



UAE Trade Finance Conference: UAE Banks - Resilience in the Face of Tightening Liquidity

Nitish Bhojnagarwala
Assistant Vice President – GCC Banking
+971.4.237.9563
nitish.bhojnagarwala@moodys.com

Agenda

- 1. Recent Rating Update**
- 2. UAE Banking System Outlook**
 - » Operating Environment
 - » Asset Quality & Capital
 - » Profitability
 - » Funding & Liquidity
 - » Government Support
- 3. Q&A**

Key Messages

1

Operating environment is softening but growth remains resilient

2

Liquidity is tightening, however solvency remains robust

3

Support for Abu Dhabi banks more sensitive to sovereign credit profile

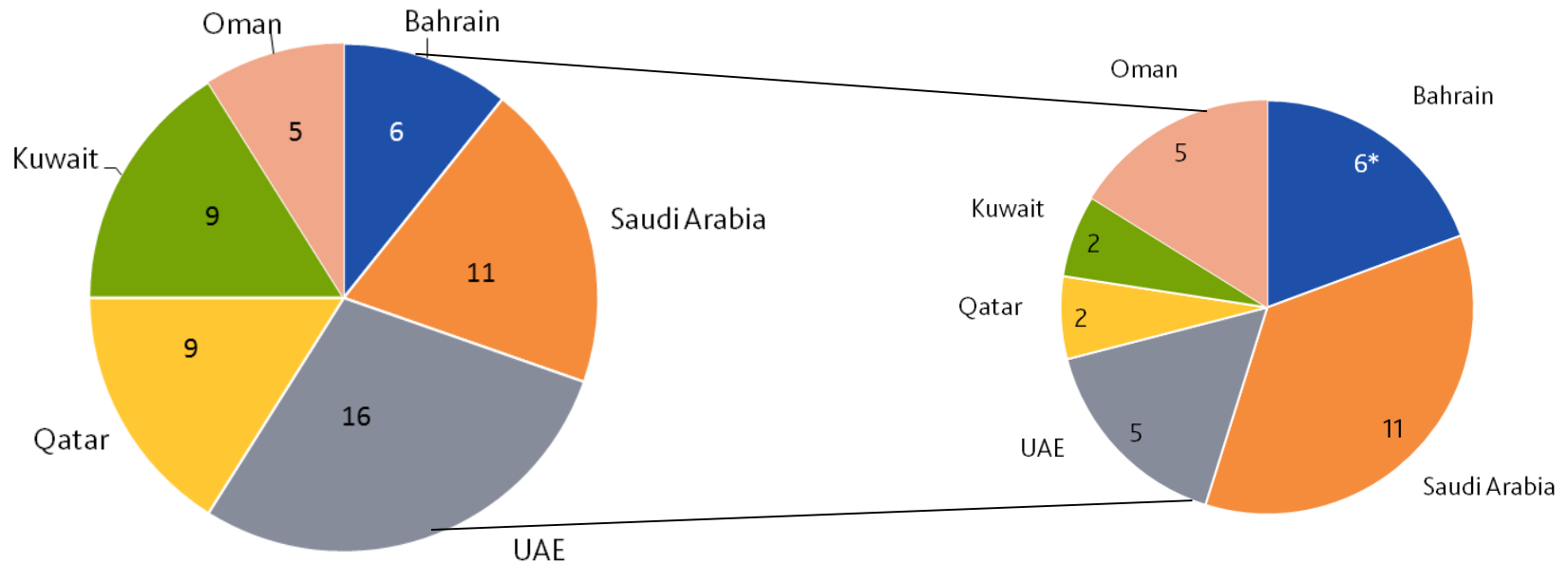
1

Recent Rating Update

Moody's took actions on 31 banks domiciled in oil-exporting countries

56 Rated Banks in Affected Oil-Exporting Countries

31 Rated Banks Placed on Review for Downgrade



* Four banks are placed on Review for Downgrade, one bank is assigned a Negative outlook, one bank is assigned a Stable outlook

2

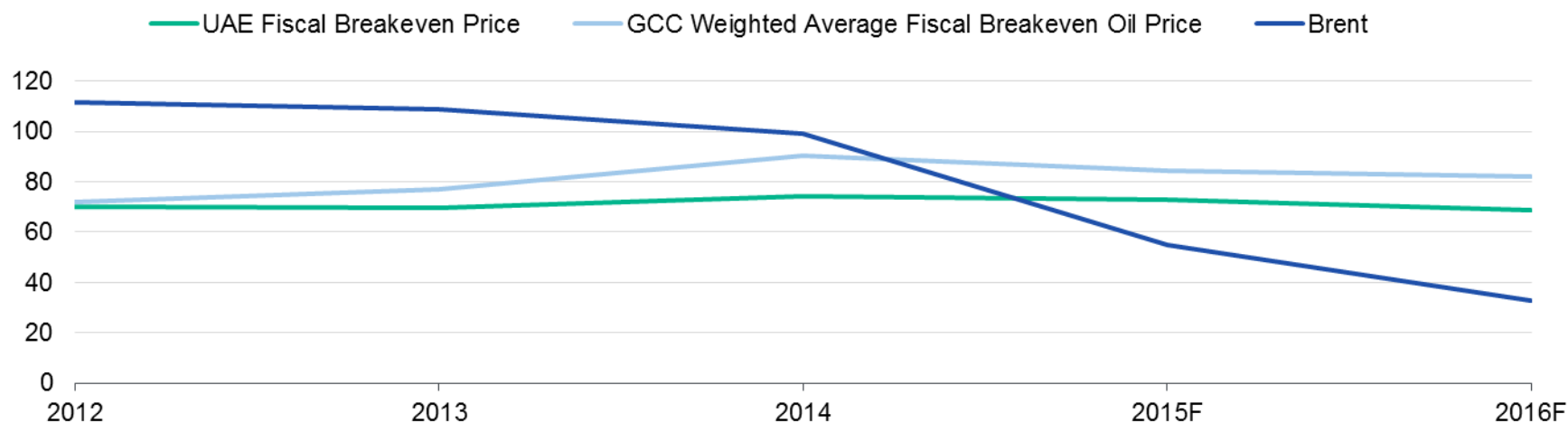
UAE Banking System Outlook

2a

Operating Environment Overview

UAE operating environment is softening with low oil...

