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# Global Financial Crisis Impact in the Performance of UAE's Banking Sector. Applied Study on National Bank of Abu Dhabi

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**ABSTRACT**

The purpose of this document is to evaluate the impact of global market failure in UAE banking sector performance. To be able to do this study and evaluate the impact of the effect that was faced by banking sector and the challenges they handled, so the comparison before and after money crises is required. NBAD (National Bank of Abu Dhabi) was selected because it's one of the leading banks in UAE in terms of Asset, capital and profitability.
I conclude that the effect of the financial crisis was harsh in UAE. UAE had made a massive effort in order to be able for improving financial system and the prudential procedures in their banks. Most UAE banks were able to recover from the money crisis effect, but still some others are struggling due to their capital structure

**KEYWORDS** Global Financial Crisis, UAE banking, NBAD (National banks of Abu Dhabi), Global Money Crisis, Financial Statements, Market share, profitability

**Introduction of Global Money Crisis**

The global money crisis which took place in 2007-08 was considered as a worst money crisis since the great depression in 1930. The money crisis has been globally started in USA in 2007, and then it has been reached to the global financial crisis and lead to a disaster in all market over the world. It has created a liquidity issues and the decline in some countries has reached up to 40 % in the beginning of 2008. It creates the hole market collapse and the governments were unable to prevent this from happening which lead also to drop in hole stock market all over the world. It has created the increase in the unemployment rate for long time and decline in the wealth and liquidity of business men. Also the real estate prices dropped harshly and create damage to the financial institution in all over the world.

As consequences of global money crisis the decline of stock prices was so hard in GCC countries and the huge difference was there in the performance of conventional banks before and after money crisis.

**Methodology**

A descriptive and exploratory researches will be used in this study by reviewing the issued articles, researches and central bank data in order to evaluate the impact in the bank performance in UAE before and after money crisis and to assess if the banks are recovered from this impact or still there is a kind of loss in their financial statements. NBAD (National Bank of Abu Dhabi) was chosen and will do the analysis accordingly.

**Impact of the crisis in GCC countries**

The decline of stock prices in GCC countries was harsh and the same was in other countries as well .the decline was by $320 billion from Sep 10 to Oct 15, 2008 which means 38% of 2007 GDP in all GCC countries. The financial institutions and banks became more risky, because the shortage of liquidity has increased sharply and the cost of borrowing rose also.

If we are going to compare the impact of global crisis in GCC banks with banks in other countries, we can notice that the impact in GCC countries was less comparing with other countries, but as exceptional few banks in in GCC were impacted hardly.

Many of banks were less affected by global financial crisis, because they are not directly exposed to securitized and structured financial products. On the other hand other banks have the direct exposure to harmful structured assets, so the effect of global crisis was in direct form. Before the global crisis, the interest rate was low, but the inflation was almost high which lead to the negative interest rate.

The real interest rate in GCC countries before global crisis was negative as consequences of low interest rate and high inflation rate in GCC, so there was no gamble for saving. Many major projects in GCC countries have been postponed, because of critical situation of the market at that time. Also some projects had been cancelled and several GCC governments issued bonds to add the liquidity in the banks in order to survive. In 2009 the GCC countries were expected to repay $39 billion. GCC central banks have supplied DHS 50 billion for short term as a facility for bank in order to refinance their debts and to inject liquidity.

**Exposure to GCC banks**

Many banks in GCC countries have announced the exposure and others are merged or downgraded, because of the market collapse. The banks in UAE were asked to declare their exposure to Lehman as a from UAE central bank after the bankruptcy of US banks. The same was happening in other GCC countries as well and they have announced exposure to Lehman Brothers, but some didn't mention any further details.

