

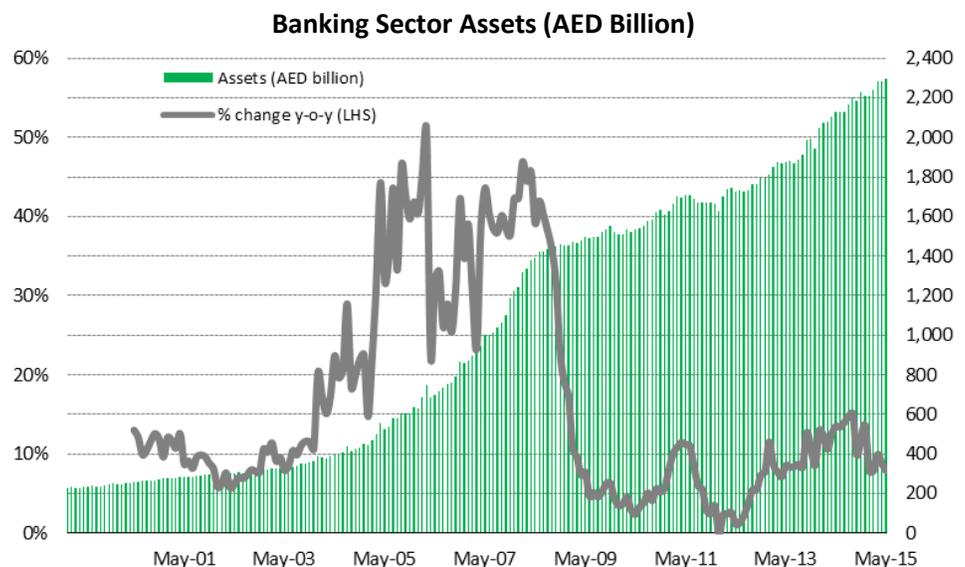
UAE Banking sector overview – June 2015

Comprising of some 23 local and 26 foreign banks, with 957 branches between them, the banking sector in the UAE has for quite some time benefitted from being in a very sound and robust position. With a supportive regulator, the UAE Central Bank, and a Government and public sector that have been in a position of financial strength due largely to hydrocarbon revenues and generally prudent policies and strategy, the sector is one that investors, market participants, and analysts have generally been very comfortable with.

However with the paradigm shift in oil prices that we have witnessed recently, has the sector's substantial strength been even slightly dented? In this report we examine a broad range of parameters that will provide an overview of the sector and hopefully provide some food for thought in the context of the above question.

Key indicators such as loans, deposits, NPLs (non-performing loans), etc all seem to be going in the right direction and hence support a continuation of the 'comfort' that people have generally felt in relation to the UAE banking sector. However, not wanting to see things through rose-tinted spectacles, we also highlight in this report a couple of factors that may just warrant some closer examination and closer monitoring over the coming months. For instance, Government and Public sector deposits, Central Bank FX reserves, loan to deposit ratios (LTD), and 'liquidity' in the banking system are among those factors that we feel are starting to show some less than positive signs. Certainly a case of watch this space...

Assets Overview: Banking sector assets (net of provisions and interest in suspense) reached AED 2,391bn (US\$ 651bn: 7% y-o-y) at the end of May 2015.



Source: CBUAE

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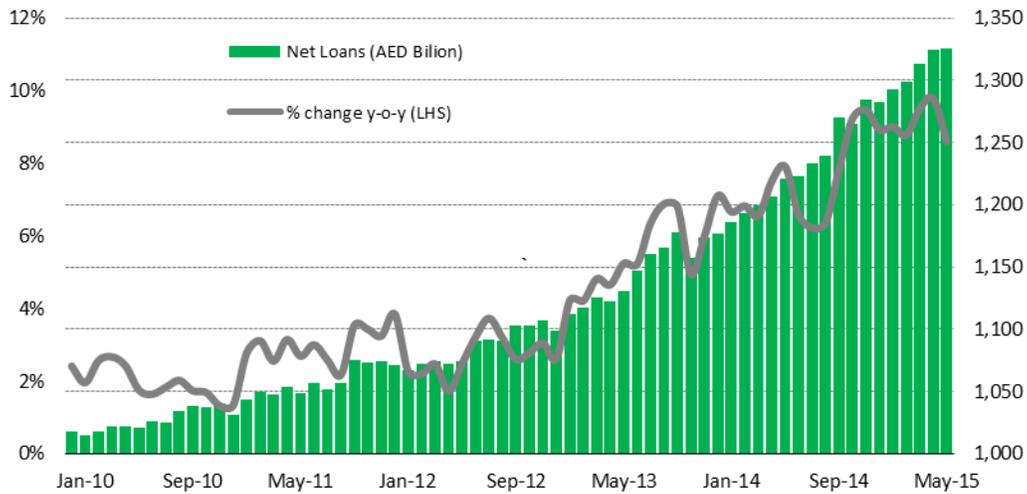
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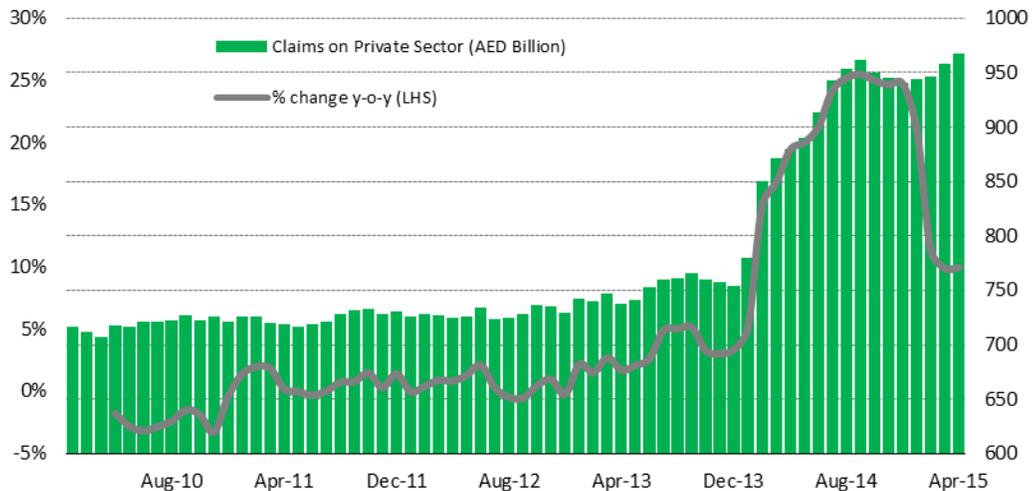
NBAD's total assets increased 10.8% y-o-y during the first quarter ending 31 March 2015 and reached AED 400bn (US\$ 109bn). UAE banking sector is comfortably capitalized and has an overall capital adequacy ratio of 18.2% - significantly higher than the CB requirement of 12%.