- » **Brent crude to average \$33/barrel** for 2016 (from \$100+ in 2012-14). Although supply is expected to drop - supporting prices, Iranian exports could change the picture



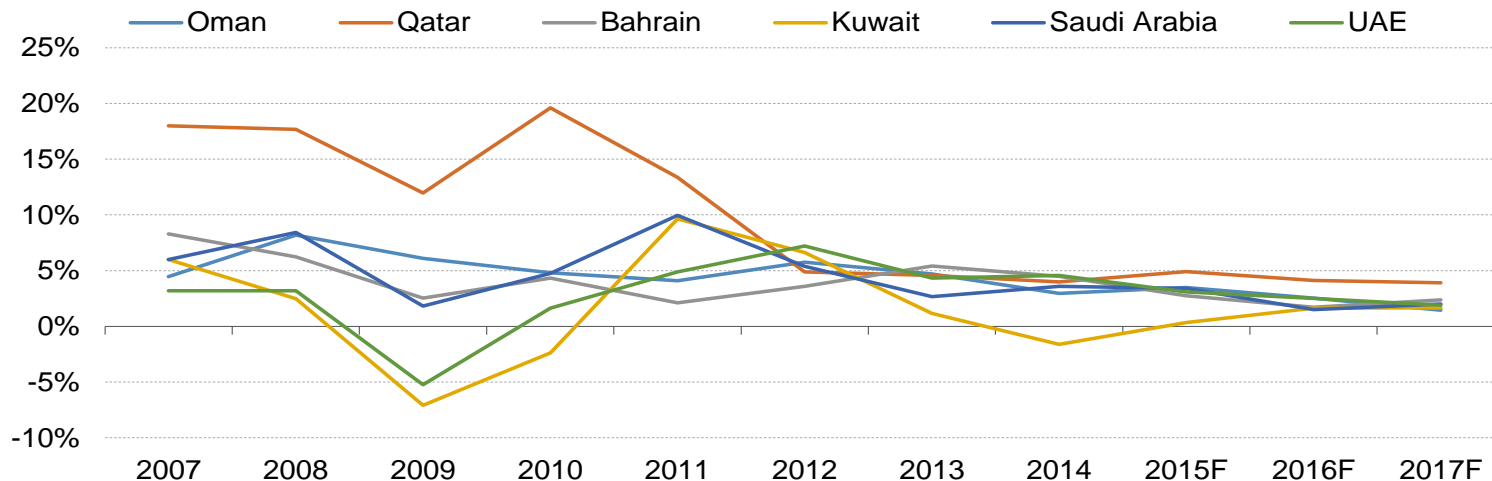
Sources: IMF, Moody's Sovereign Group

- » **Economic diversification and strong sovereign wealth buffers** will help moderate the impact of low oil prices and the slowdown. Oil contributes to around 34% of GDP, making the UAE the least commodity dependent in the GCC
 - **Public-sector** spending by the Emirate of Abu Dhabi complements the continued growth in Dubai's significantly more diversified **private sector** (particularly the trade, tourism and transport sectors)
 - **Real Estate** sector is a key GDP contributor that has observed a relatively 'soft' landing compared to the prior cycle
 - **Countercyclical spending** will remain robust, especially given large projects expected (**Expo 2020** is non-discretionary anchor)

...but GDP growth will remain resilient

- » **Oil production has increased** - we expect rising production volumes to add 0.80 to 0.90 percentage points to 2015-2016 real GDP growth
- » **Real GDP growth** expected to remain positive at around 3.1% in 2015 and 2.5% in 2016 (vs.7.2% in 2012) as core, private sectors of trade, tourism and transport - while impacted - remain resilient

GCC Real GDP Growth (% change)