**Brief background of the UAE Banking Sector**

The UAE banking division began to witness substantial development when the investigation of oil stores began in the mid-1960s. At the time, new banks were entering the nation. The leaders of the UAE ventured in as the controllers in 1975 and banned the opening of any new outside banks in the UAE for a two-year period. In 1980 the Federal Currency Board had changed and turned into the Central Bank of the UAE and Put another law set up which engaged the Central Bank's capacities. In 1981, the permitting of new banks was permitted again and a great deal of banks all through that period was entering the business sector.

In any case, in the mid-1980s, a few banks fizzled because of dismissal and extortion, as a consequence of breaking down oil costs and a land impact brought about high non-performing credit levels. In 1984, the Central Bank of the UAE decided, for the second time, that it would not present new branch licenses, and as of now working remote bank offices were constrained to just eight branches each. The Central Bank likewise took a considerable amount of activities in the 1980s to fortify the managing an account arrangement through extending reviews and examinations, rising bank-reporting prerequisites, making an automated credit hazard subdivision, and setting least Capital prerequisites. In 1998, the Central Bank built up a specific unit to simply screen the government evasion exercises and assess any suspicious arrangements. Till date, the UAE national bank is doing its best to control UAE's saving money segment, particularly after the crisis.

In 2006, UAE beat most among its companions in the MENA district regarding advance and store development. The UAE's keeping money area total resources came to AED860 million (US$234.3 billion) in 2006, making the main resource base in the locale, surpassing Saudi Arabia (which was heretofore the biggest resource base) having SAR861.1 billion (US$230 billion) in managing an account resources in 2006. Likewise, the UAE had a higher than MENA normal advance/store, credit/resource and advance/GDP proportions in 2006.

The key decision families in the UAE, in particular the Al Nahyan and Al Maktoum families, and the administrations of Dubai or Abu Dhabi do hold the bigger part stakes in around the majority of the UAE's most essential neighborhood banks. For instance, the Abu Dhabi Investment Authority claims 73% of the National Bank of Abu Dhabi and 64% of the Abu Dhabi Commercial Bank. Likewise, Dubai Islamic Bank is 30% possessed by the legislature of Dubai. Union National Bank is incompletely claimed by both the legislatures of Abu Dhabi and the administration of Dubai. Mashreqbank is possessed by the AlGhurair family, which is also viewed as one of the greatest family organizations in the UAE. I trust this kind of centered proprietorship raises corporate administration concerns. A clear concern is that it advances large amounts of interbank exchanges, express name loaning and credit mindfulness. It is likewise thought to be an uncalled for ground for rivalry, where these banks get hold of simpler access to government ventures and numerous different offices than different banks in light of their enormous name.

**National Bank of Abu Dhabi**

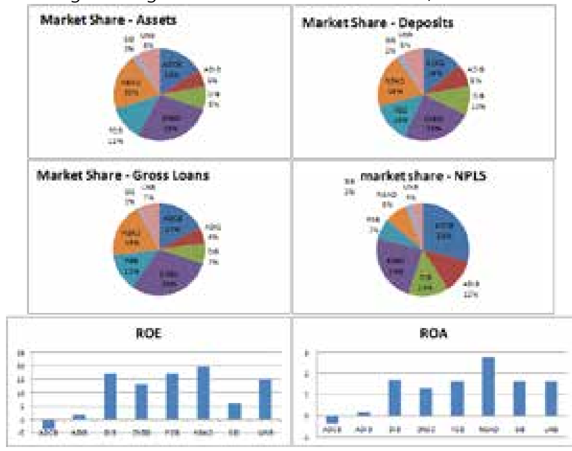
NBAD's aim is to be one of biggest Arab banks and, subsequently, keeps on looking for circumstances in extensive Arab economies, and in addition other universal markets. NBAD is growing locally and globally, with an emphasis on exact fragments inside of specific nations. For instance, the bank has 28 branches in Egypt concentrating for the most part on exchange stream organizations, vast Egyptian partnerships, government foundations, and high total assets people. Administration means to take the aggregate branches in Egypt to a sum of 50.