Loans Overview: Banking sector net outstanding loans (net of provisions) stood at AED 1,324.6bn (US\$ 360.8bn: 10% y-o-y) at the end of April 2015. In the first quarter of 2015, NBAD loans increased by 12.1% y-o-y and reached AED 200bn (US\$ 54.34bn).



Source: CBUAE

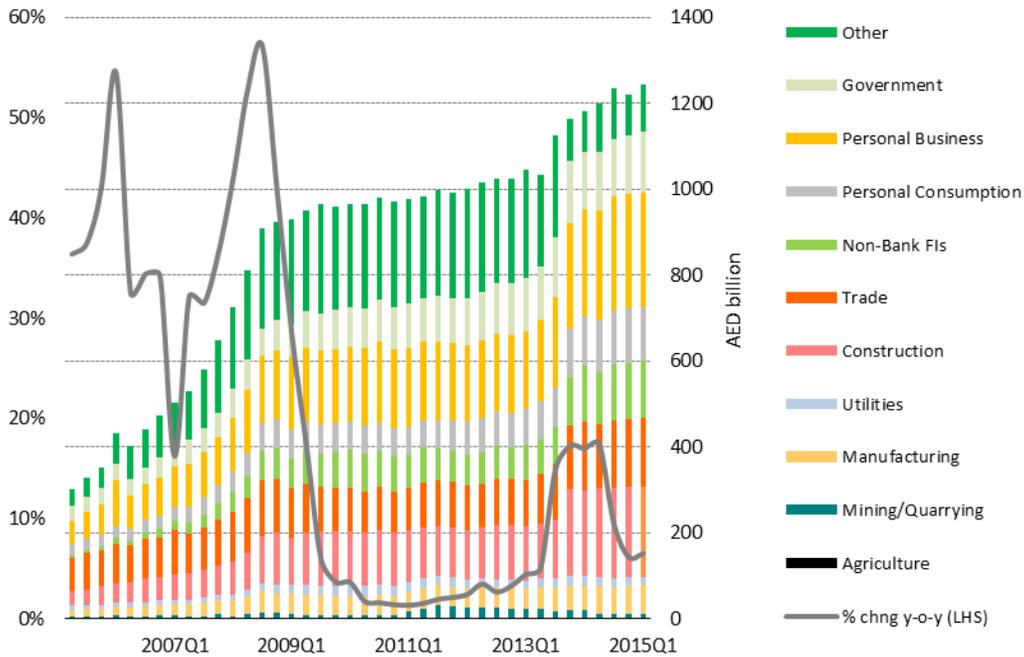
Claims on private sector: As per the April 2015 data from Central bank, the latest available, claims on private sector increased by 10% y-o-y to AED 967bn (US\$ 263.5bn).



Source: CBUAE

Loans to Residents by Economic Activity: The latest available data from the central bank shows that loans to residents grew by 6.5% y-o-y during first quarter of 2015. Government, personal, construction, and transport/communication sectors were the main drivers of credit growth in the past one year. Personal loans accounted for 30% of total loan followed by construction loans (16.3%). Central Bank regulations limit personal loan amounts to 20 times of individual salary

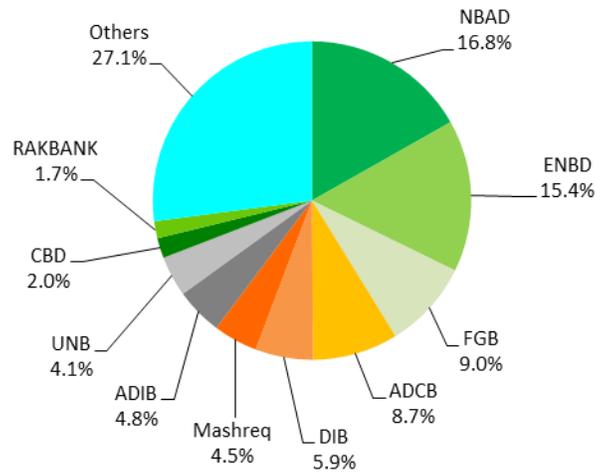
with a maximum payment period of 48 months. The central bank has withdrawn the initial circular on large limit exposures to GREs and lending to Emirates. However, the circular is expected to be released again.