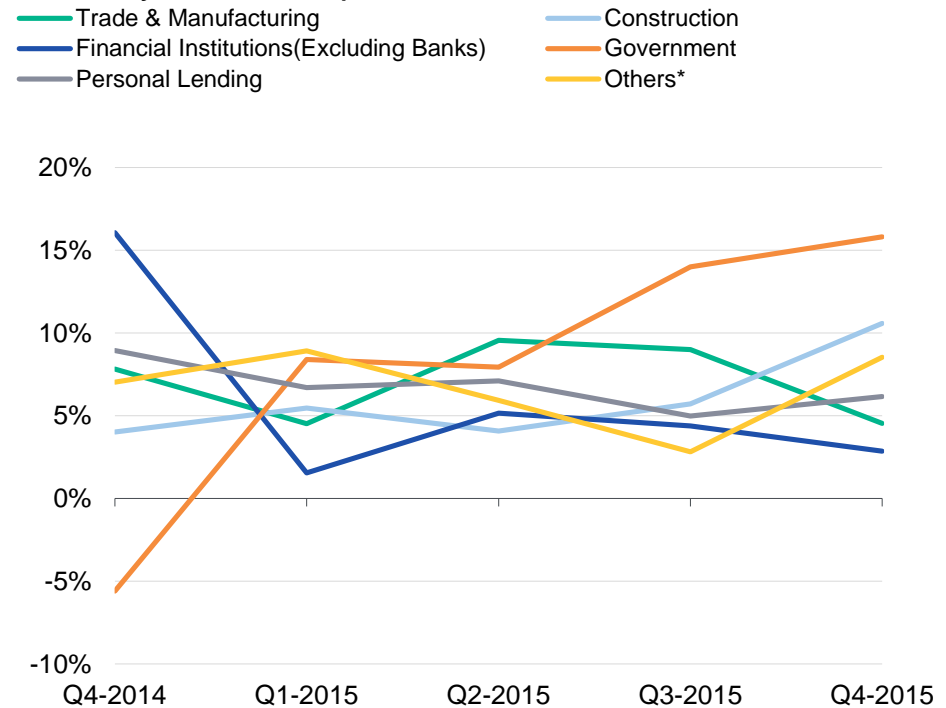
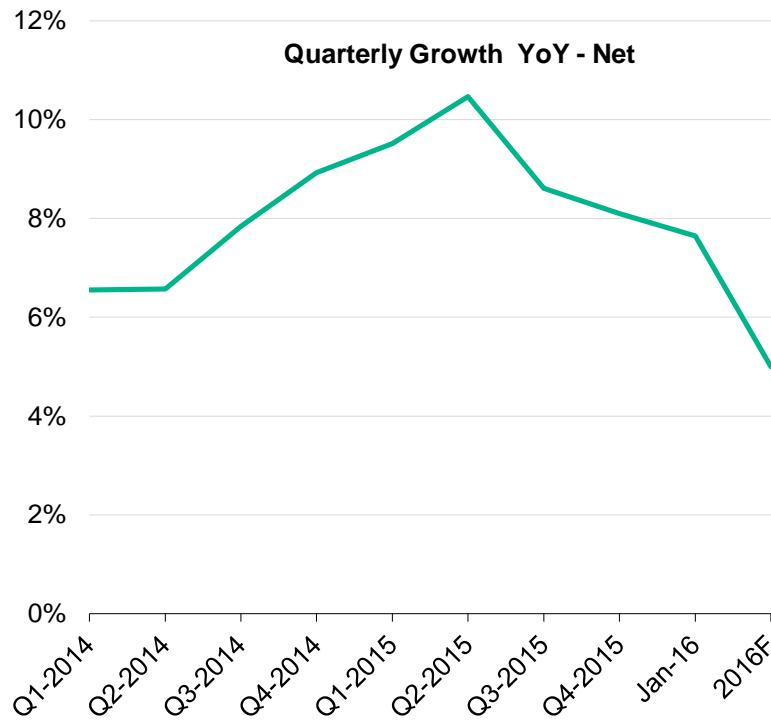


Sources: IMF, National Authorities, Moody's Sovereign Group

- » **Tail risks** to our current baseline scenario have also risen slightly, driven by intensification of **geopolitical tensions** in the region and the prospect of a more **protracted period of low oil prices**, which would further dampen confidence, future spending and economic growth

Credit growth will slow except for Government lending

- » Moderation in real GDP growth (+3.2% in 2016 vs. +7.2% in 2012) will nonetheless impact private sector business activity and economic confidence
- » **Domestic loan growth is expected to reduce to around 3%-5%** for the period, down from 9% during 2014. Government borrowing is supportive but may crowd out private sector



