UAE Banking Pulse

FY | 2021

الإمارات
THE EMIRATES

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FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the annual 2021 year-end edition of the UAE Banking Pulse ("The Pulse"). In this yearly series, we share results from our research examining the top ten largest listed UAE banks by assets, and highlight key performance indicators of the UAE banking industry. The Pulse aims to help banking executives and board members stay current on industry trends.

All the data used in this report has been obtained from publicly available sources and the methodology for the calculations is discussed in the glossary. Calculation of several metrics has been changed from the previous version to accommodate available information.

The 2021 results for most of the banks pointed towards increasing profitability and higher return ratios, as the economy recovers from the COVID-19 pandemic. Loans & Advances (L&A) grew by **1.7%** YoY, at a slower pace than deposits growth (**+6.7%** YoY). Aggregate NII decreased by 3.0% YoY as NIMs contracted by 20 bps YoY to 2.1% and Yield-on-Credit fell by 68 bps YoY to 5.1%.

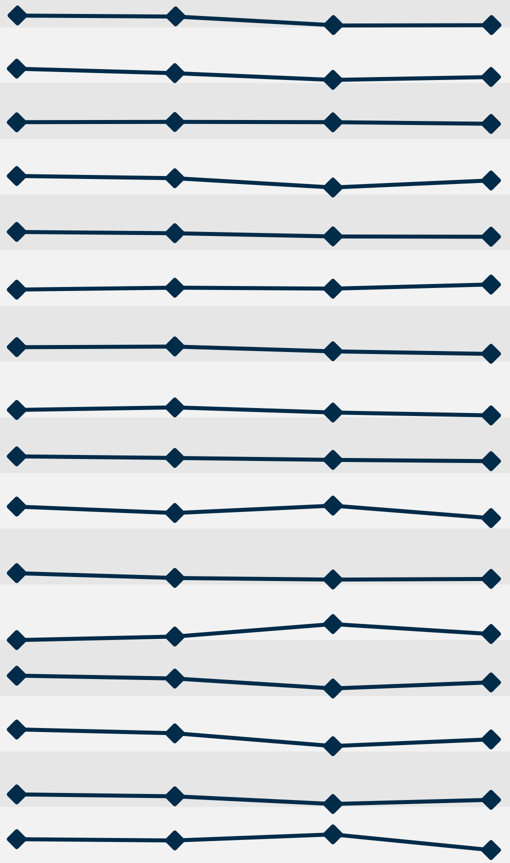
UAE's banking sector assets are expected to grow in 2022 on the back of anticipated economic recovery and digital transformation of the banking industry. The Central Bank of UAE (CBUAE) is expected to continue its support to reinforce the lenders' creditworthiness.

We hope you will find the Pulse useful and informative.

Pulse: Profitability metrics improved as economy recovers from the pandemic

➡ Improved ⬌ Stable ➡ Worsened

	Metric	2020		2021	2018	2019	2020	2021
Size	Loans and Advances (L&A) Growth (YoY)	1.4%	↑	1.7%				
	Deposits Growth (YoY)	3.0%	↑	6.7%				
Liquidity	Loan-to-Deposit Ratio (LDR)	86.2%	↓	82.1%				
Income & Operating Efficiency	Operating Income Growth (YoY)	-4.1%	↑	5.2%				
	Operating Income / Assets	12.1%	↓	12.0%				
	Non-Interest Income(NII) / Operating Income	29.9%	↑	35.4%				
	Yield on Credit (YoC)	5.8%	↓	5.1%				
	Cost of Funds (CoF)	1.5%	↓	1.1%				
	Net Interest Margin (NIM)	2.3%	↓	2.1%				
	Cost-to-Income Ratio (C/I)	34.5%	↓	32.8%				
Risk	Coverage Ratio	91.8%	↑	93.5%				
	Cost of Risk (CoR)	1.7%	↓	1.2%				
Profitability	Return on Equity (RoE)	7.7%	↑	11.1%				
	Return on Assets (RoA)	0.9%	↑	1.3%				
	Return on Risk-Weighted Assets (RoRWA)	1.4%	↑	1.9%				
Capital	Capital Adequacy Ratio (CAR)	17.5%	↓	16.6%				



Note 1: YoY stand for year over year
Note 2: Growth in loans & advances and deposits were presented YoY
Note 3: Annual income was used in the calculation of operating income growth
Source: Financial statements, Investor presentations, A&M analysis