Source: CBUAE

Market Share: 2015 first quarter balance sheet data from the UAE central bank shows that NBAD has 17% market share on banking sector assets. NBAD tops the chart followed by ENBD which has a market share of 15.4%. Four leading local banks – NBAD, ENBD, ADCB and FGB – commands more than 50% share of the total banking sector assets.

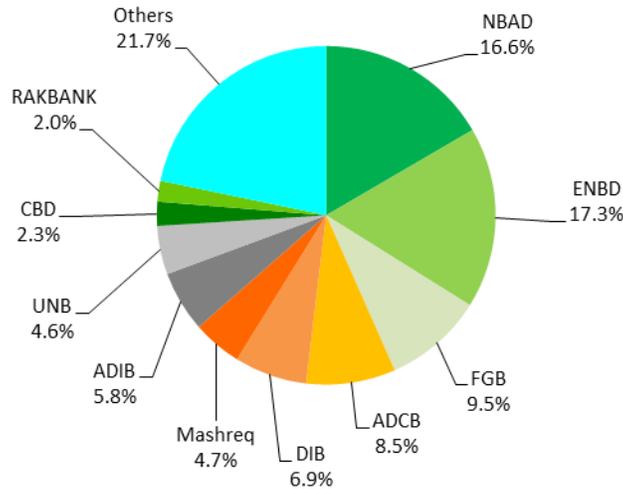
Banking Sector Net Assets Q1 2015 (% Share)



Source: NBAD

Sector deposits reached AED 1,441bn (US\$392.5bn) in April 2015 posting a year-on-year growth of 7.15%. Again four local banks – namely NBAD, ENBD, ADCB and FGB – have more than 60% of the total deposits. UAE banking system doesn't have a deposit insurance system. However, all the banks succeeded to pay the depositors following the financial crisis.

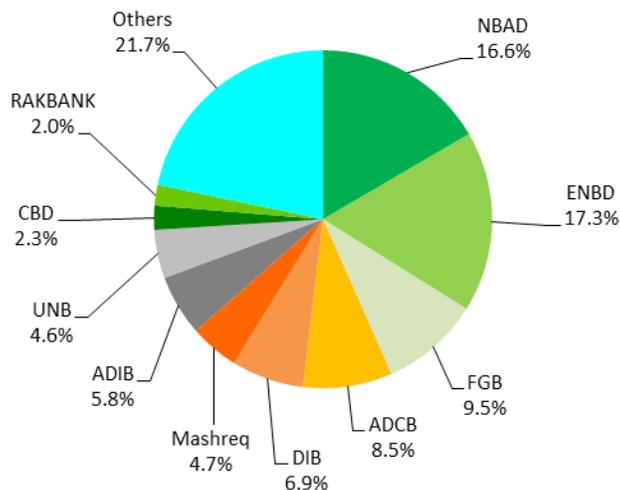
Banking Sector Deposits Q1 2015 (% Share)



Source: NBAD

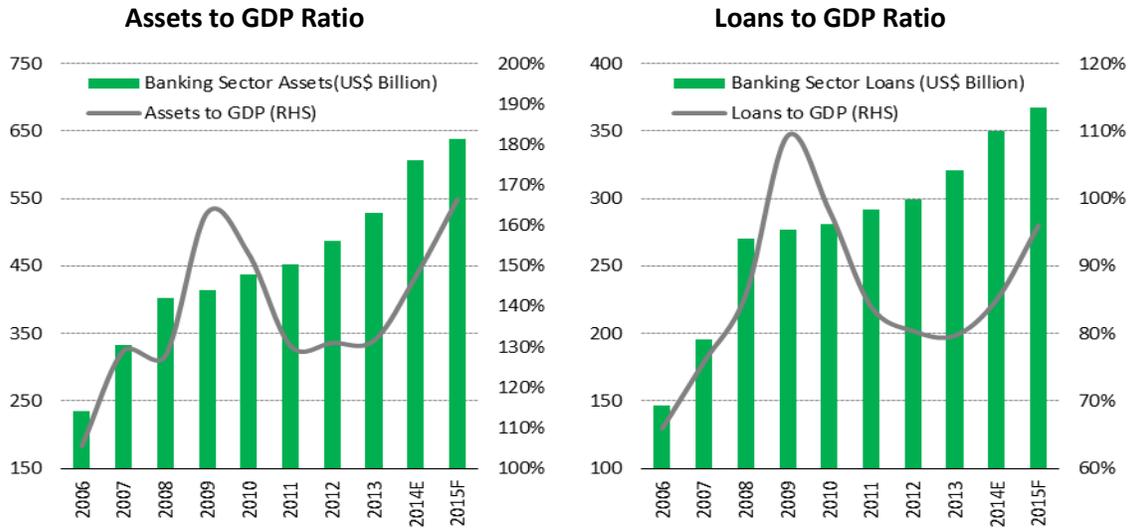
Emirates NBD tops the chart in terms of market share of loans with 17% share at the end of Q1 2015. NBAD closely follows with 16.6% share. NBAD's total loans reached AED 200bn (US\$ 55bn) at the end of Q1 with a y-o-y growth of 12.1%. The top four local banks - NBAD, ENBD, ADCB and FGB – command around 52% share in the loan market.

