UAE Banking Pulse

FY | 2024

FINANCIAL SERVICES INDUSTRY GROUP

ALVAREZ & MARSAL

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Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the FY'24 edition of United Arab Emirates (UAE) Banking Pulse ("The Pulse-UAE"). In this yearly series, we share results from our research examining the top ten listed UAE banks by assets and highlight key performance indicators of the UAE banking industry. The Pulse-UAE aims to help banking executives and board members stay current on industry trends.

Lending growth accelerated to 12.6% YoY in FY'24 driven by retail loans (+19.9% YoY) while corporate and wholesale loans continued to account for majority of the aggregate loan book (55.5%). Deposits mobilization remained healthy at 10.7% YoY driven by Time deposits (+11.1% YoY) which increased on the back of higher interest rates environment while CASA deposits improved moderately by (+8.0% YoY). High interest scenario resulted in Yield on Credit (YoC) and Cost of Funds (CoF) increasing by 91bps and 130bps YoY, respectively. Overall NIM contracted by 130bps YoY to 2.7%.

UAE banks continued their focus on cost efficiency and asset quality, as Cost-to-Income (C/I) ratio remained below 30.0% while Cost-of-Risk (CoR) reduced to decade low of 0.5% (-25bps YoY). Aggregate earnings increased by 8.0% YoY as impairment charges saw a considerable decline of 26.8% YoY on back of recoveries / lower write downs. Overall, lower net profitability resulted in RoE and RoA to decline by 87bps and 6bps in FY'24.

CBUAE lowered its overnight deposit facility base rate by 25bps to 4.4% in December 2024, in line with the U.S. Federal Reserve's rate cut. UAE economic growth is expected to be driven by higher consumer spending, tourism, and construction sectors. In terms of the outlook, despite expected monetary policy tightening, strong government support and healthy capital position should help banks continue its earnings growth momentum into FY'25.

We hope that you will find our latest edition of the UAE Banking Pulse useful and informative.

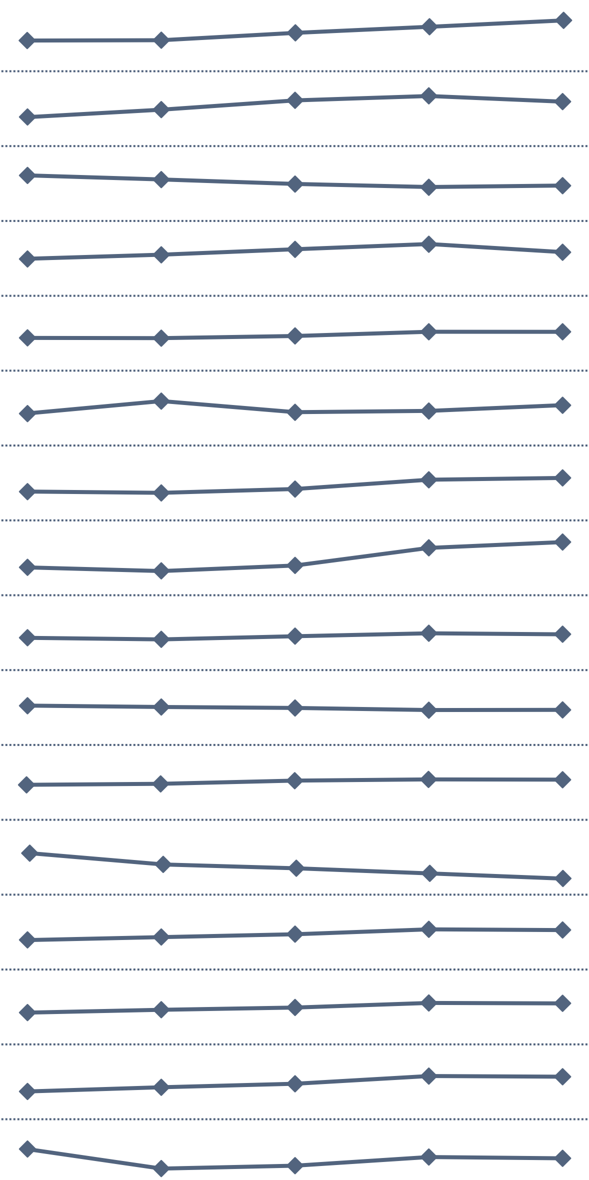
UAE banks continue lending momentum, focus on cost efficiency while managing asset quality

Key Trends of FY'24

1. L&A growth improved by 12.6% YoY, while deposits growth moderated to 10.7% YoY
2. LDR increased by 130bps to 76.2%, driven by higher lending which outpaced deposit growth
3. Aggregate operating income grew 10.7% YoY driven by robust growth in fees and commission income (+22.0% YoY)
4. NIM declined marginally by 12bps to 2.7%; YoC and CoF increased by 70bps and 60bps YoY, respectively
5. C/I ratio deteriorated marginally by 24bps YoY as aggregate operating expenses increased by 11.7% YoY, slower than operating income growth
6. Coverage ratio declined marginally to 104.0% while cost of risk improved by 25bps YoY
7. RoE as well as RoA declined by 87bps and 6bps YoY, respectively
8. RoRWA decreased by 8bps YoY, while capital adequacy ratio remained stagnant at 17.1%

	Metric	FY'23		FY'24
Size	L&A Growth (YoY)	9.0%	↑	12.6%
	Deposits Growth (YoY)	13.4%	↓	10.7%
Liquidity	Loan-to-Deposit Ratio (LDR)	74.9%	↑	76.2%
Income & Operating Efficiency	Operating Income Growth (YoY)	28.9%	↓	10.7%
	Operating Income / Assets	3.8%	↔	3.8%
	Non-Interest Income / Operating Income	31.0%	↑	33.6%
	Yield on Credit (YoC)	11.5%	↑	12.2%
	Cost of Funds (CoF)	3.9%	↑	4.6%
	Net Interest Margin (NIM)	2.8%	↓	2.7%
	Cost-to-Income Ratio (C/I)	28.7%	↑	28.9%
Risk	Coverage Ratio	104.3%	↓	104.0%
	Cost of Risk (CoR)	0.7%	↓	0.5%
Profitability	Return on Equity (RoE)	19.8%	↓	18.9%
	Return on Assets (RoA)	2.2%	↓	2.1%
	Return on Risk-Weighted Assets (RoRWA)	3.4%	↓	3.3%
Capital	Capital Adequacy Ratio (CAR)	17.1%	↔	17.1%

