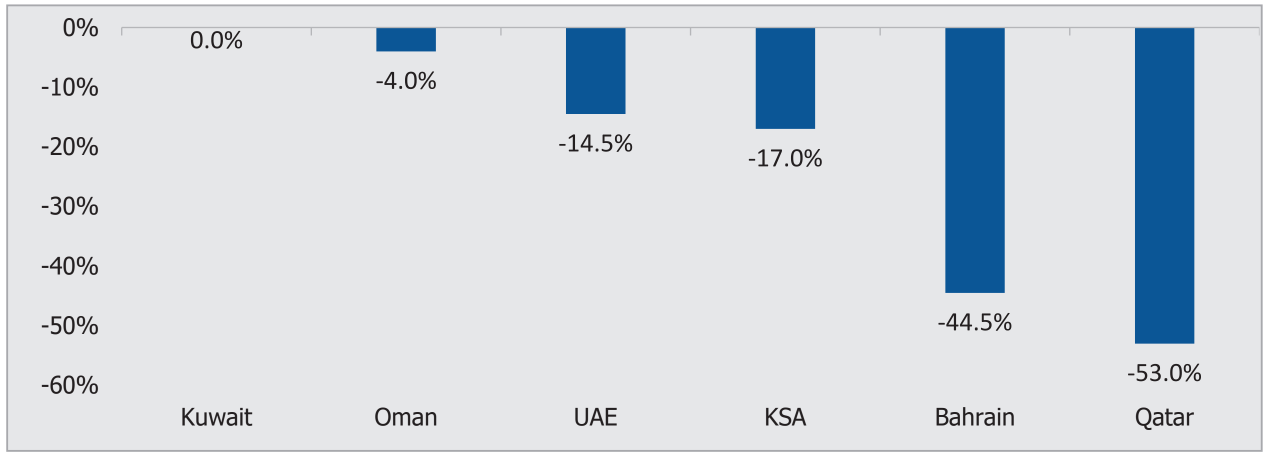
Source: Central Bank of UAE, Marmore Research Note: Non-Interest Bearing – Demand Deposits, Interest Bearing – Savings and Time Deposits

6 Impact of IFRS 9- Mostly Neutral

Prior to 2018, banks were required to set aside specific provisions only when they incur losses, or when the counterparty or financial asset defaults on its obligations. Under IFRS 9 (international financial reporting standards) implemented from Jan 1st 2018, banks will have to set aside provisions in advance, based on their loss expectations. It will thus require banks to take a forward-looking approach to provisioning with bankers asked to provide 12 month expected credit losses on loans and investments from the day they were acquired.

The implementation of IFRS 9 brings fundamental change in the way provisions are made. This would affect the cost of provisions and thus profitability of banks. This could lead to liquidity issues in the banking industry and increased cost of funding for borrowers, as the banks would charge higher interest to reduce the impact on profitability. The current financial disclosures do not allow calculating the potential impact of lifetime losses from other assets that are in scope of IFRS 9, such as financial instruments accounted for at amortized cost. However, the effect of calculating the potential losses from these assets will be limited in UAE because as the regulations in the country already require banks to set aside a general provision when they extend new loans.

Figure 6.1: Provision shortfall/Net Operating Income before Loan loss provision (Alternative Scenario)



Source: S&P

Switching to IFRS9 could be challenging for UAE banks. The absence of a long default history, coupled with difficulties in correctly assessing collateral values and time frames for realizations, makes it particularly tricky to assess expected loan losses.

Slower economic growth since 2014 and lower commodity prices led to a surge in loan defaults, with problem loans peaking in 2016. However, sluggish economic performance in 2017, suggest that credit quality could deteriorate in 2018. The macro-economic environment is largely favorable and some of the stress in the SME and retail loans have already peaked or started to come down. However, provisions at some banks could rise with the implementation of new IFRS 9 accounting rules from this year where lenders have to provide for losses on loans that are expected to turn bad rather than loss being incurred. This change will impact diverse areas of a bank's business and there will also be will be a rise in the cost of risk of the bank in 2018 and the higher amount of restructured and past due but not impaired loans present in their balance sheets.

7

Fintech Disruption – Proactive Response of UAE banks

The financial technology (fintech) revolution that is sweeping across the banking and financial services industry across the world is likely to disrupt the retail banking business in the UAE while the overall impact on balance sheets and bank ratings is going to be minimal in the near future as corporate lending constitutes a major portion of the loan books of UAE banks. UAE banks are undergoing a healthy competition to provide increased digital banking services to their clients. This will limit the business that could be lost to fintech in the next five years, while fund transfer and brokerage will remain the main business lines that are most likely to be disrupted.