Banking Sector Loans Q1 2015 (% Share)



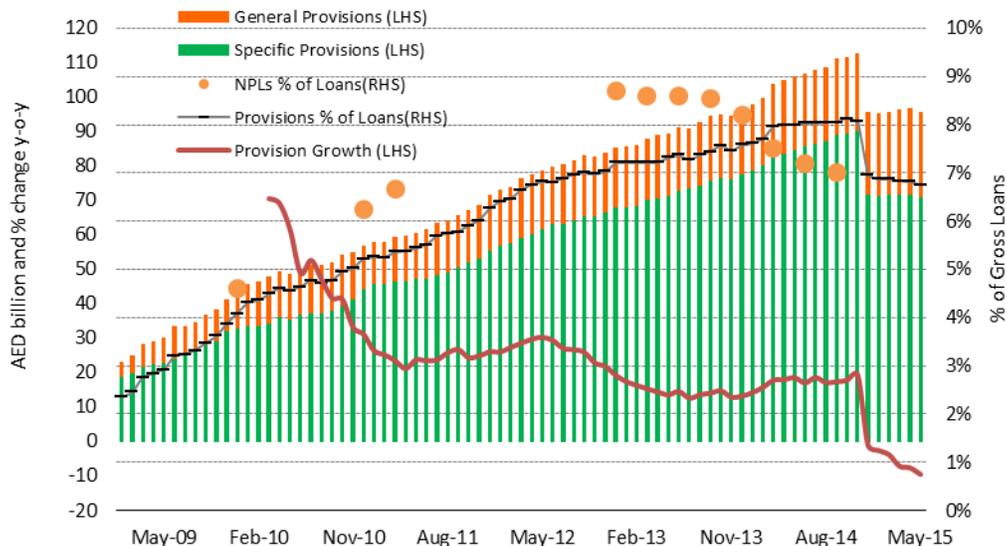
Source: NBAD

Assets and Loans as % of GDP: The value of banking sector assets as a percentage of the country's GDP is expected to reach around 170% at the end of FY2015. Banking sector assets growth is much faster than the growth of GDP. In 2015, UAE's Nominal GDP is expected to contract by around 4%, primarily on lower oil revenue.



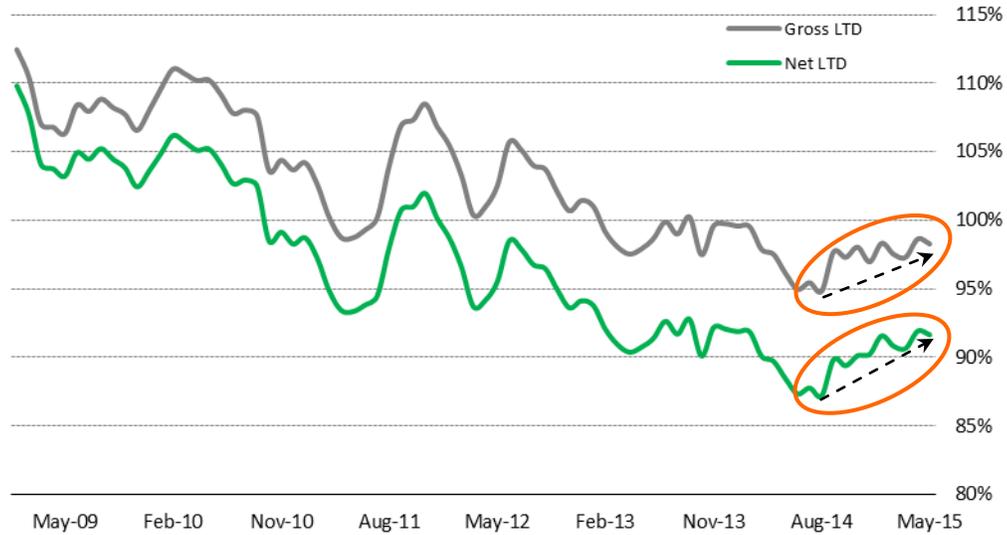
Banking sector loans as a percentage of GDP (Loans to GDP ratio) has stabilized around 80% during 2011-2014 and is expected to reach around 95% in 2015. Nominal GDP is expected to contract due to declining oil prices in 2015.

Loan provisions & Non Performing Loans: Provisions to gross loans touched a peak in August 2014 at 8.05%. However, this has now come down to 6.82% at the end of April 2015. Provision growth has declined significantly in past few months and now largely driven by specific provisions. The major decline in the Sector Non Performing Loans (NPL's) is primarily due to the re-classification of Dubai World Loans as performing. NBAD's NPL ratio, at the end of 2014, was of 3.07% – one of the lowest amongst peers.