FY'20 FY'21 FY'22 FY'23 FY'24



→ Improved ↔ Stable → Worsened

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

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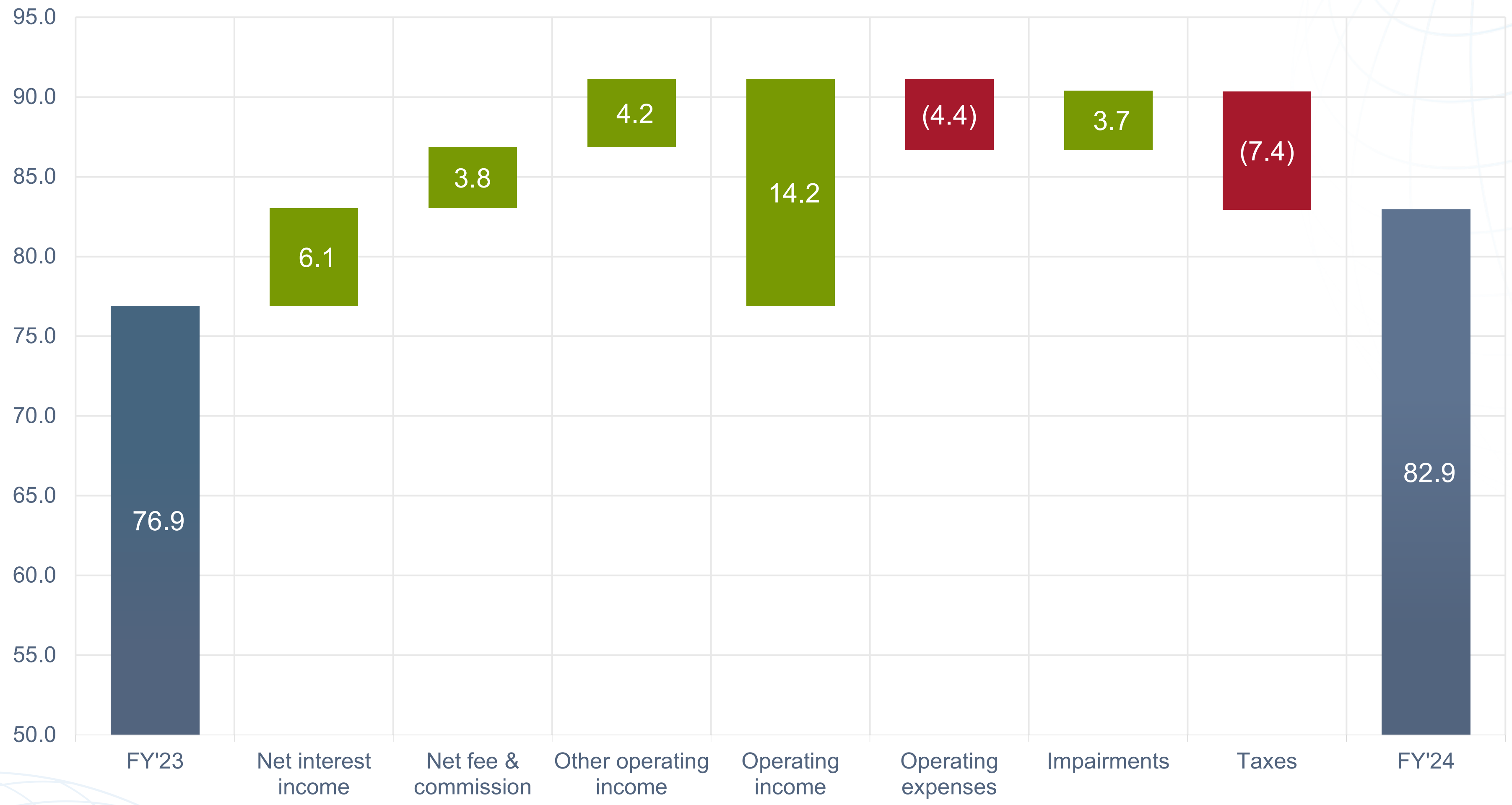
Rate cuts & new tax regime weigh on bank's net income growth

Key takeaways

- UAE banks' aggregate net interest income grew by 6.7% YoY to reach AED 97.6bn, marking the slowest growth rate in three years
- Banks' net fees and commission income surged 22.0% YoY, largely driven by strong performance by ENBD, FAB and ADCB
- Lower impairment charges supported banks' aggregate net income growth to AED 82.9bn (+8.0% YoY)
- The new UAE corporate tax regime drove a 190.1% YoY surge in banks' tax expenses, impacting net income growth

Net income bridge (AED bn)