In UAE, regulators such as Dubai International Financial Centre (DIFC) and Dubai Financial Services Authority (DFSA) and government are taking a proactive role in nurturing FinTech infrastructure. In Novvember-2017, DIFC launched a USD 100mn FinTech-focused fund and signed an agreement with the Monetary Authority of Singapore to undertake joint FinTech projects. In August-2017, Hong Kong's Securities and Futures Commission entered into a cooperation agreement with the DFSA to establish a framework for the two regulators to help each other develop the FinTech industry.

Banks have also responded and invested in the ecosystem, which will ultimately benefit them in the long run. The UAE banks have been proactive in realizing the challenges and opportunities of FinTech revolution. As a response to the Fintech revolution, the UAE banks have initiated several digital banking initiatives, ranging from separate digital-only banking platforms to strengthening of existing mobile banking services, rationalizing branch networks, and refocusing staff on value-added services rather than repetitive and less-profit-able operations.

UAE banks are also investing heavily in the FinTech related initiatives. For instance, in 2017, Emirates NBD committed Dh1 billion for "digital transformation" over the next three years. The management's decision to increase digitization related investments, was to affirm its credentials as the region's leader in digital banking.

Commercial bank of Dubai has its own digital-only bank known as "CBD Now". This would be UAE's first digital-only bank targeting millennials and digitally connected customers. Similarly, Mashreq Bank launched Mashreq Neo, a new full-service digital bank. The new digital bank, which will be completely branchless, is targeted towards the connected generations who are digitally savvy, use mobile devices extensively, and will immerse users in a brilliant digital experience.

8

M&A Outlook in UAE Banking Industry-Gaining Traction

Banks across the region are facing pressure on profitability and tighter liquidity, especially in countries where public sector deposits have been withdrawn from banks to shore up government finances weakened by lower oil prices. In the event where oil price pressure continues, banking industry in the UAE could undergo a round of consolidation to cut costs and address liquidity shortages in order to better safeguard itself from similar situations in the future.

Table 8.1: M&A deals

Year	Target	Acquirer
2016	First Gulf Bank	National Bank of Abu Dhabi
2014	Barclays PLC-Retail Operations	Abu Dhabi Islamic Bank
2012	Dubai Bank	Emirates Islamic Bank

Source: Reuters

The region appears to be overbanked with small population size and could benefit from consolidation as many banks in the region also lack sufficient scale. The UAE has 46 commercial banks and offices for another nine lenders excluding offshore investment banks in the Dubai International Finance Centre[3].

Analyzing the pre and post-merger performance of some of the banks, we did not see significant impact on key measures such as cost to income ratio and ROE post mergers. For most of the banks key performance ratio dipped for the year merger took place and gradually adjusted to pre-merger levels. Emirates Islamic bank however witnessed an improved return on equity since the merger took place in 2012. Thus, it is not clear if banks have really benefited from mergers. Merger of National Bank of Abu Dhabi and First Gulf Bank in the UAE that created the largest bank in the UAE and second largest in the region could well be the beginning of the consolidation trend.

[3] *Financial Times*

Table 8.2: Cost to income Ratio: Pre and Post merger

Company	2012	2013	2014	2015	2016	2017
First Abu Dhabi bank	35.80%	37.70%	39.90%	45.30%	23.40%	34.60%
Abu Dhabi Islamic Bank	43.80%	50.60%	51.00%	50.30%	50.50%	49.70%
Emirates Islamic Bank	44.40%	44.70%	52.20%	45.90%	49.90%	45.60%

Source: Reuters

Represents post-merger values

Table 8.3: ROE: Pre and Post Merger

Company	2012	2013	2014	2015	2016	2017
First Abu Dhabi bank	15.50%	15.10%	16.10%	13.60%	15.20%	13.50%
Abu Dhabi Islamic Bank	11.40%	11.30%	13.10%	13.50%	12.90%	14.60%
Emirates Islamic Bank	3.20%	4.10%	8.40%	13.40%	1.80%	10.00%