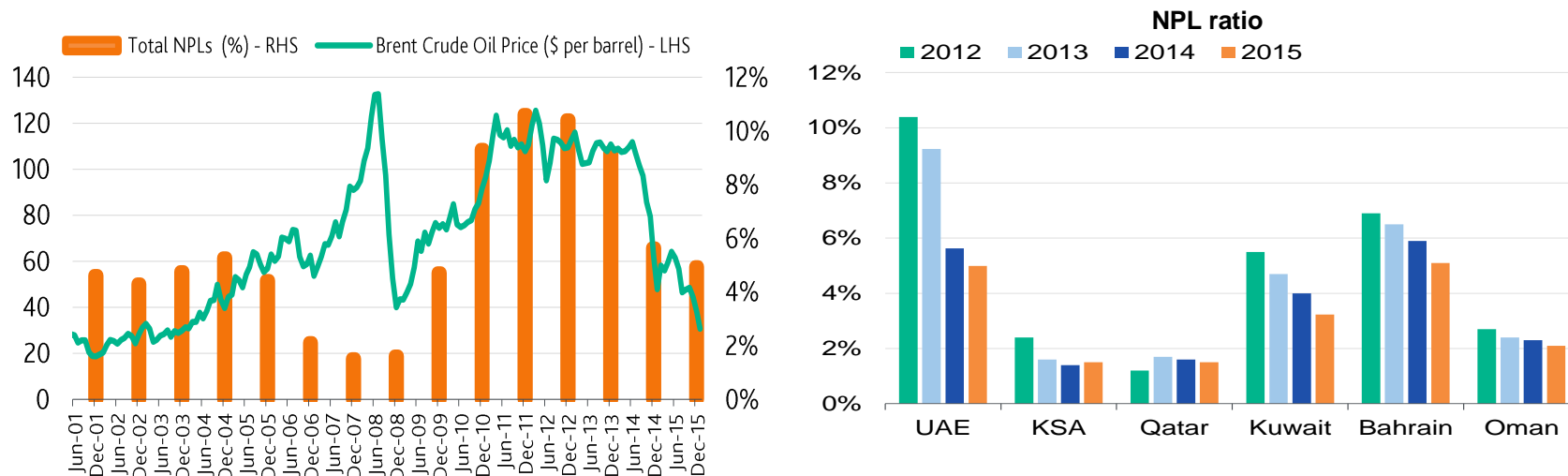
Sources: The Central Bank of the UAE

2b

Asset Quality & Capital

Asset Quality to Remain Stable over 2016

- » **Decline in oil prices** and **slowdown in government spending** will impact business activity and corporate profits and have a lagging effect on the banks' asset quality
- » **UAE NPLs to remain around 5%** into 2016 due to a combination of factors:
 - Increases driven by economic slowdown and commodity weakness, particularly in the overleveraged SME segment
 - Decreases from the continued resolution of legacy impairments
- » Recent **macro-prudential regulations** and **tighter underwriting** will support future performance



Sources: UAE rated banks financial statements and US Energy Information Administration

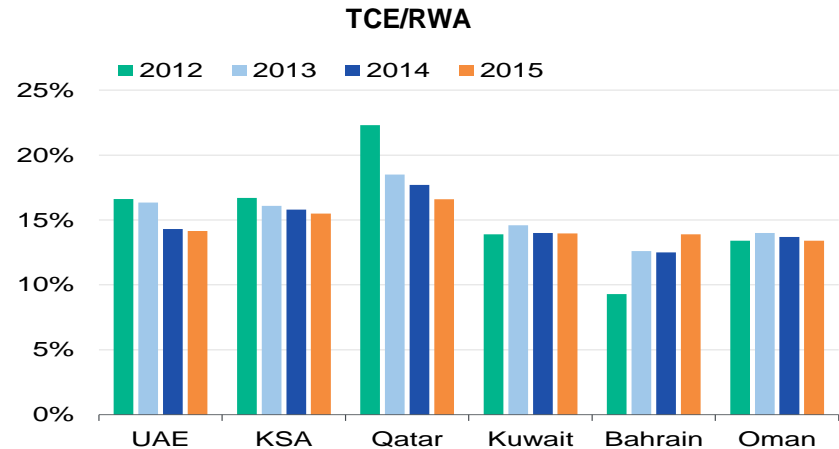
- » **Asset quality pressures would increase** with more severe public spending cuts (Abu Dhabi) and weakened global growth (Dubai) both contributing to a decline in economic activity and business confidence but this is not our central scenario

Capitalisation to Remain Robust Over 2016...

» UAE banks' capital ratios are **solid and above most global peers**, which provides a significant mitigant against moderate asset quality deterioration

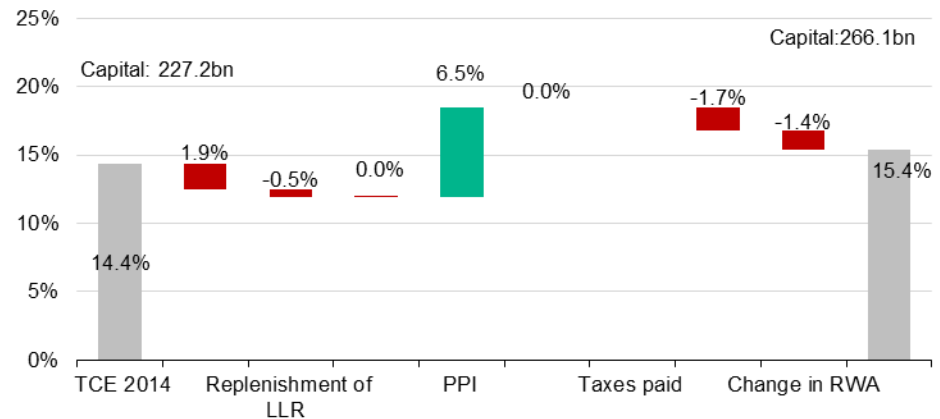
» **Capital** as of 2015E:

i. Average T1 and TCE ratio were around 16% and 14%, respectively



» **UAE TCE ratio to increase** around 100bps to around 15% under our baseline scenario owing to:

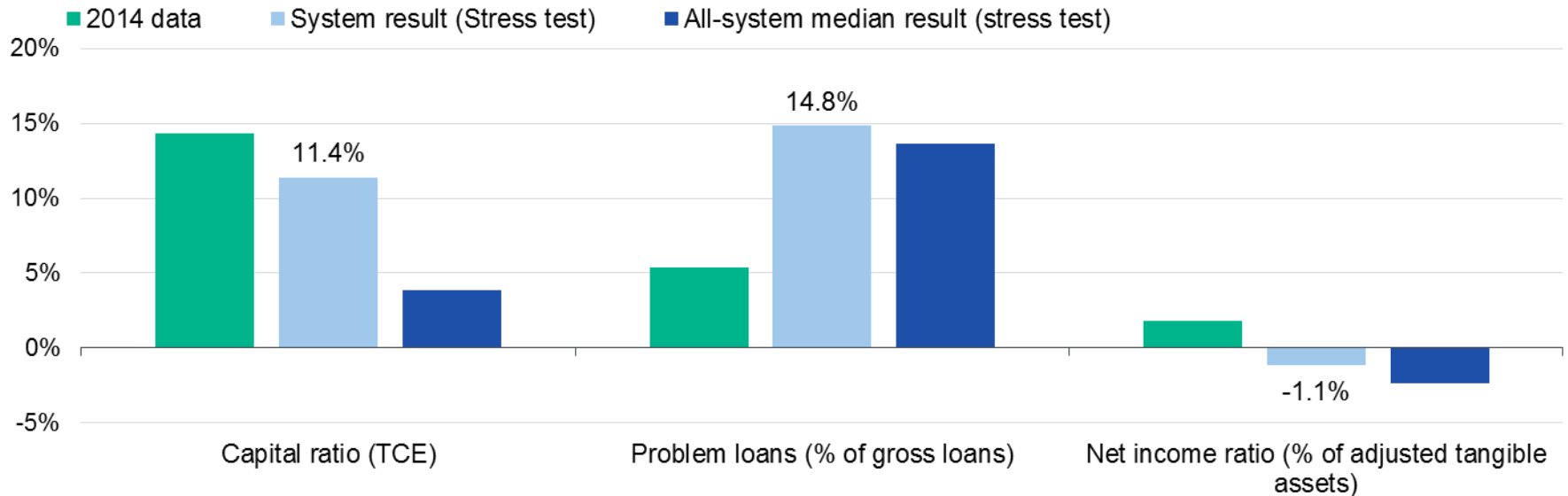
- i. Slower credit growth
- ii. Solid internal capital generation though resilient profitability