Additionally under pondering is the advancement into nations with solid business development inert including Malaysia, Lebanon, Morocco, Singapore, Shanghai, India, Indonesia and Turkey. As indicated by the bank's CEO, the bank likes to "assemble instead of purchase" in developing its operations, however it will acquire if the right open door emerges, the CEO noted.

Source: Company Account & Global Research

Figures are for 2009

NBAD is the biggest bank in Abu Dhabi and the second biggest in the UAE, with an advance and store piece of the pie of 13.4% and 11.9%, separately, as of September 2010. NBAD is the real bank for the Abu Dhabi government, furnishing it with a great degree vast and secured business,




at a lower danger profile, contrasted with its associates. The bank accomplished a 3Q2010 net profit of AED920 million, 8% lower than the AED1 billion reported in 2Q2010 and 1% higher than the AED914 million reported in 3Q2009. Credits and advances came to AED139 billion, recording a solid 5% development YTD, joined by a YTD fall in stores of 1% to score AED120.4 billion. There were a great deal of idealistic perspectives inside of the outcomes, generally enthusiastic edges, high effectiveness, vivacious asset report development and the solid extension in working pay, which secured for the vital increment in the booked procurements.

By the by, the dive in resource quality proceeded all through the starting 2011. As needs be, occupied procurements were roughly unaltered and expanded to some degree. NBAD reported fiery development in net benefit on the back of expanded interest wage and higher expenses and commissions. Execution was influenced unconstructively by the fall in speculation pay and the increment in booked procurements, mostly on higher NPLs.

NBAD managed to show high effectiveness disregarding the minor increment in expenses, to a great extent due to regular development. Asset report development kept on being overwhelming y-o-y (+15%), on account of the medium-term financing raised, and notwithstanding the way that the loaning development surpassed store development. NBAD will kept on dealing with its asset report in 2011, and it I trusted that the bank will bear on to be an outperformer rather than its companions. Barring procurements, a 2012 - 2015 net salary CAGR of 9.5% is normal. NBAD appears to be ready to convey stable edges throughout the following five years. The bank saw a 9.5% development in non-premium salary in 2011, given the lower base it saw in 2010. The expense to-salary proportion for the bank will likewise climb, and will continue rising continuously, throughout the following five years, yet should wait at an extremely productive level, underneath 32%. The bank's NPL proportion topped to 2.3% by mid-2011, NBAD will keep on confronting the test of asset report enhancement, whilst concentrating on figured development. NBAD may confront resource quality troubles throughout the following 6 months, contingent upon the monetary advancements in the UAE, yet the size of the dive in resource quality may be a lesser measure of than its associates, given the bank's extremely conventionalist methodology.

ADCB has the third most elevated NPLs proportion in UAE keeping money area suggestive of one of the least resource qualities. NPLs bounced 4 times in 2009 coming to AED6.2bn whilst NPLs proportion expanded from only 1.1% in 2008 to 5.2% in 2009. Being a standout amongst the most antagonistic banks in the UAE, ADCB was vigorously presented to the Sa'ad and AlGosaibi gatherings and now when that story is

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practically over, it is regarded to have an incredible introduction to DW too. Also, ADCB right now gives 1.09% of RWA from its collective/portfolio procurements. Execution of provisioning prerequisites to the change of 1.25% (of RWA), could include another AED200 – 250mn to procurements. This is obviously dependent on whether the Central Bank executes such a regulation.

Besides, credits and advances are not the only resources tormenting ADCB's advantage quality. The bank has a gross introduction of over AED700mn to CDO's and FRN's and an extra AED2,400mn to CDS. On the whole, the bank took procurements of AED785mn from CDS and speculation securities.

The impedances from speculations (counting CDO and FRN) will diminished observably amid 2010 though those from CDS to keep up 2009 levels. The bank expanded its scope proportion to more than 100%, as used to be the situation before 2009. According to the certainties of its short and medium term borrowings, ADCB is foreseen to see significant obligation reimbursement over some period, with developments of over AED23.7bn booked from 2010 – 2013. The bank was booked to reimburse AED8.8bn in 2010 and AED4.9bn in 2011.