Key trends of 2021

1. Growth in L&A increased 0.3% points YoY to 1.7%, whereas deposits grew by 6.7% YoY in FY'21
2. LDR decreased by 4.1% points YoY to 82.1%, due to higher increase in deposits compared to L&A
3. Operating income improved due to increase in net fee income by 9.0% and higher trading and investment income (+43.7% YoY)
4. NIM contracted 20bps YoY to a multiyear low of 2.1%, on the back of low interest rate environment
5. Operating efficiency (C/I ratio) improved, as operating income increased while the operating expenses remained flat YoY
6. Cost of risk decreased by 54 bps YoY, after banks reduced provisions as economy recovers from the COVID-19 pandemic
7. RoE improved to 11.1% (+3.3% points YoY) and ROA increased to 1.3% (+37 bps YoY) as aggregate net income increased by 48.6% during the year
8. CAR deteriorated from 17.5% in 2020 to 16.6% in 2021, as the growth in Tier I and Tier II capital was slower, highlighting aggregate riskier profile of the UAE banking sector

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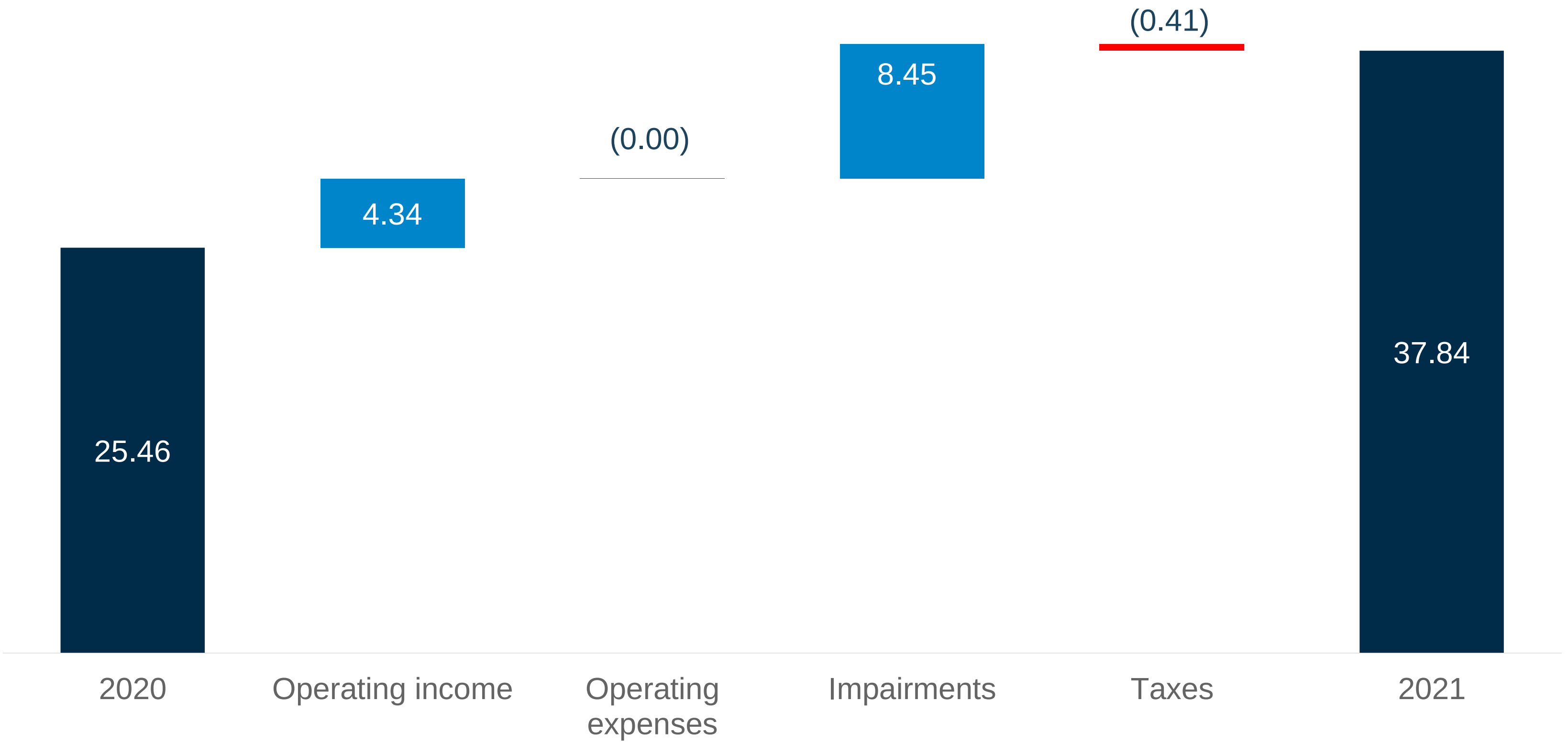
Net income growth was driven by higher operating income and lower impairments