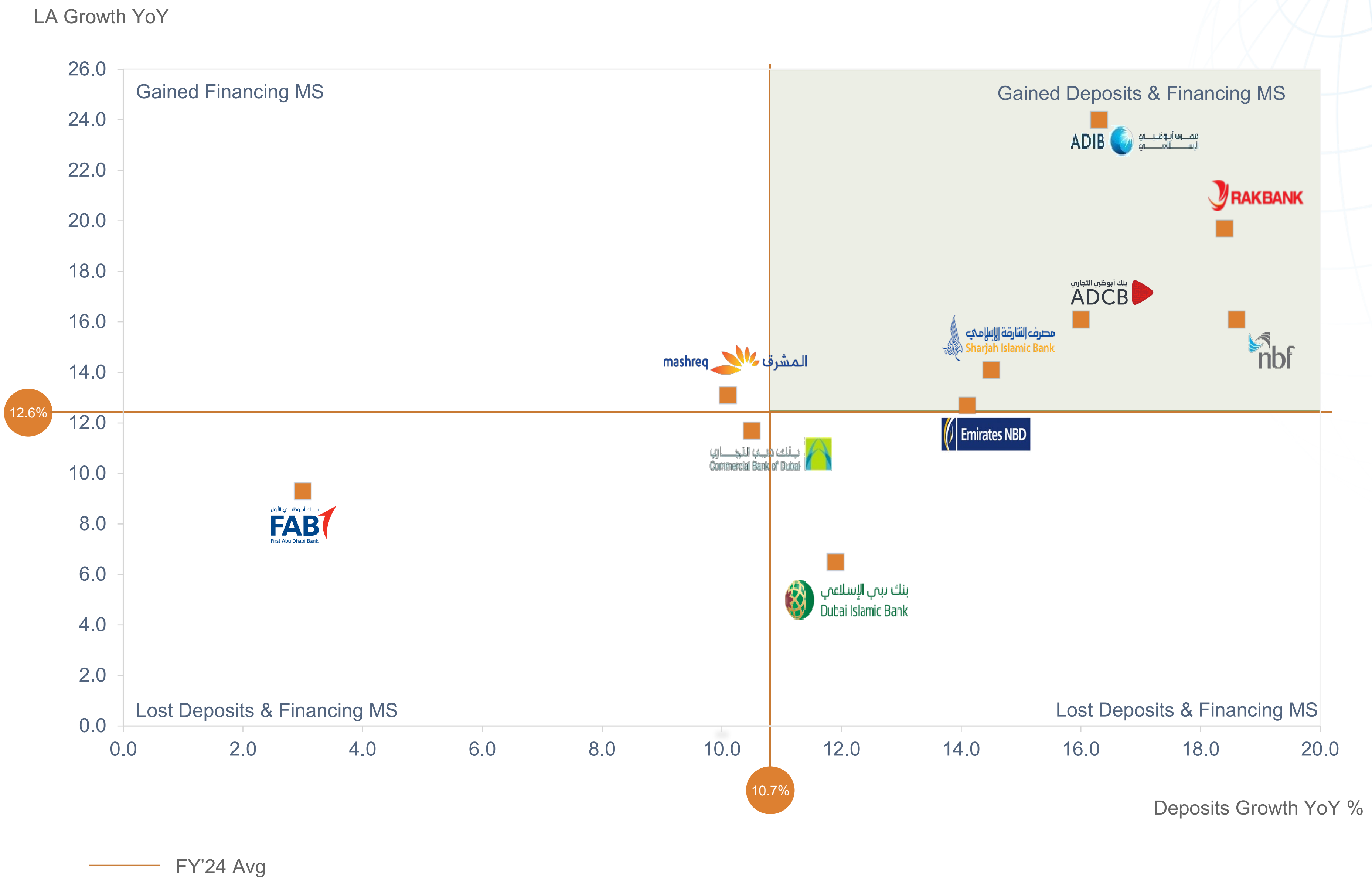
Source: Financial statements, Investor presentations, A&M analysis

Banks continue to expand credit outlay which outpaced deposit mobilization

Key takeaways

- Aggregate L&A of the top ten banks increased by 12.6% YoY vs. 9.0% in the previous year
  - ADIB reported the highest increase in L&A growth by 24.0% YoY
  - Larger banks such as ENBD and ADCB reported healthy growth of 12.7% and 16.1% YoY, respectively
  - DIB reported a decrease in L&A growth to 6.5% YoY
- Aggregate bank deposits grew by 10.7% YoY
  - ADIB and ADCB reported highest growth in deposits among the peers, 16.3% and 16.0% YoY, respectively
  - Key major banks like FAB, ENBD, ADCB, DIB, and Mashreq witnessed slowed down in total deposits growth
  - The rate cut cycle continued towards the end of FY'24; customers responded well, as time deposits for UAE banks increased by 11.1% YoY

L&A & Deposit Growth (%, Annual)



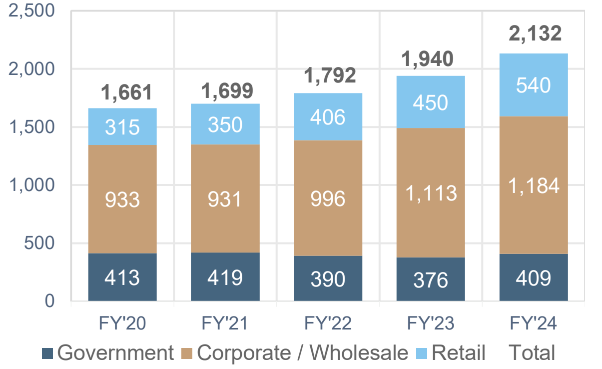
Note: MS stands for market share
Source: Financial statements, Investor presentations, A&M analysis

Corporate / wholesale segment remains the core of the loan book; retail in strong focus for some banks