Sources: Moody's

...and Moderately Impacted Under Our Stress Scenario

Under our **stress scenario**, UAE banks would maintain a TCE ratio of around 11%, which is much higher than the global median of 4% result for all banking systems subjected to the same stress test



Source: Moody's

- » Our projections are based on a set of severe assumptions, amongst which:
 - i. An increase in NPLs to around 15% of gross loans (similar to year 2000 levels)
 - ii. Credit costs to reach 3.5% of gross loans from around 80bps estimated for 2015

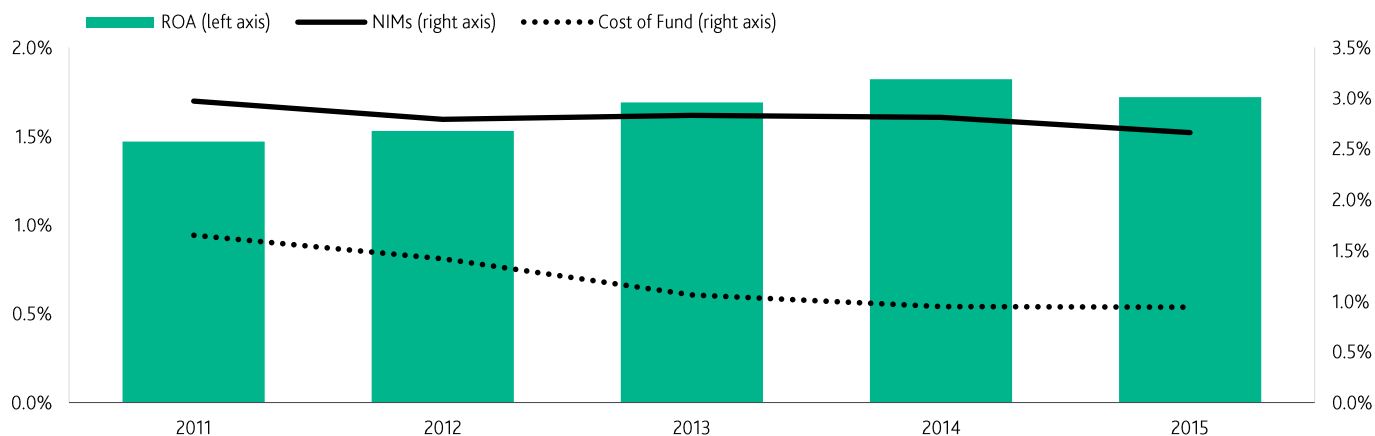
2c

Profitability

Profitability to be Resilient in 2016 Despite Challenging Business Conditions...

Overall expect UAE banks' profitability to remain stable with return on assets of around 2% over into 2016

- » **Provisioning costs** were declining but from 2015 should stabilise at around 20% of Pre-Provision Income, with charges from new formation balanced by releases from resolution of legacy exposures
- » **Negative impact** from reduced credit growth and increase in funding costs on profitability for 2016
- » **Positive impact** on yields expected from **U.S. interest rate hike** (due to USD currency peg). Assets will re-price upwards after a long period of compression and help support margins