Net income bridge – AED Bn



Source: Financial statements, Investor presentations, A&M analysis

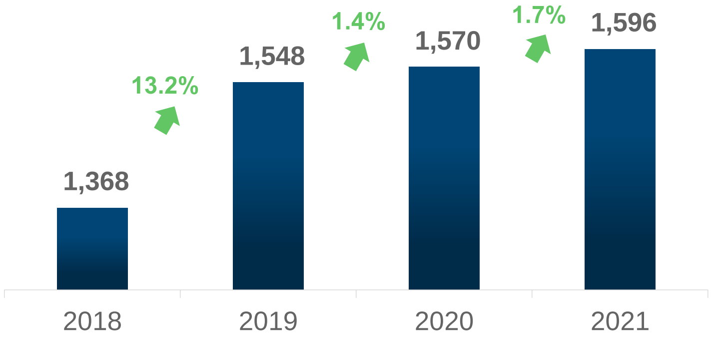
KEY TAKEAWAYS

- Aggregate net income increased substantially by 48.6% YoY to AED 37.8bn
- Higher operating income (+5.2% YoY) along with lower impairments (-30.1% YoY) drove the growth in net income
- The growth in operating income was driven by:
  - Higher fee and commission income (+9.0% YoY) along with higher foreign exchange and investment related income (+43.7% YoY)
  - Meanwhile, the net interest income decreased by 3.0% YoY
- Aggregate impairments reduced YoY by 30.1%
  - ENBD and DIB have reported 25.7% and 46.2% YoY decline in impairment respectively, contributing to about 50% of the aggregate decline in impairment
  - All banks reported lower impairment expense, except FAB

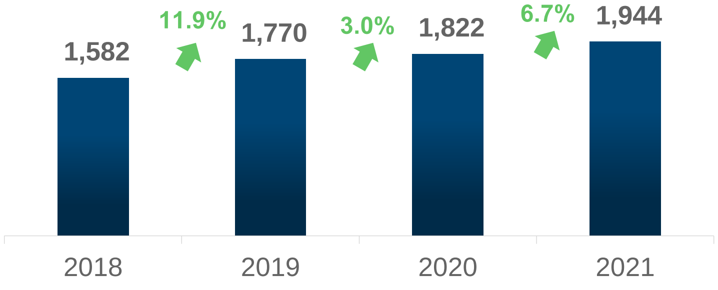
Banks continue to remain cautious in originating new loans despite higher liquidity

Improved Stable Worsened

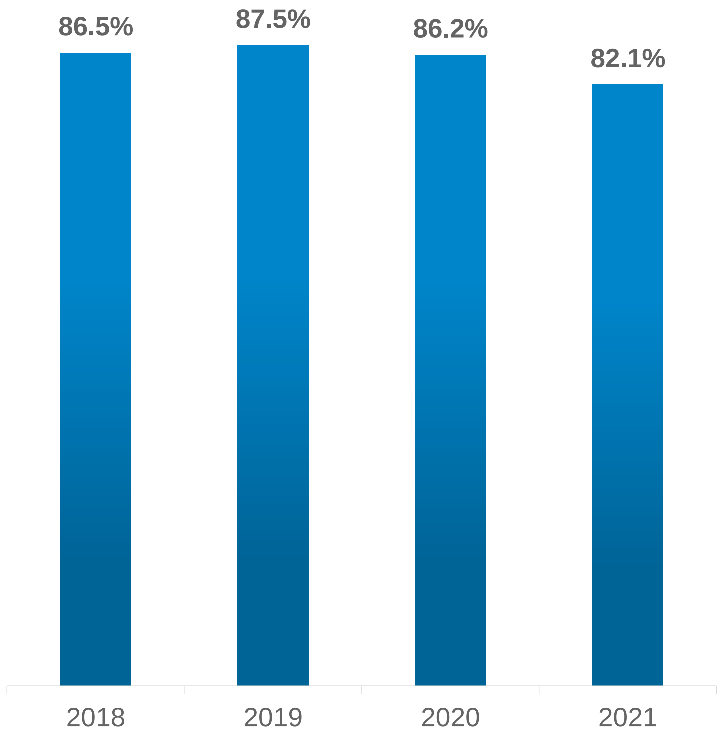
Total Loans and Advances (L&A)
(AED bn)