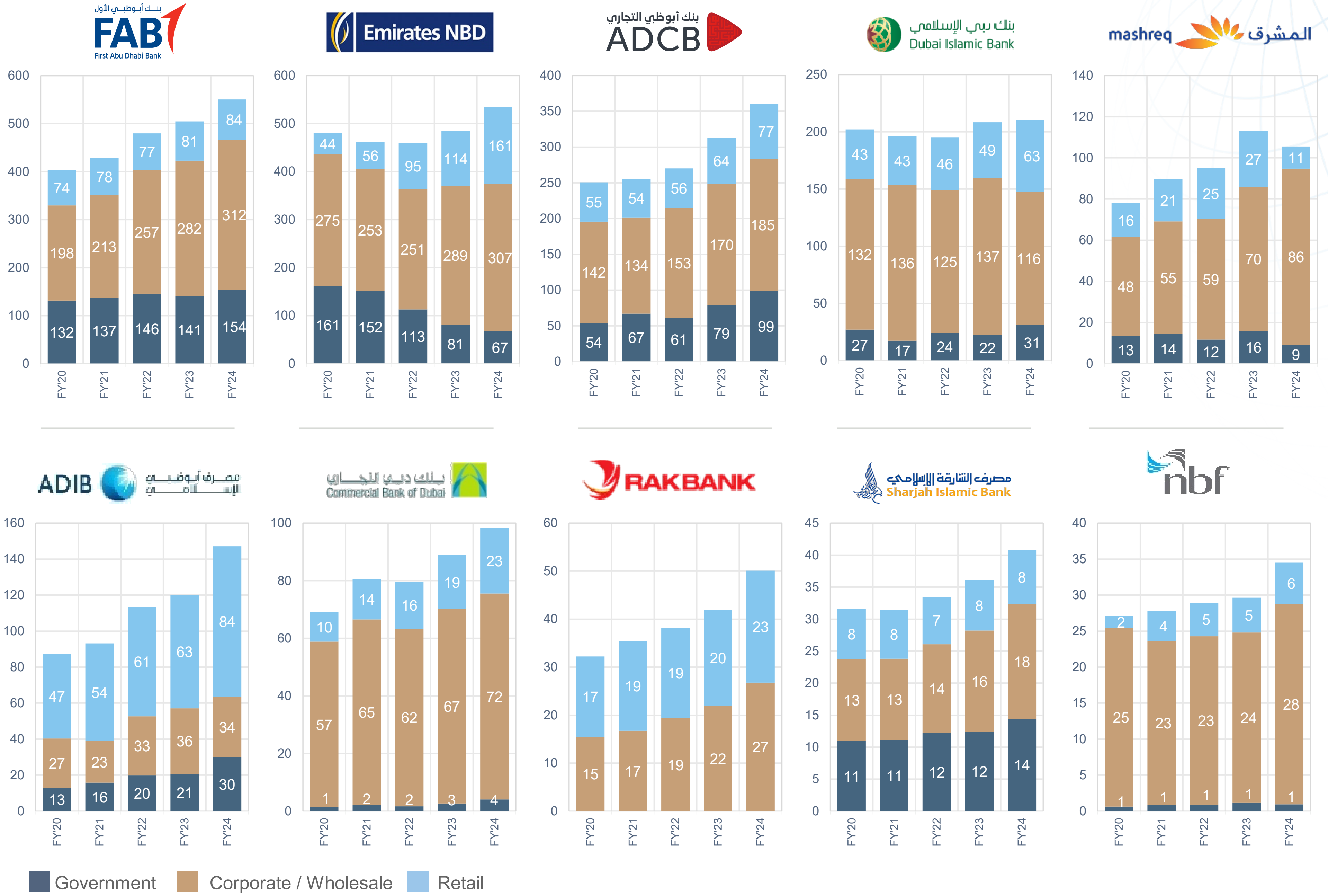
Key takeaways

- The retail loan book saw the highest growth at 19.9% YoY, raising its share to 25.3% (+2.1% YoY). Corporate / wholesale loans, comprising of 55.5% (-1.9% YoY) of the total, grew by 6.3% YoY. This year banks witnessed surged in government loans as it grew by 8.7% YoY
  - ENBD led the growth in the retail loan book, posting a 41.4% YoY increase, highest among peers and over the past five years, bank is increasing its retail exposure, reaching 30.2% in FY'24 (+6.6% YoY)
  - Mashreq and RAK* reported a substantial increase in the corporate / wholesale lending segment with an increase of 22.3% and 22.4% YoY, respectively

Aggregate L&A (AED bn)



Loans and advances (AED bn)



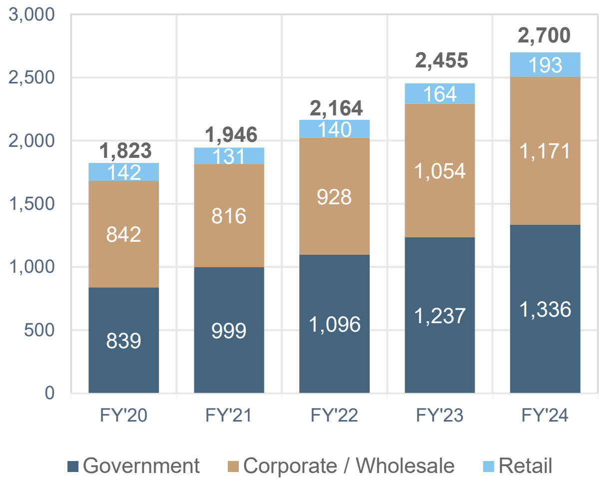
Note: Scaling and some numbers might not add up due to rounding
*Note: *Corporate / Wholesale lending includes Government loans*
Source: Financial statements, investor presentations, A&M analysis