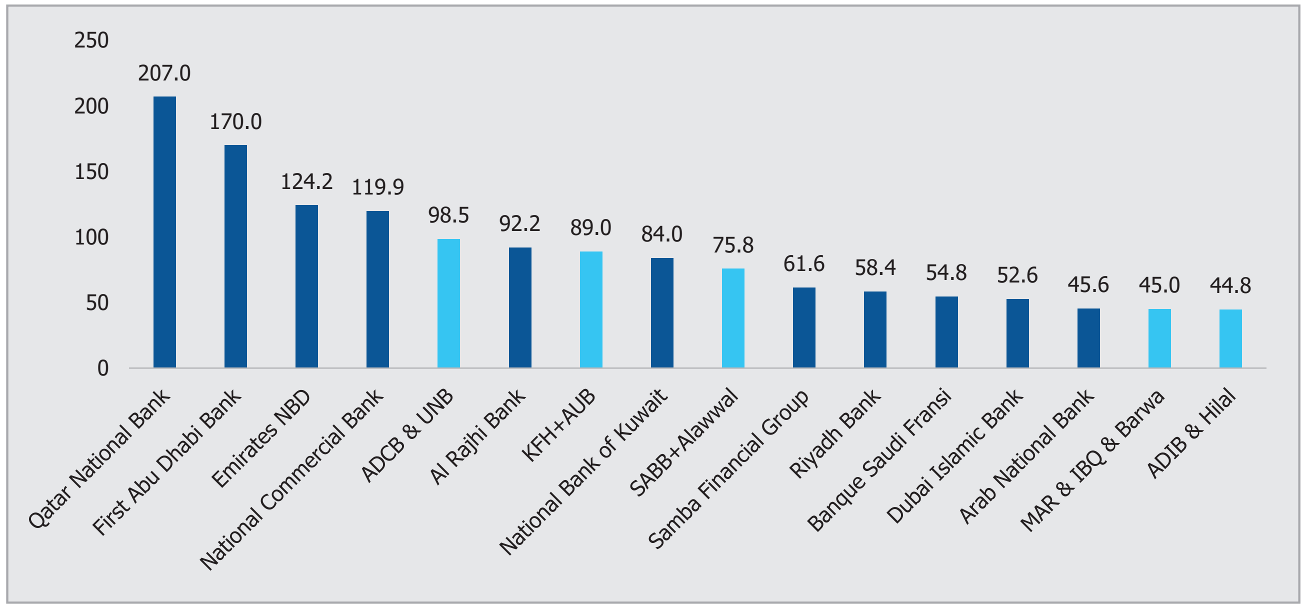
Source: Reuters

Represents post-merger values

The environment for consolidation in the region is stronger now than a decade ago. Slower economic growth, increasing non-performing loans (NPLs), tightened liquidity and higher expenses make it a challenging environment for the UAE banks to operate in. Moreover, in an overbanked market, with limited opportunities for top line growth, there is a strong push to improve profitability by improving cost efficiencies. Given these challenges, consolidation is the ideal solution, as it facilitates the challenges aforementioned and for these very reasons, we can expect more mergers, in the UAE banking industry.

The fall in oil prices may be a significant trigger as more than 80 per cent of the Gulf's top 50 banks by assets are part owned by arms of GCC states. M&A deals are much more likely to complete if they create domestic market leaders. Becoming a bigger bank strengthens ties to the government through business flow, and shareholders are often attracted by stronger resilience of the new entity to credit or liquidity risk.

Figure 8.1: Top GCC banks by assets after potential Mergers (USD Bn)



Source: Bloomberg

However going forward, 2018 could see a number of deals in banking industry of sizeable values as UAE banking industry do seem overbanked and saturated. About 50 banks operate in the UAE, making it a crowded market for a population of about 9 million people. M&A is a cost effective way to restructure the banking system by eliminating institutions that are perceived as inefficient and without adequate liquidity and strong asset bases, thus creating larger entities that are financially more robust and efficient, as they benefit from more economies of scale.

9 Appendix

Total Assets

The assets under banking sector have been consistently rising over the years. Asset growth remained robust at 31% percent in 2017, particularly when compared to the more developed markets. The key driver of growth was increased lending to government and related entities.