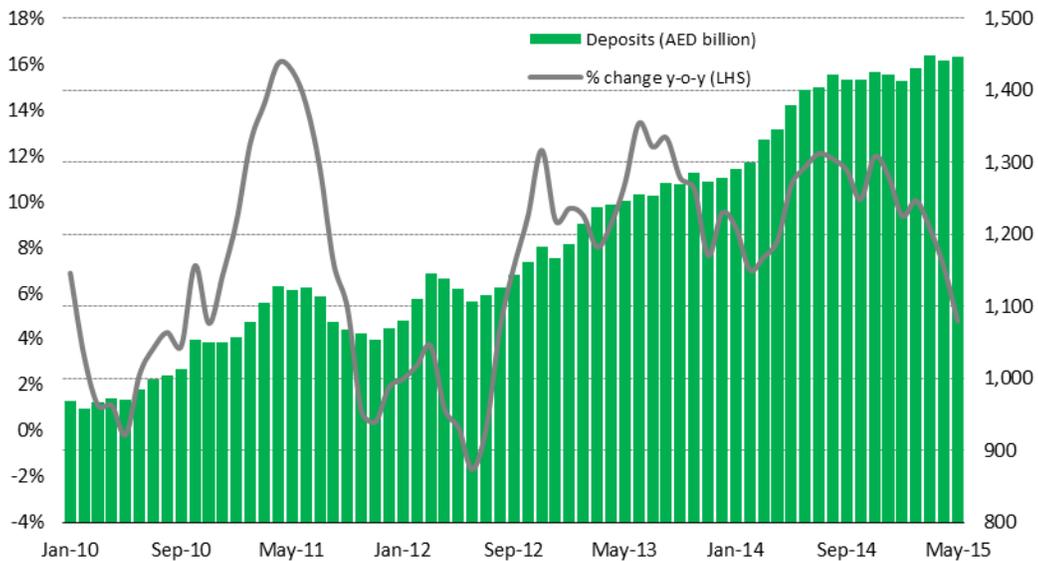
Source: CBUAE

Loan to Deposit ratio (LTD): Banking sector liquidity has improved significantly since the 2008 economic downturn. The Net LTD ratio touched a historical low in June 2014 at 87%. LTD ratio has been increasing since last 3 quarters mainly because of the decline in government and public deposits. This trend is expected to continue. LTD has bounced to 92% in April 2015. At the end March 2015, NBAD's Net LTD ratio stood at 80%.



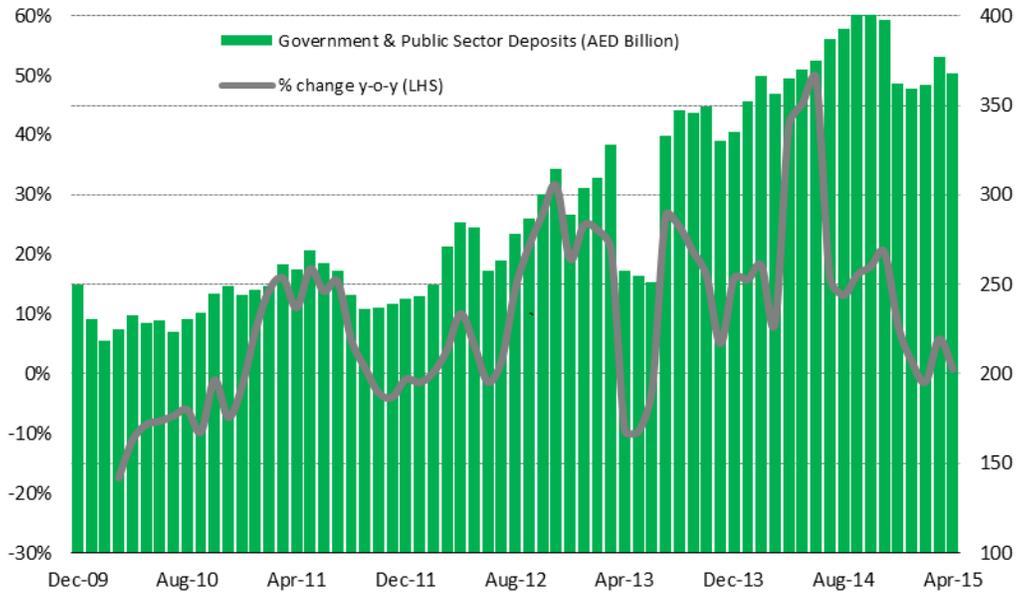
Source: CBUAE

Banking sector deposits: Total deposits reached AED 1,446.5bn (US\$ 394bn) at the end of In May 2015 with y-o-y growth rate of 4.8%. Government deposits decreased by -5.25% y-o-y in the month of May and constituted 12.6% of total deposits. In April 2015, public sector deposits declined to AED 173.8bn (-13% y-o-y) and constituted 36.7% of total deposits down from 49.6% March 2014. The share of government & public sector deposits has been gradually declining.