UAE banks saw a strong rise in time deposits, while CASA growth moderated

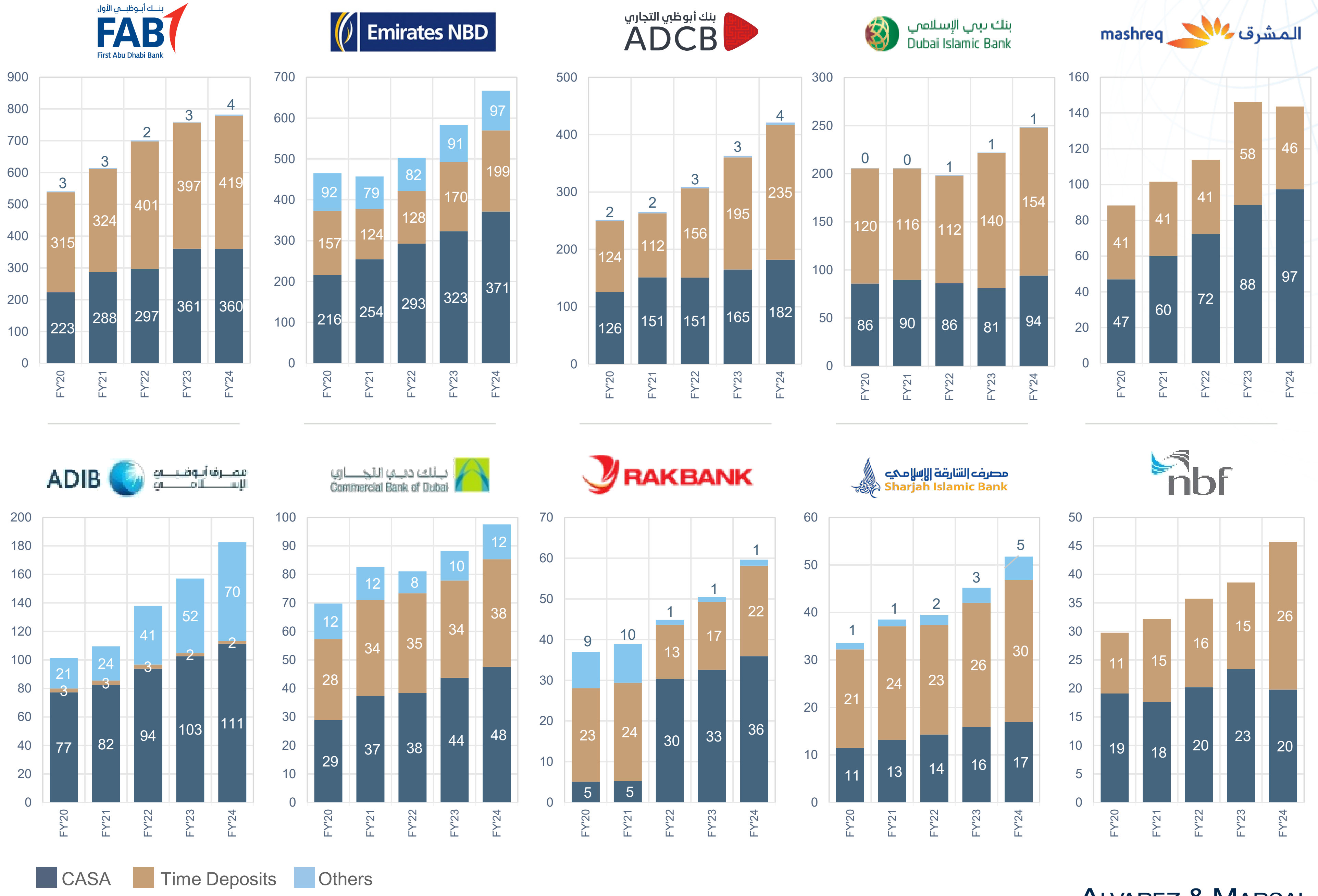
Key takeaways

- Banks reported a healthy increase in time deposits (+11.1% YoY) while aggregate CASA deposits improved by 8.0%, and accounted for ~49.9% of the total deposits in FY'24
- DIB, ADCB and ENBD witnessed healthy growth in time deposit with a substantial increase of 25.2%, 20.3% and 17.1% respectively in FY'24
- Aggregate deposits growth slowed to 10.7% YoY (-2.8% YoY), primarily due to FAB, where deposits growth moderated to 3.0%, driven by a decline in government deposits

Aggregate Customer Deposits (AED bn)



Customer deposits (AED bn)



Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

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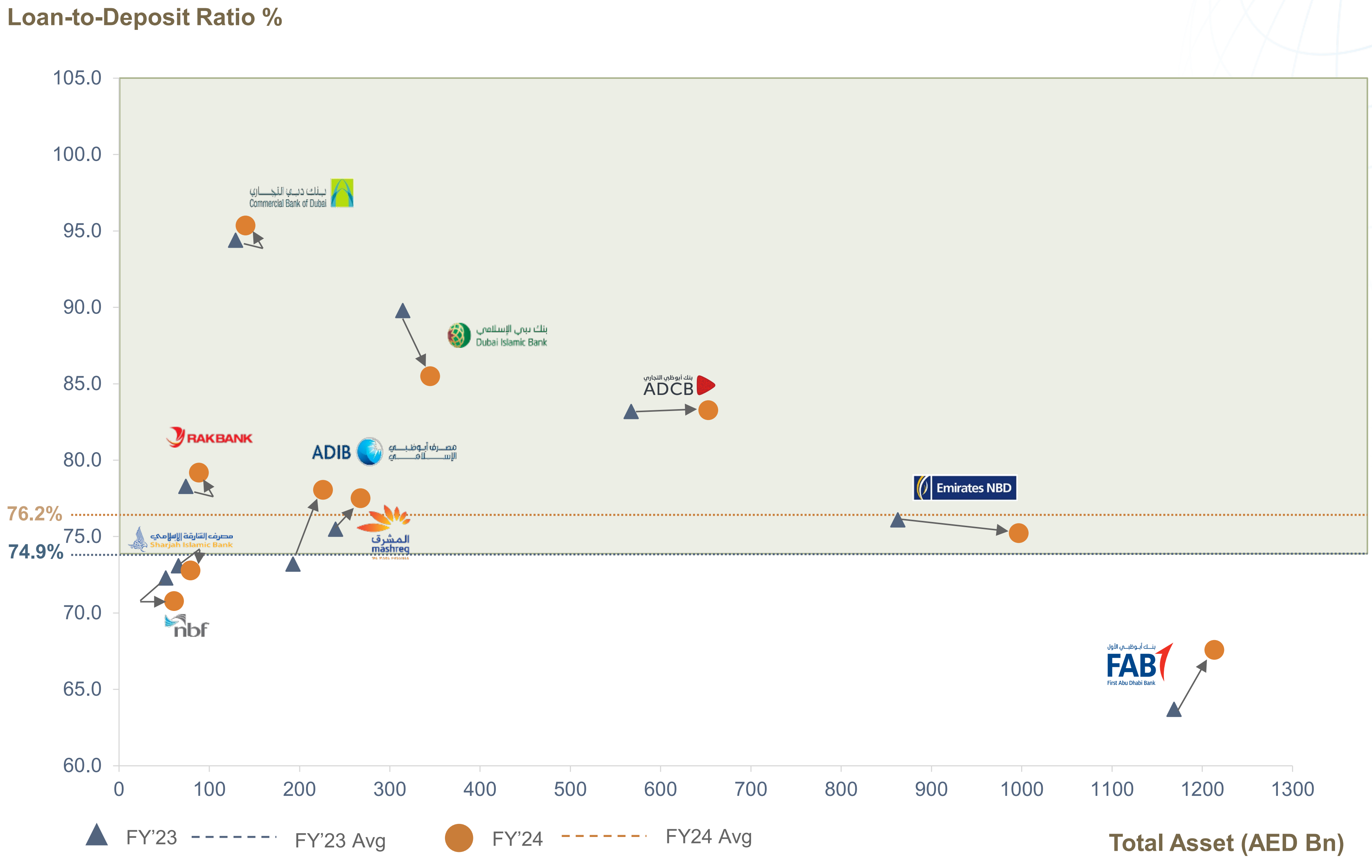
Aggregate LDR increased in FY'24, driven by higher loan growth outpacing deposit mobilization