Table 9.1: Total Assets in USD Billion

Company	2013	2014	2015	2016	2017
First Abu Dhabi Bank	88.5	102.4	110.7	61.0	182.2
Emirates NBD	93.1	98.8	110.7	122.0	128.1
Abu Dhabi Commercial Bank	49.9	55.5	62.2	70.3	72.2
Dubai Islamic Bank	30.8	33.7	40.8	47.6	56.5
Mashreqbank	24.4	28.8	31.4	33.4	34.1
Abu Dhabi Islamic Bank	28.1	30.5	32.2	33.3	33.6
Union National Bank	23.8	25.4	27.7	28.3	29.3
Commercial Bank of Dubai	12.1	12.8	15.8	17.4	19.2
Emirates Islamic Bank	10.8	11.7	14.5	16.1	16.8
Sharjah Islamic Bank	5.9	7.1	8.1	9.1	10.4
National Bank of Fujairah	5.8	6.7	8.2	9.7	10.0
Bank of Sharjah	6.8	6.8	7.5	7.4	8.3
Commercial Bank International	4.0	5.4	4.5	5.5	5.6
United Arab Bank	5.9	7.0	6.4	5.8	5.6
Ajman Bank	1.9	3.1	3.9	4.4	5.5
National Bank of Umm Al Qaiwain	3.4	3.6	3.6	3.7	3.8
Emirates Investment Bank	0.8	1.0	1.0	1.3	1.3
Finance House	1.1	1.3	1.4	1.2	1.2

Source: Reuters

Net Interest Income

The UAE banks witnessed higher business volumes and benefitted from the recent hike in interest rates, which translated, into higher profitability for the banks. The UAE Repo rates saw a cumulative increase of 75 bps in 2017, increasing from 1.00% to 1.75%. The interest rate hike has aided the banks to increase the lending rates, while the deposit rates remained unchanged due to sufficient liquidity in the banking system. This has helped the banks earn higher interest and incur lower interest expense, thus higher net interest margins. The gross loan-to-deposit (L-to-D) ratio moderated to 97.1% in December-2017, down from 99.4% at the end of 2016, with deposit growth outpacing credit growth. Improved liquidity, rising interest rates and low operating expenses gave a boost to profitability.

Table 9.2: Net Interest Income in USD Million

Company	2013	2014	2015	2016	2017
First Abu Dhabi Bank	1,772.3	1,910.8	1,990.2	1,730.1	3,103.0
Emirates NBD	2,215.9	2,585.5	2,789.3	2,753.3	2,936.9
Abu Dhabi Commercial Bank	1,478.2	1,520.5	1,690.2	1,688.6	1,824.6
Dubai Islamic Bank	810.2	992.3	1,215.5	1,265.1	1,438.5
Abu Dhabi Islamic Bank	896.4	1,018.9	1,102.3	1,171.8	1,161.0
Mashreqbank	641.9	827.6	888.4	915.6	952.6
Union National Bank	708.6	727.1	796.3	716.1	720.7
Commercial Bank of Dubai	394.4	431.0	446.7	469.8	495.8
Emirates Islamic Bank	335.3	406.7	473.2	486.2	469.8
National Bank of Fujairah	158.5	185.4	218.2	231.0	249.8
Sharjah Islamic Bank	124.4	150.9	143.2	131.3	173.2
Commercial Bank International	126.4	146.2	133.5	138.0	151.5
United Arab Bank	215.2	274.8	268.9	172.5	133.3
Bank of Sharjah	123.5	127.3	149.3	142.1	126.8
National Bank of Umm Al Qaiwain	115.1	136.3	129.0	120.7	124.1
Ajman Bank	57.4	78.6	93.1	101.5	113.4
Finance House	35.0	39.6	54.0	66.8	53.5
Emirates Investment Bank	18.5	23.4	22.0	20.7	30.7

Source: Reuters

Cost to Income Ratio

Operating expenses at the UAE banks increased in 2017, and the same is reflected in the cost to income ratio of the banks, discussed below. The increases were mainly related to investments in technology to drive digitization and to improve operational efficiency. Eight out of 18 publicly listed banks in UAE have seen a decline in the cost to income ratio in 2017 as compared to 2016. To keep cost-to-income in check, most banks in are deploying innovative digital technologies for engagement with customers and partners. Banks are expected to further increase their focus on cost efficiencies in 2018 to mitigate profitability pressures.