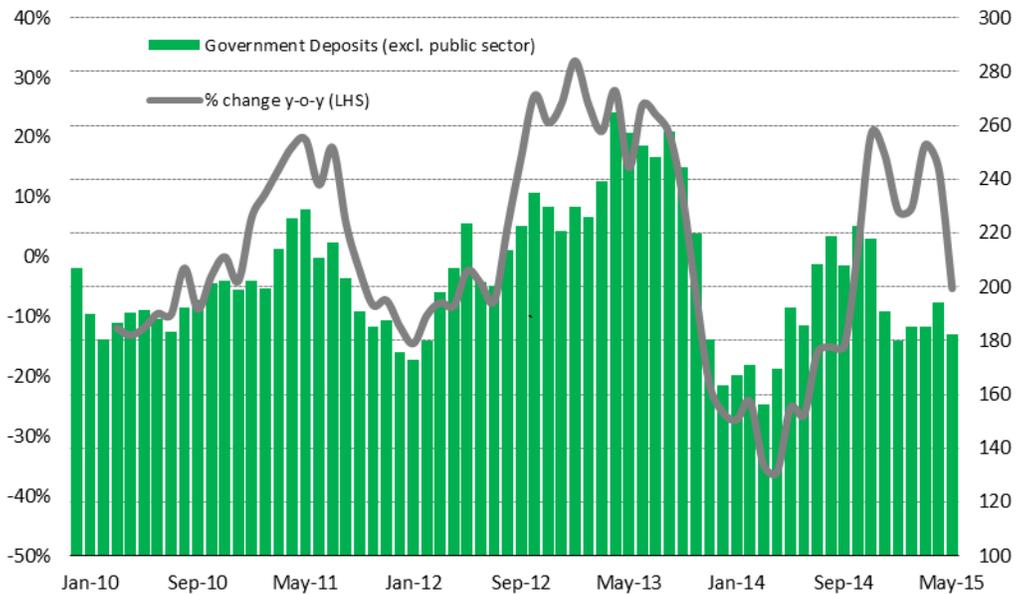
Source: CBUAE

Government & Public Sector Deposits: Most recent data from the Central Bank shows that government and public sector deposits have declined to AED 368bn in April 2015, a drop of 1% y-o-y, from AED 403bn in August 2014. We expect some further reductions by the end of the year.



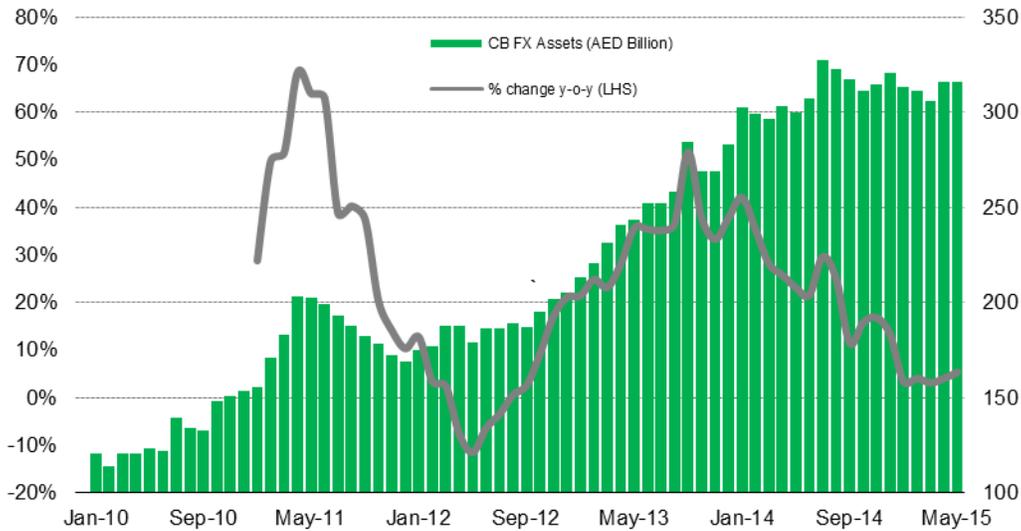
Source: CBUAE

Government Sector Deposits: May 2015 data release from the Central Bank shows that government deposits declined to AED 182.2bn, US\$49.6bn (-5.25% y-o-y), down from peak values of AED 260bn in April 2013. We expect further reductions by the end of the year.