Key takeaways

- Aggregate LDR increased by 130bps YoY to 76.2% as six out of the ten banks reported an increase in LDR
- ADIB reported the healthy improvement in LDR, as it increased by 485bps YoY to 78.1%
  - L&A grew by 24.0% YoY, while deposits grew by 16.3% YoY
- DIB witnessed the highest decline in LDR (down 435bps YoY) to 85.5%
  - Deposits grew by 11.9% YoY driven by time deposits (+25.2% YoY), outpacing the L&A growth

Loan to Deposits Ratio (%, Annual)

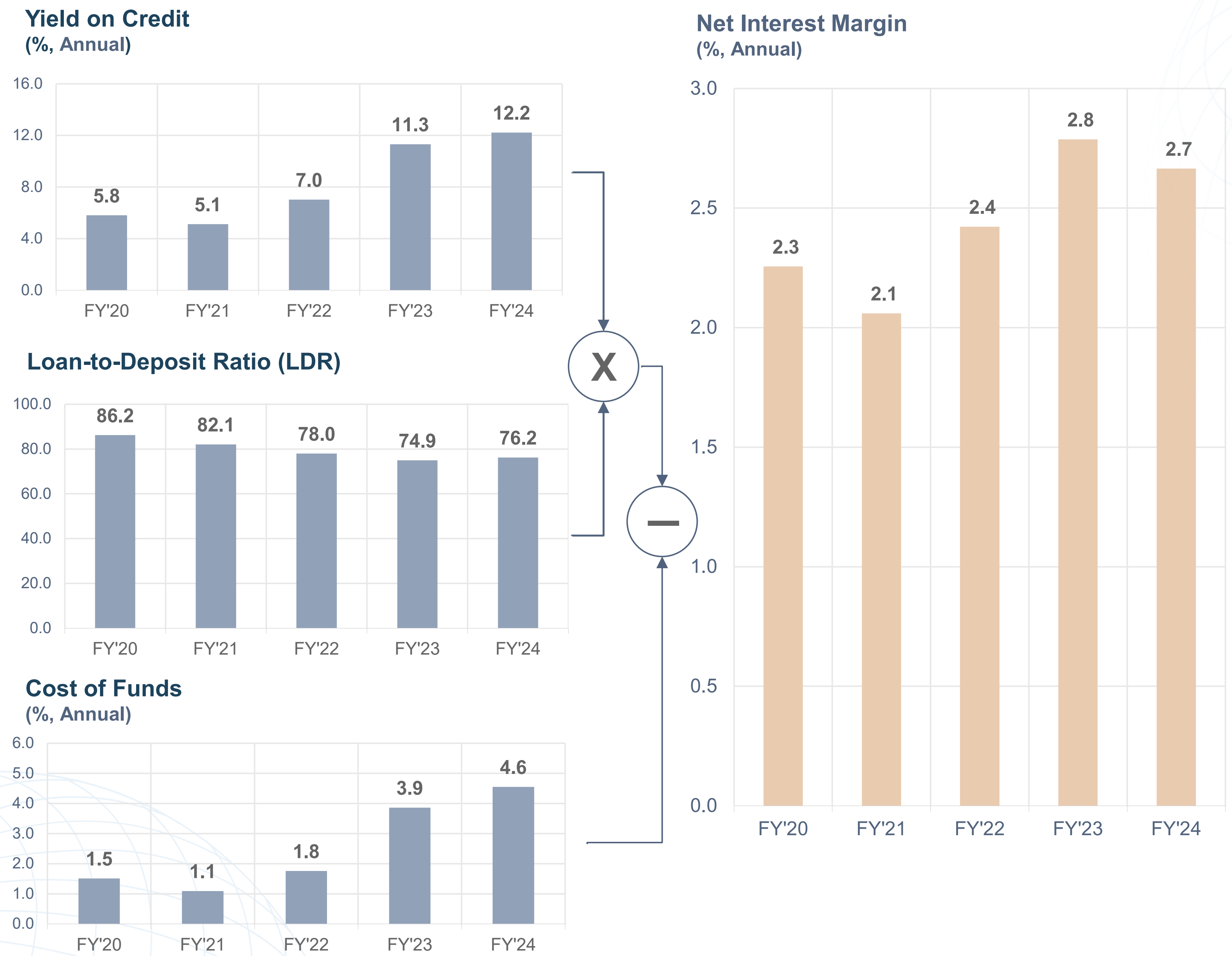


Source: Financial statements, A&M analysis

NIM declined as rising funding costs offset yield gains

Key takeaways

- NIM declined by 12bps YoY to 2.7% in FY'24, after peaking in FY'23, as rising funding costs outweighed yield improvements
  - Yield on Credit increased by 91bps YoY to 12.2% in FY'24, driven by aggressive rate cuts
  - LDR rose by 130bps YoY to 76.2%, despite the decrease in deposits, owing to the continued rise in L&A growth
  - CoF rose by 130bps YoY to 4.6%, squeezing margins despite higher yields