Table 9.3: Cost to Income Ratio in Percentage

Company	2013	2014	2015	2016	2017
Finance House	65.6	71.2	65.1	65.4	83.0
Emirates Investment Bank	52.0	51.0	81.7	70.5	66.0
United Arab Bank	30.6	28.7	42.5	44.5	55.8
Commercial Bank International	53.2	45.3	55.4	55.8	54.0
Mashreqbank	53.2	49.1	51.9	50.1	50.9
Abu Dhabi Islamic Bank	50.6	51.0	50.3	50.5	49.7
Sharjah Islamic Bank	48.7	41.9	37.6	41.2	47.1
Emirates Islamic Bank	44.7	52.2	45.9	49.9	45.6
Ajman Bank	70.8	58.3	55.3	49.0	42.4
Bank of Sharjah	31.4	36.1	33.2	37.2	38.8
Abu Dhabi Commercial Bank	34.4	36.2	37.1	35.9	37.4
Commercial Bank of Dubai	31.8	34.7	38.0	37.2	37.3
Emirates NBD	36.8	33.0	33.8	37.4	35.6
First Abu Dhabi Bank	37.7	39.9	45.3	23.4	34.6
National Bank of Fujairah	36.6	37.8	36.8	34.4	33.7
Union National Bank	26.7	27.5	28.0	32.7	32.5
National Bank of Umm Al Qaiwain	28.6	27.0	-11.7	30.8	31.8
Dubai Islamic Bank	38.5	36.7	34.6	25.9	30.5

Source: Reuters

Return on Equity

Within the GCC, UAE and Qatar are amongst the markets that generate higher ROEs. The improved profitability has helped most of the banks to generate higher ROE in 2017, compared to 2016.

Table 9.4: Return on Equity in Percentage

Company	2013	2014	2015	2016	2017
Dubai Islamic Bank	14.7	18.9	21.3	18.0	17.9
Emirates NBD	8.4	11.9	14.9	14.1	14.9
Abu Dhabi Islamic Bank	11.3	13.1	13.5	12.9	14.6
Emirates Investment Bank	12.2	14.4	8.4	9.8	14.4
Abu Dhabi Commercial Bank	15.0	16.6	17.9	14.2	13.6
First Abu Dhabi Bank	15.1	16.1	13.6	15.2	13.5
Commercial Bank of Dubai	14.4	16.0	13.3	11.9	11.3
Mashreqbank	13.9	16.7	14.8	11.1	11.1
Emirates Islamic Bank	4.1	8.4	13.4	1.8	10.0
National Bank of Fujairah	14.8	15.8	14.6	10.4	10.0
Sharjah Islamic Bank	6.8	8.3	8.8	9.7	9.2
Union National Bank	12.1	12.8	11.1	9.2	9.1
National Bank of Umm Al Qaiwain	10.3	8.3	13.9	8.2	9.1
Commercial Bank International	8.4	5.4	-20.4	5.4	7.3
Bank of Sharjah	9.0	7.0	6.0	9.4	6.5
Ajman Bank	1.0	6.7	10.5	7.6	6.3
Finance House	15.1	13.0	8.7	4.3	3.8
United Arab Bank	23.4	22.5	-6.7	-22.4	0.8

Source: Reuters

Cost to Income Ratio

The improved profitability in 2017 has led to improved return on assets across most of the banks. The economic recovery in the UAE in 2018 is expected to result in higher profits, improved asset utilization, and capital allocation. Unless the significant loan deterioration occurs, the ROA in the coming years can be expected to continue to improve.

Table 9.5: Return on Assets in Percentage

Company	2013	2014	2015	2016	2017
National Bank of Umm Al Qaiwain	3.0	2.4	4.1	2.4	2.7
Dubai Islamic Bank	1.6	2.4	2.8	2.5	2.4
First Abu Dhabi Bank	1.6	1.7	1.4	1.9	2.1
Abu Dhabi Islamic Bank	1.5	1.6	1.7	1.6	1.9
Emirates NBD	1.0	1.5	1.9	1.7	1.8
Mashreqbank	2.3	2.6	2.3	1.7	1.7
Abu Dhabi Commercial Bank	2.0	2.2	2.3	1.7	1.6
Union National Bank	2.0	2.3	2.0	1.6	1.6
Commercial Bank of Dubai	2.4	2.6	2.0	1.6	1.5
National Bank of Fujairah	2.0	2.2	2.0	1.4	1.3
Sharjah Islamic Bank	1.5	1.6	1.5	1.5	1.3
Emirates Islamic Bank	0.4	0.9	1.3	0.2	1.2
Emirates Investment Bank	1.6	1.5	0.8	0.8	1.2
Commercial Bank International	1.3	0.7	-2.6	0.7	0.9
Bank of Sharjah	1.5	1.2	1.0	1.5	0.9
Ajman Bank	0.2	0.8	1.0	0.8	0.7
Finance House	2.1	1.6	1.2	0.8	0.7
United Arab Bank	3.0	2.6	-0.7	-2.3	0.1

Source: Reuters

About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

Our aim

Advocate intellectual research on MENA economies, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.