Total Deposits
(AED bn)



Loan-to-Deposit ratio
(%, Yearly)

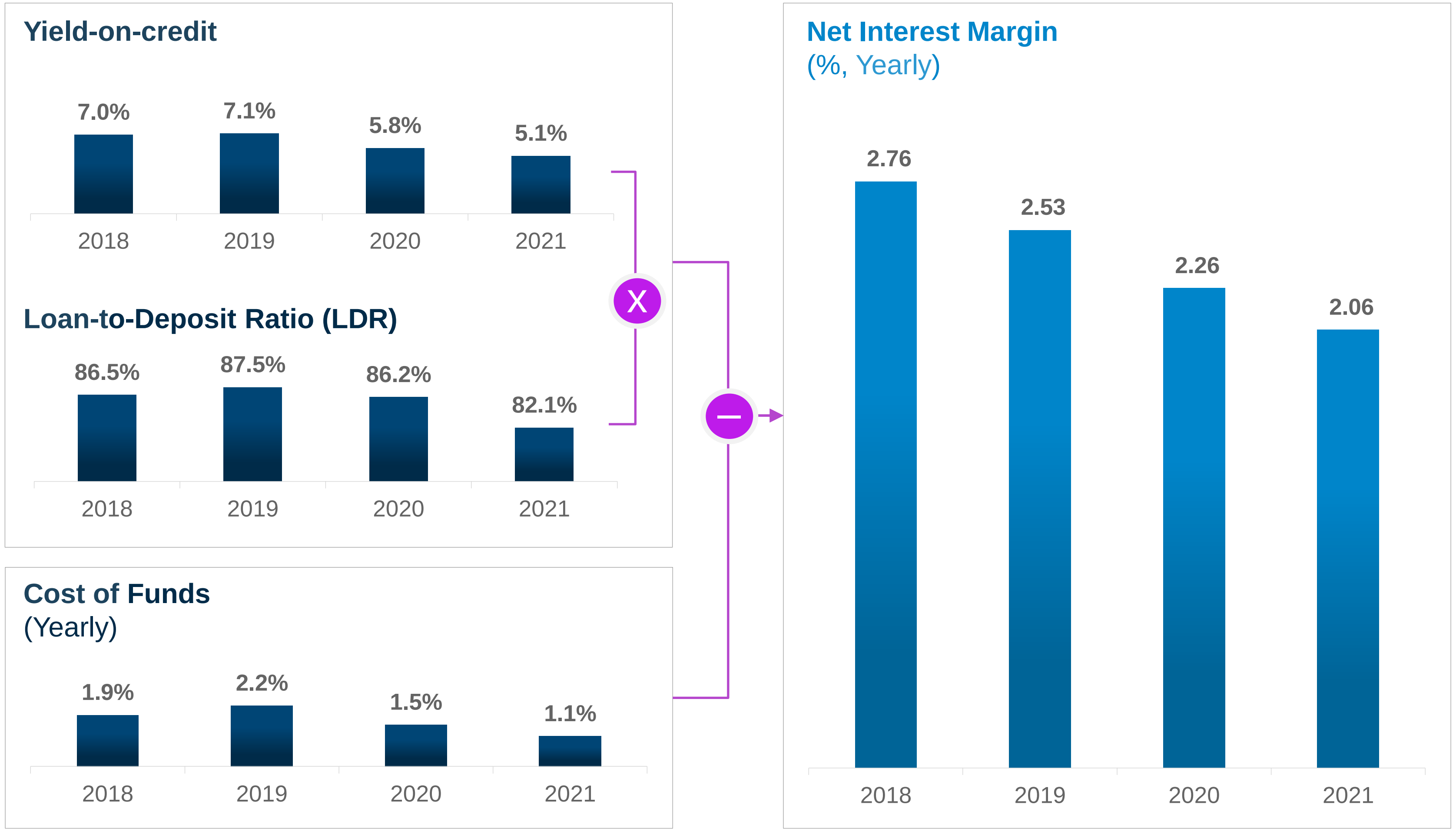


KEY TAKEAWAYS

- Aggregate L&A for banks grew by +1.7% YoY in FY'21, while deposits grew by 6.7% YoY
- ENBD and DIB are the only banks that reported a decline in both L&A and deposits
- CBD reported the highest increase in L&A (+17.1% YoY) and deposits (+18.6% YoY)
  - L&A were driven by personal mortgage loans (+84.7% YoY) and lending to government entities (+54.4% YoY)
  - Deposits increased on the back of higher individual deposits (+49.3% YoY)
- Aggregate LDR fell to 82.1% from 86.2%, as deposits grew at a higher pace compared to loans