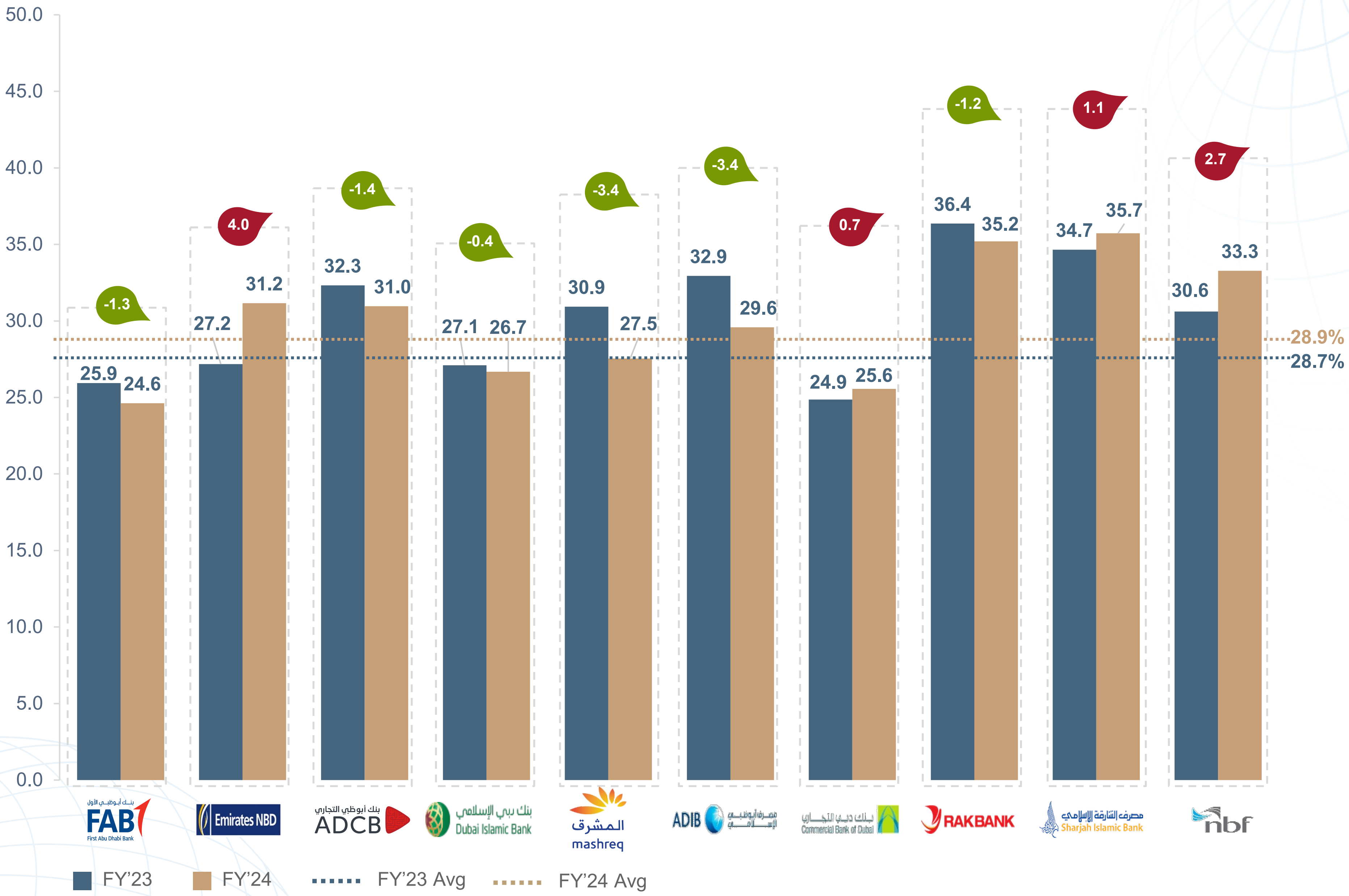
Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula
Source: Financial statements, Investor presentations, A&M analysis

Cost efficiency improved for most of the larger banks

Key takeaways

- UAE banks witnessed a 24bps YoY rise in C/I ratio driven by ENBD
- ENBD's C/I ratio deteriorated by 398bps YoY to 31.2% as cost increased by 17.6% YoY due to higher staff cost, accelerated depreciation of completed projects, and higher professional fees
- FAB delivered 131bps YoY improvement in C/I ratio to 24.6% in FY'24, which is highest among the peers, indicating improved operating efficiency in the bank
  - Total operating income for FAB increased 15.1% YoY to AED 31.6bn
- SIB reported C/I ratio of 35.7% which is the highest among the UAE banks

Cost to Income Ratio (%, Annual)



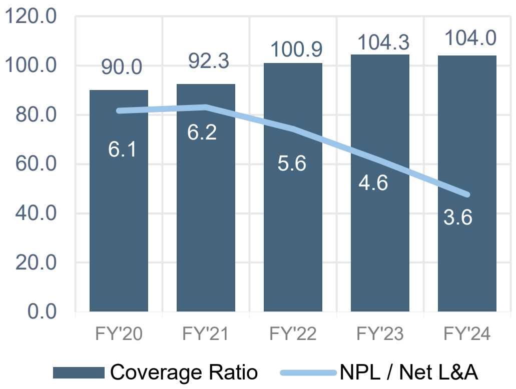
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis
**Comparison on FY basis*

Overall asset quality improved, with lower NPL ratios and stable coverage levels

Key takeaways

- Aggregate NPL / Net Loans ratio improved by 104bps YoY to 3.6%, a multi-year low, while the coverage ratio remained steady YoY at 104% level
  - Nine out of the ten banks reported improvement in the NPL ratio
- NPL ratio improved the most for CBD (down 230bps) and ADIB (down 220bps) and reached 5.7% and 4.2%, respectively
  - Mashreq and ADCB reported lowest NPL ratio among the peers which stood at 1.7% and 3.0%, respectively