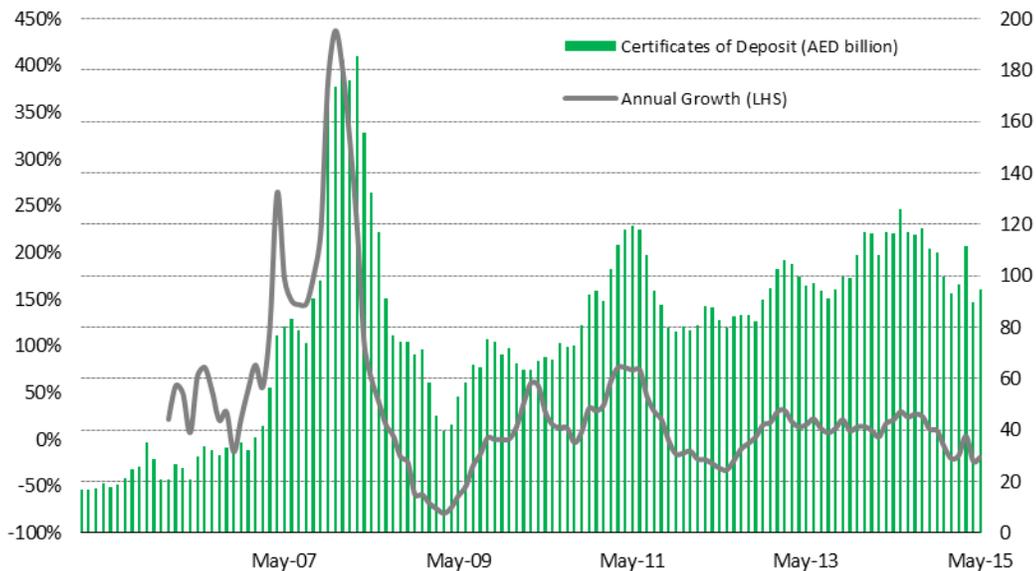
Source: CBUAE

Central Bank FX Reserves: The latest available Central Bank data shows foreign assets reserves of AED 315bn, US\$86bn at the end of April 2015. The assets growth was 4% y-o-y for April. However, there seems to be a stabilization of assets since the third quarter of 2014 and we could expect a decline by the end of the year. Indeed it is consistent with our recent report that highlighted the possible asset depletion in GCC, owing to lower oil price.



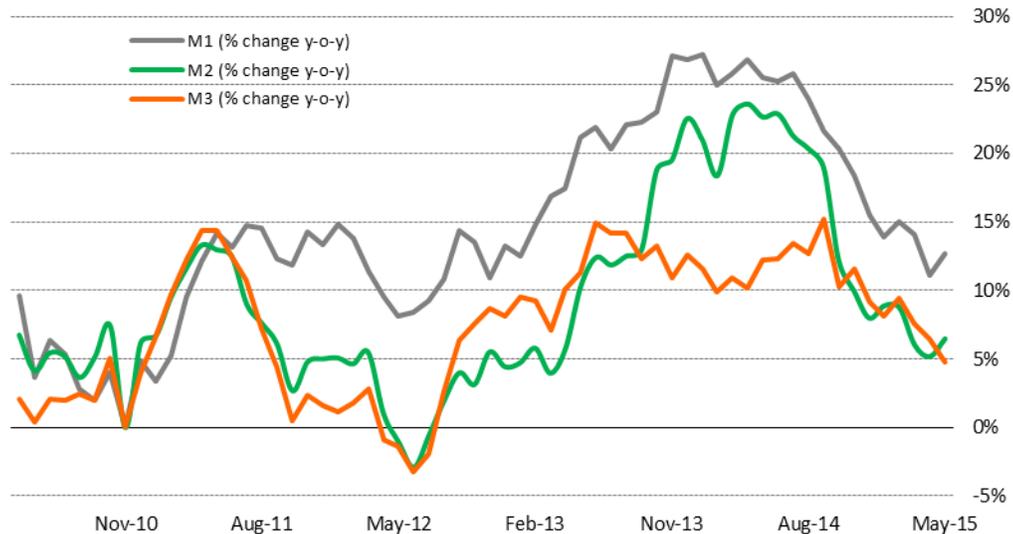
Source: CBUAE

Certificates of Deposit: Certificates of Deposit (CD), which are issued by the CBUAE and sold only to banks to absorb excess liquidity, are also used as an indicator to determine domestic interest rates. In May 2015, CDs declined to AED 94.7bn (US\$ 25.8bn: -19% y-o-y). Before 2008 crisis hot money was flowing into UAE banking system and annual lending growth exceeded 25% during 2007-2008 during which mortgage Loan to Value ratios exceeded 95%, off plan sales and financing was the common practice. Loan to Deposit ratios were above 110%.



Source: CBUAE

Monetary Aggregates: In May 2015, M1 growth was +12.7% y-o-y, down from peak values of 27% in April 2014, reflecting a slowdown in economic activity. Growth in M1 was faster than M3 (4.8% y-o-y). Money Supply aggregate M2 also increased by 6.5% at the end of May 2015. The increase in M1 and M2 was attributed to in monetary deposits and quasi-monetary deposits, which was also carried forward to M3. CBUAE has been following accommodating monetary policy. The June FOMC update signaled that the FED is moving towards a tightening cycle and the CB may indeed follow this closely because of the dollar peg.