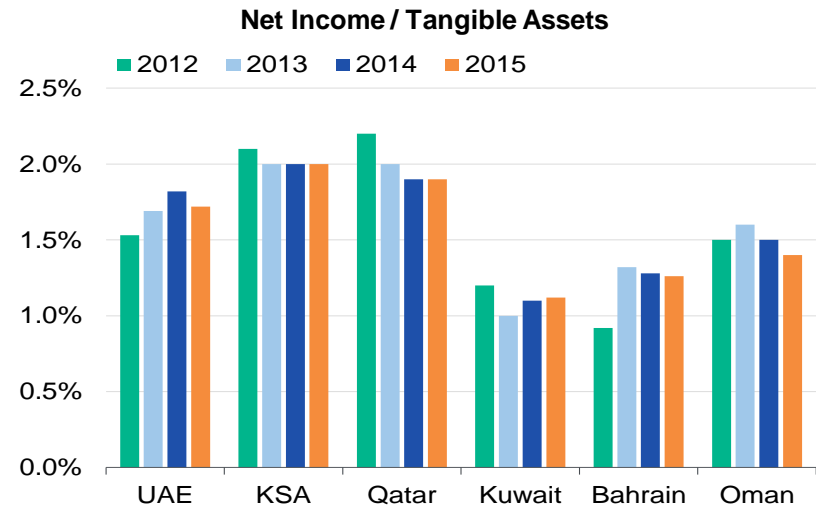
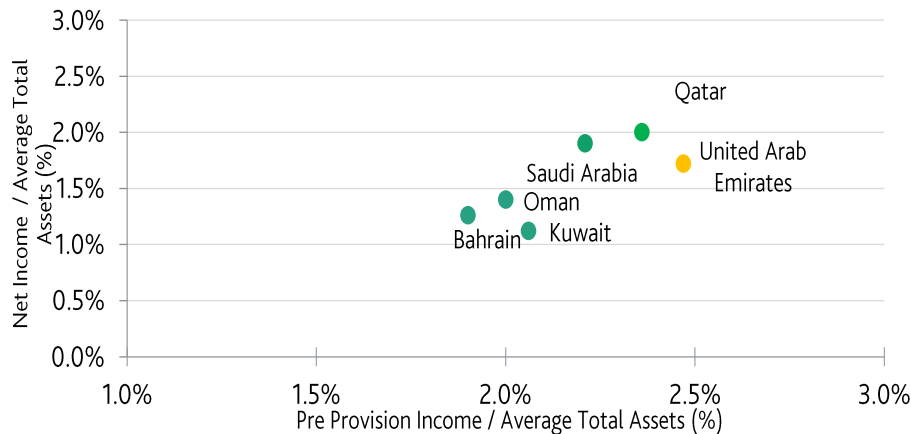


Source: UAE rated banks' financials, Moody's

...and Compares Well With Other GCC Banking Systems

» UAE banks' **stable** profitability is further supported by:

- i. **Substantive low-cost CASA deposits** (around 55% of deposits as of January 2016), which help moderate the cost impact of increased market funding
- ii. **Stable operating costs.** UAE banks' efficiency metrics expected to remain at the current low levels (cost-to-income ratio at around 37%)



Source: UAE rated banks' financials, Moody's

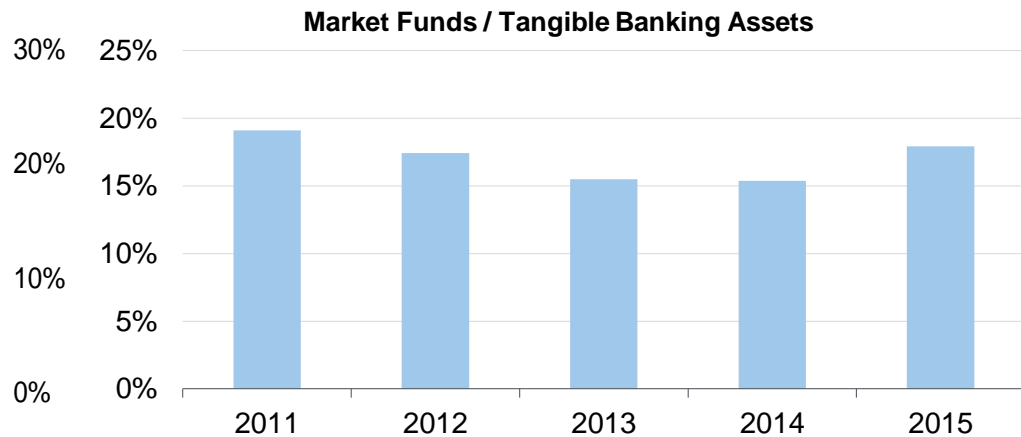
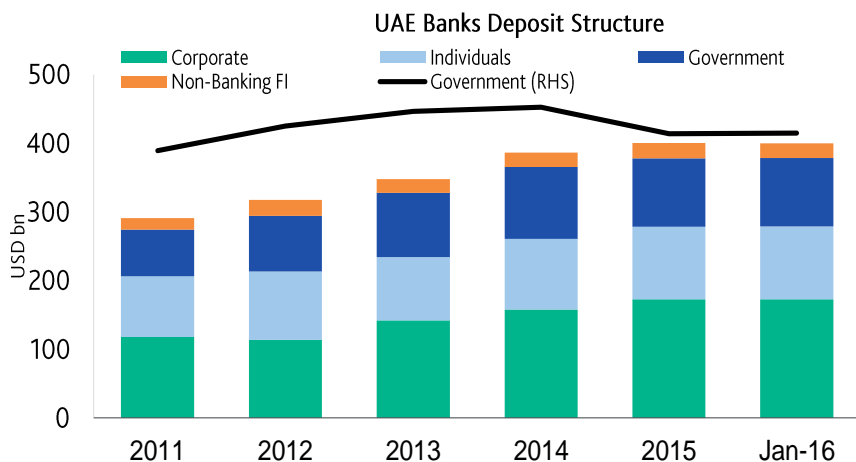
» UAE banks remain amongst the **most profitable** in the GCC, with an **average net income-to-tangible assets ratio of 2.0%** expected for 2016

2d

Funding & Liquidity

UAE Banks' Reliance on Market Funding is Increasing

- » **Deposit growth will slow** to around 3% for 2016 from 11% during 2014
 - Decline in direct **government** deposit balances (-16% in 2015 vs. +17% in 2014)
 - Slowdown in **GRE** deposit balances (+5% in 2015 vs. +9% in 2014)
 - Slowdown in **corporate** and **retail** deposit inflows (+7% in 2015 vs. +11% in 2014)
- » Market funding to increase to around 20% of total assets in 2016 from 15% at YE2014