ADCB's spreads expanded by only 11bps in 2009 when contrasted with a large portion of its associates which showed propelled increment. With higher relative expense of assets and the most reduced yield on resources after NBAD, the bank has one of the least spreads among companions. ADCB has been one of the first banks in the UAE to intentionally receive the 90+ day non-performing maturing timetable. Though that mitigates the possibilities of any increment in NPLs (and procurements) from the adjustment in order, extra provisioning will yet be required if the Central Bank requests that the banks give the much-found out about 1.25% of RWAs. Besides, a sizeable division of the over-due-yet not-hindered credits t to AED4 totaling.2bn (3.8% of aggregate advances) might likewise trickle down into the nonperforming status.

Besides, according to the Central Bank's rules, banks should supply for half of the presentation to the Saudi aggregates (select of their keeping money substances to which 100% was to be given) by year end 2009. ADCB's introduction to unsafe CDS and CDOs is also troublesome. Weaknesses in these items, which are related to sub-prime home loan in addition to other things, have windswept a sizeable portion of the bank's wage subsequent to 2007. This makes the bank exceptionally arranged to any weakening in the US showcases particularly those interrelated to sub-prime securities. Venture presentation to the value and property markets, regardless of the fact that petite, offers no help either, further highlighting the danger of ADCB's advantages. The late measures taken by the SEC in the US against Goldman Sachs might really end up being helpful news for ADCB which itself had completed case against certain US-based speculation organizations as respects to disappointment of its speculations.

| Kev Ratios | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| EPS (AED) | 1.26 | 1.21 | 1.33 | 1.52 | 1.93 |
| P/E | 9.3 | 9.7 | 8.8 | 7.7 | 6.1 |
| DPS (AED) | 0.4 | 0.09 | 0.11 | 0.12 | 0.15 |
| Dividend Yield (%) | 3.4 | 0.8 | 0.9 | 1.0 | 1.3 |
| **Profitability Ratios** | | | | | |
| ROE (%) | 24.2 | 17.1 | 16.1 | 17.1 | 18.3 |
| ROA (%) | 2 | 1.6 | 1.5 | 1.6 | 1.9 |
| Net interest Margin (%) | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |
| **Liquidity Ratios** | | | | | |
| Avg. G. Loan/Av. Deposits (%) | 106.8 | 111.6 | 113.2 | 114.5 | 114.5 |
| Avg. G. Loan/Av. Funds (%) | 72.4 | 79.1 | 77.3 | 76.5 | 77.6 |
| **Efficiency Ratios** | | | | | |
| cost -to- income (%) | 28.2 | 29.7 | 29.8 | 30.3 | 31.1 |
| **Capitalisation Ratios** | | | | | |
| Capital Adequacy Ratio (%) | 13.7 | 17.6 | 19 | 19.9 | 20.7 |
| Dividend Payout Ratio (%) | 19.6 | 7.2 | 7.5 | 7.5 | 7.5 |

Source: NBAD and Beltone Financial Estimates

## Conclusion

The GCC banking sector is a basic fragment of the GCC monetary division. The banking segment is vanquished by local players because of administrative security. A noteworthy change happened due the final quarter of 2008, after which the banking segment kept on witnessing wonderful challenges. On a normal and as per IMF, banks in GCC held 18 percent of their portfolios in securities as of end-2008 of which presentation to values/subsidiaries is only1 percent. The advantages of the GCC banking division saw an exceptional development.

The GCC banking segment credits recorded a normal yearly development rate of 23 percent somewhere around 2003 and 2009. The years 2007 and 2008 were remarkable with credit development averaging 38 percent and 34 percent, correspondingly. On the other hand, the development choked to - 0.67 percent for 2009 as a consequence of a log jam. The Financial emergency influenced to a great extent Dubai's economy and its keeping money area however it's headed to recover.

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