Source: Financial statements, Investor presentations, A&M analysis

Net interest margins have compressed to six-year lows

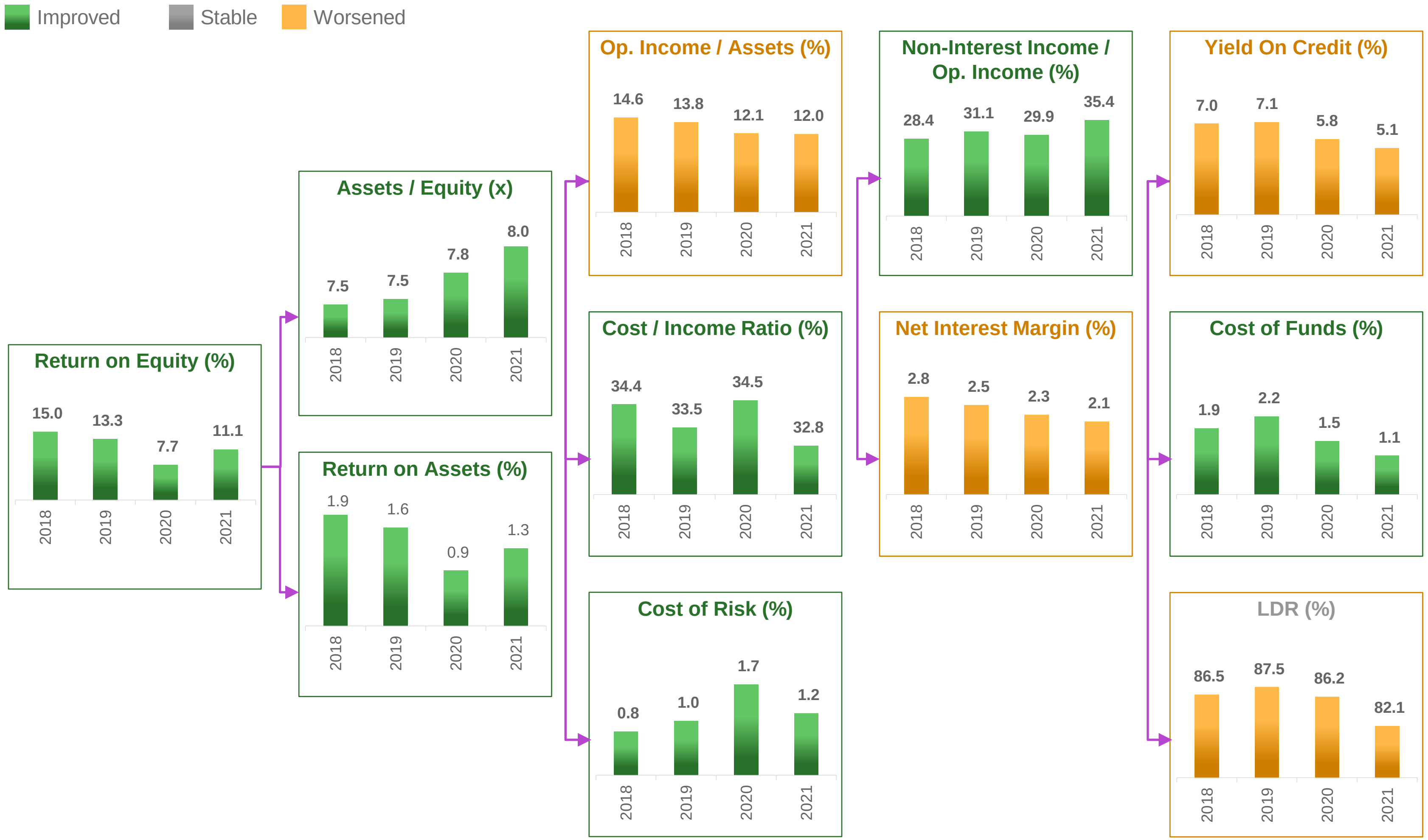


KEY TAKEAWAYS

- NIM deteriorated further to a six year low of 2.1% during FY'21, as compared to 2.3% in FY'20
- The lower NIMs were driven by low interest rate environment, which reduced the aggregate yield on credit by 68bps YoY
- All banks except MSQ and SIB reported a fall in NIMs
  - RAK reported the highest fall in NIM (-69 bps YoY) followed by ADCB (-33 bps YoY)
- Aggregate yield on credit and cost of funds declined across the banks by 68 bps YoY and 42 bps YoY, respectively

Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula
Source: Financial statements, Investor presentations, A&M analysis

Sector profitability recovered sharply in 2021; poised to grow further with potential interest rate hikes and economic recovery



Note: All the charts above are based on FY numbers
Op Income stands for Operating Income;
Scaling and some numbers might not add up due to rounding
Source: Financial statements, Investor presentations, A&M analysis

KEY TAKEAWAYS

- Aggregate RoE and RoA improved by 3.3% points YoY and 0.4% points YoY to 11.1 % and 1.3% respectively, supported by higher profitability
- Higher oil prices, strong capitalization and continued government support to reinforce UAE lenders' creditworthiness
- While the UAE's government has extended the TESS scheme to June 2022 to support economic recovery, credit quality could face some stress in the latter half of the year
- Potential hike in interest rates in UAE in tandem with the US could support the banking sector's earnings growth in FY'22

Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth	L&A	YoY growth in EOP net loans and advances for the top 10
	Deposits Growth		YoY growth in EOP customer deposits for the top 10
Liquidity	Loan-to-Deposit Ratio	LDR	(Net EOP loans and advances / EOP customer deposits) for the top 10
Income & Operating Efficiency	Operating Income Growth		YoY growth in aggregate annual operating income generated by the top 10