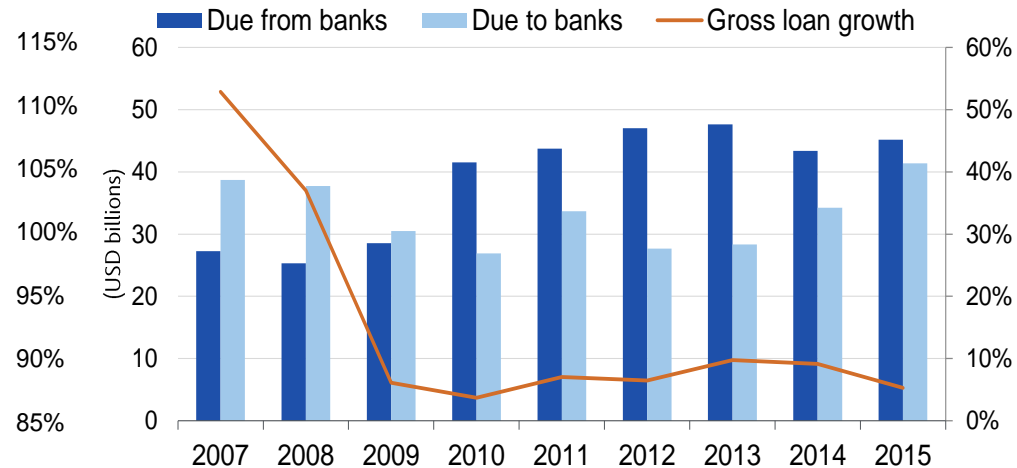
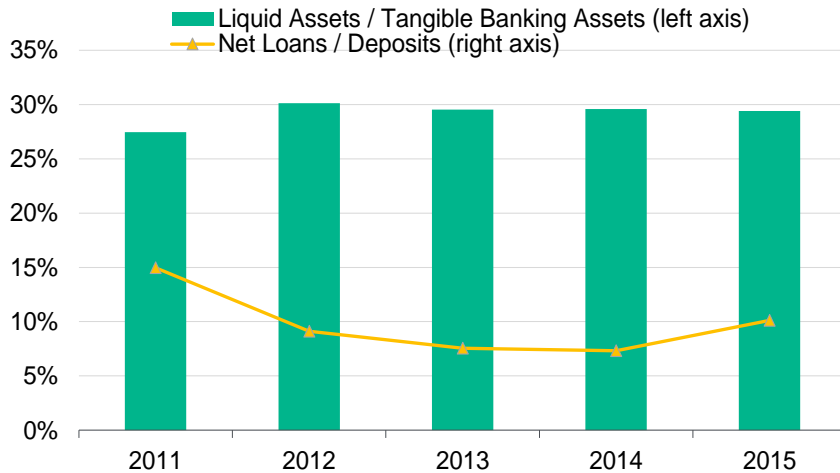


Sources: Central Bank of UAE, UAE rated banks' financials, Moody's

- » However UAE banks' funding structures will continue to benefit from:
 - i. **Stable albeit slow growing deposit base** (around 71% of non-equity funding)
 - ii. Large proportion of stable, low-cost, **CASA** (around 55% of customers deposits)
 - iii. Limited exposure to more volatile foreign liabilities given currency peg

Liquidity Buffers Will Decline but Remain Solid in 2016

- » **Loan-to-Deposit** ratio for the system is expected to climb past 100% by YE2016
- » **Liquid Assets** are expected to fall to around 25% of Total Assets in 2016 from 30% at YE2014
- » **Basel III Liquidity Coverage Ratio** - most banks are 'expected' to be compliant but timing is uncertain