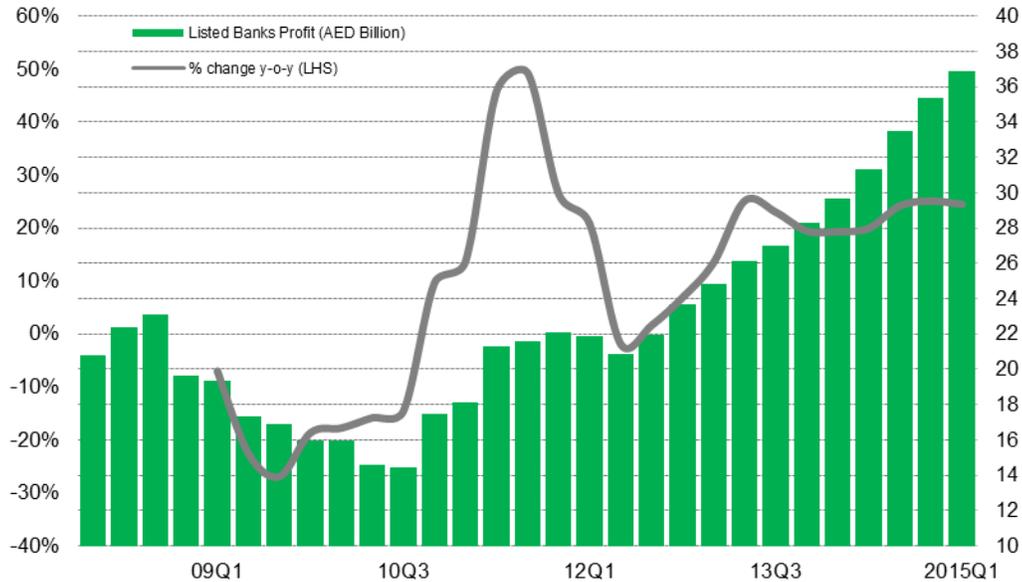
Source: CBUAE

Real Effective Exchange Rate (REER): REER is the weighted average of a country's currency relative to an index or basket of other major currencies adjusted for the effects of inflation. For the UAE, the REER (AED) is currently at 121, which shows the currency is over-valued 21% and needs to correct to approach its fair value of 100. A strong AED helps imports and reduces imported inflation but can affect trade competitiveness by making exports more expensive. Since UAE is an import based economy and the main item for exports are hydro-carbons, it is good for the economy have the currency a bit over-valued.



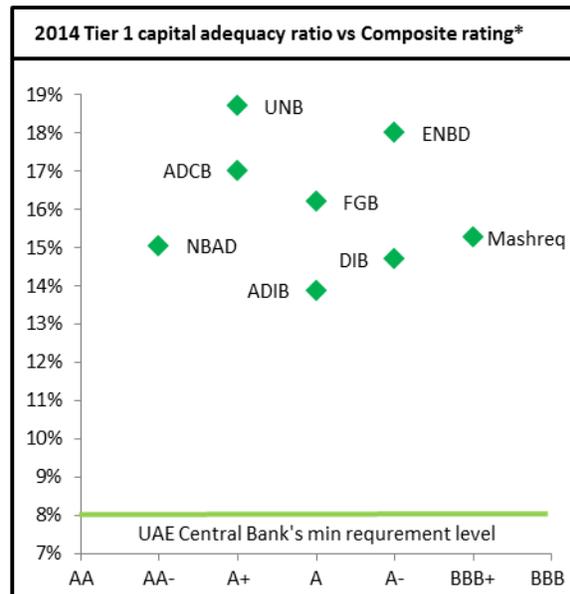
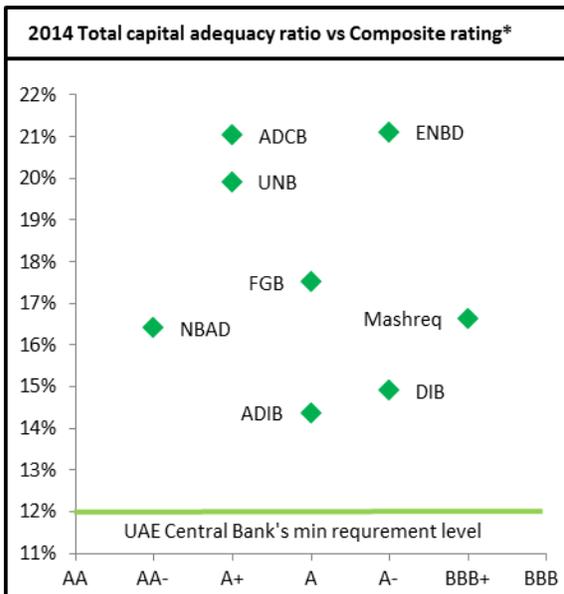
Source: NBAD Market Insights & Strategy

Banking Sector Profitability: The twelve month rolling sum profits for the listed banks in the UAE have reached almost US\$ 10bn at the end of Q1 2015, a y-o-y growth of 18.4% for Q1. Banking system stability indicators have been improving in recent years. Indeed the sector is by far the most profitable sector of the economy.



Source: Bloomberg

Banking Sector Capital: The UAE banking sector is well capitalized as per the global banking standards. Indeed all major UAE bank maintain comfortable capital adequacy ratios are well placed when compared to their European or US counterparts. The charts below show that UAE banks maintain healthy capital ratios which are much higher than the prescribed regulatory limit. As per the UAE central bank, banks have to maintain a minimum of 12% Total Capital Adequacy ratio and 8% Tier 1 Capital Adequacy ratio.



Source: Bloomberg; NBAD

Appendix

The Composite rating used in the capital adequacy charts are is calculated as follows:

- A score is assigned to the rating from each rating agency: AAA or equivalent being the best with a score of “1”, followed by AA+ or equivalent as “2”, AA or equivalent as “3”, AA- or equivalent as “4” and so on;
- For example NBAD is rated Aa3/AA-/AA- by Moody’s/S&P/Fitch. So the scores are 4/4/4;
- Hence the average of the scores is “4” which indicates a composite rating of “AA-” for NBAD;
- In case the average score is not an absolute number – e.g. 4.33 (average of 4, 5, & 4) – the final score is derived by rounding off the average score to the nearest whole number. In this case “4”.

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