	Operating Income / Assets		(Annual operating income / annual average assets) for the top 10
	Non-Interest Income / Operating Income		(Annual non-interest income / annual operating income) for the top 10
	Net Interest Margin	NIM	(Aggregate annual net interest income) / (annual average earning assets) for the top 10 Earnings assets are defined as total assets excluding goodwill, intangible assets, and property and equipment
	Yield on Credit	YoC	(Annual gross interest income / annual average loans & advances) for the top 10
	Cost of Funds	CoF	(Annual interest expense + annual capital notes & tier I sukuk interest) / (annual average interest bearing liabilities + annual average capital notes & tier I sukuk interest) for the top 10
	Cost-to-Income Ratio	C/I	(Annual operating expenses / annual operating income) for the top 10
Risk	Coverage Ratio		(Loan loss reserves / non-performing loans) for the top 10
	Cost of Risk	CoR	(Annual provision expenses net of recoveries / annual average gross loans) for the top 10
Profitability	Return on Equity	RoE	(Annual net profit attributable to the equity holders of the banks – annual capital notes & tier I sukuk interest) / (annual average equity excluding capital notes) for the top 10
	Return on Assets	RoA	(Annual net profit / annual average assets) for the top 10
	Return on Risk-Weighted Assets	RoRWA	(Annual net profit generated / annual average risk-weighted assets) for the top 10
Capital	Capital Adequacy Ratio	CAR	(EOP tier I capital + tier II capital) / (EOP risk-weighted assets) for the top 10

Note: LTM and EOP stand for last twelve months and end of period respectively

Glossary (continued)

Bank	Assets (AED Bn)*	Abbreviation	Logo
First Abu Dhabi Bank	1000.3	FAB	
Emirates NBD	687.4	ENBD	
Abu Dhabi Commercial Bank	440.3	ADCB	
Dubai Islamic Bank	279.1	DIB	
Mashreq Bank	177.1	MSQ	
Abu Dhabi Islamic Bank	136.9	ADIB	
Commercial Bank of Dubai	114.2	CBD	
National Bank of Ras Al-Khaimah	56.3	RAK	
Sharjah Islamic Bank	55.0	SIB	
National Bank of Fujairah	42.9	NBF	

Note: Banks are sorted by assets size
**As on 31st December 2021*

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