Sources: UAE rated banks' financials, Moody's

Source: UAE rated banks' financials, Moody's

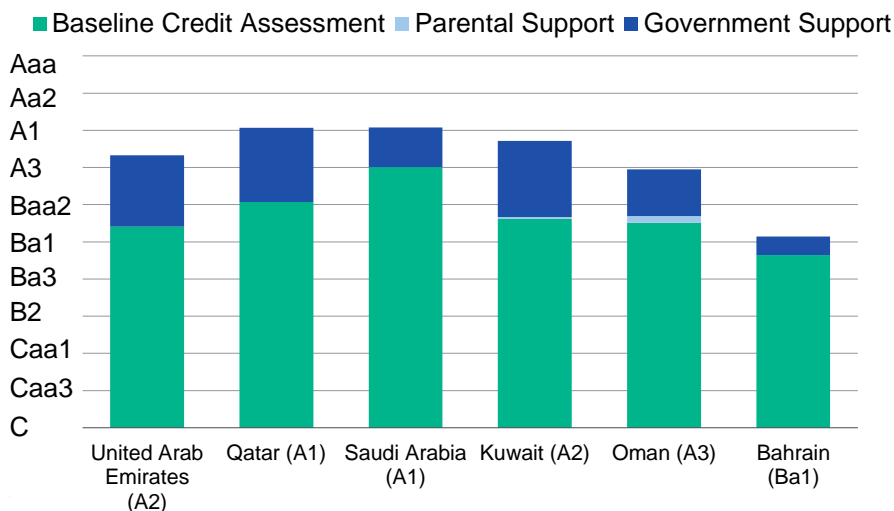
2d

Government Support

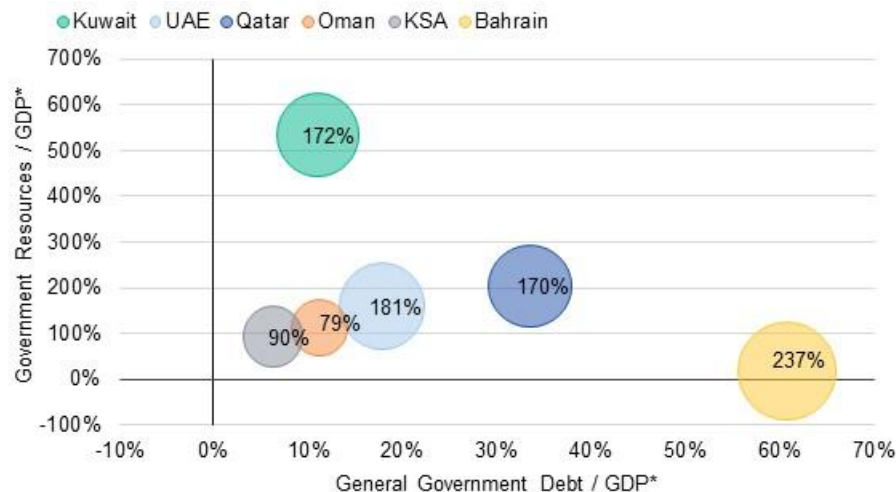
Support Capacity and Willingness to Remain High

- » We view UAE as a **high-support country**, based on the historical record of actions to resolve bank distresses, as no depositors/creditors have suffered any losses
- » The UAE government has **strong fiscal capacity** to provide support if needed, but some UAE banks have supported ratings close to the Sovereign rating - creating linkages

GCC Bank Ratings Comparison



GCC Government Support Capacity



*Government resources are government's reserves (including the sovereign wealth funds). Circle size and associated metric corresponds to the size of banking sector relative to Nominal GDP

- » While countercyclical spending continues to support banks' financial performance, it may ultimately **pressure sovereign creditworthiness** and consequently the supported ratings.

Moody's rates 16 Banks in UAE that together account for 88% of total banking assets

Name	Total Assets (in US\$ mms, as of Sept 2015)	Domestic market share - loans (in US\$ mms, as of Sept 2015)	Domestic market share - Deposits (in US\$ mms, as of Sept 2015)	Long-term Bank Deposit Rating (local currency) and Outlook	Standalone Credit Strength	Notches of uplift for external support
Nat'l Bank of Abu Dhabi (NBAD)	110,177	15.4%	16.3%	Aa3/RUR	a3	3
Abu Dhabi Comm'l Bank (ADCB)	58,627	10.9%	9.0%	A1/RUR	baa3	5
Union Nat'l Bank (UNB)	27,729	5.0%	5.1%	A1/RUR	baa3	5
Al Hilal Bank (AHB)	11,725	2.4%	2.2%	A1/RUR	ba2	7
Abu Dhabi Islamic Bank (ADIB)	31,833	5.6%	6.2%	A2/RUR	ba2	6
First Gulf Bank (FGB)	62,222	11.2%	9.8%	A2/STA	baa2	3
HSBC Middle East Limited (HBME)	34,892	5.3%	5.1%	A2/NEG	baa2*	0
Sharjah Islamic Bank (SIB)	7,673	1.2%	1.1%	A3/STA	baa3	3
Dubai Islamic Bank (DIB)	40,152	6.7%	7.6%	Baa1/STA	ba3	5
Emirates NBD (ENBD)	106,303	18.9%	18.7%	Baa1/POS	ba2	4
National Bank of Fujairah (NBF)	7,796	1.4%	1.4%	Baa1/STA	ba1	3
Nat'l Bank of Ras-Al-Khaimah (RakBank)	10,610	2.0%	1.9%	Baa1/STA	baa3	2
Commercial Bank of Dubai (CBD)	14,516	2.8%	2.6%	Baa1/STA	ba1	3
Mashreqbank (Mashreq)	30,325	4.2%	5.1%	Baa2/STA	ba1	2
United Arab Bank (UAB)	7,033	1.3%	1.3%	Baa2/RUR	ba1*	1
Invest Bank	4,070	0.8%	0.8%	Baa3/STA	ba2	2
Average (asset-weighted)				A2	baa3	

Source: Central Bank of UAE, Moody's

*UAB and HBME benefit from 1 and 3 notches of parental support, respectively

On March 7, Moody's placed the ratings of 5 UAE banks on review for possible downgrade

Key Messages

1

Operating environment is softening but growth remains resilient

2

Liquidity is tightening, however solvency remains robust

3

Support for Abu Dhabi banks more sensitive to sovereign credit profile

3

Q & A

Nitish Bhojnagarwala

AVP – Analyst

nitish.bhojnagarwala@moodys.com

Sean Marion

Managing Director

sean.marion@moodys.com

Mik Kabeya

Analyst

mik.kabeya@moodys.com

Khalid Howladar

Senior Vice President

khalid.howladar@moodys.com

Jean-Francois Tremblay

Associate Managing Director

jean-francois.tremblay@moodys.com

Olivier Panis

VP – Senior Credit Officer

olivier.panis@moodys.com



Moody's Investors Service

Globally and locally acknowledged for award winning expertise in credit ratings, research and risk analysis.



#1 US Credit
Rating Agency:
2012, 2013, 2014, 2015



Best Credit Rating Agency
in EMEA for High Yield &
Emerging Markets: 2015



Most Influential
Credit Rating Agency:
2013, 2014, 2015



Best Islamic
Rating Agency:
2015



Project Finance Firm
of the Year (USA):
2015



Best Islamic Finance
Rating Agency:
2015



#1 Asia Credit
Rating Agency:
2012, 2013, 2014, 2015



#1 US Rating Agency: 2015
#1 US Municipal Research
Team: 2014



Australia's Rating
Agency of the Year:
2014, 2015



© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.