Coverage Ratio and NPL Ratio*



Coverage Ratio and NPL / Net Loans Ratio (%, Annual)

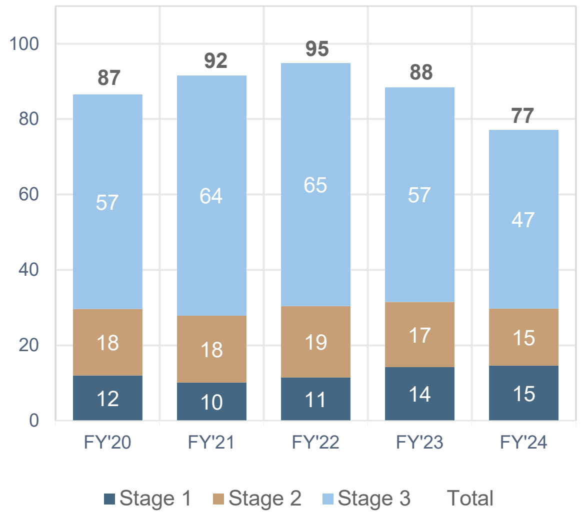
*Note: Scaling and some numbers might not add up due to rounding, *Aggregate*
Source: Financial statements, investor presentations, A&M analysis,

Most UAE banks successfully reduced the stage 3 exposure while maintaining lending growth

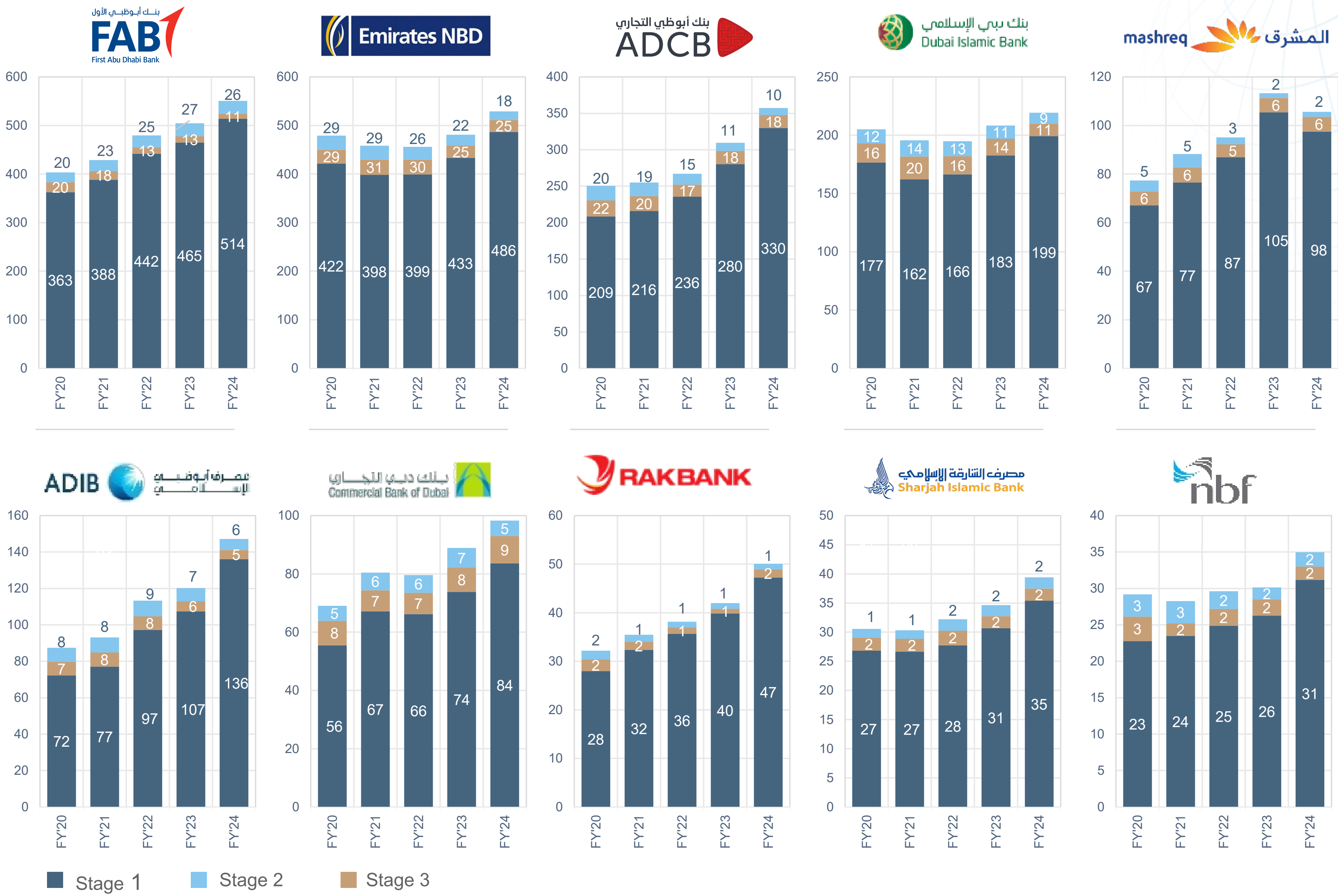
Key takeaways

- Stage 3 loans declined by 12.2% YoY and accounted for 3.8% of the total loan portfolio, while Stage 1 loans (92.0% of total loan portfolio) grew by 12.4% YoY
  - Stage 3 loans for ENBD and DIB fell by 20.3% YoY and 20.5% YoY, respectively
  - ADCB and ADIB boosted stage 1 loans growth, which grew by 17.7% YoY and 26.8% YoY, respectively

Aggregate ECL (AED bn)



Stage wise L&A mix (AED bn)



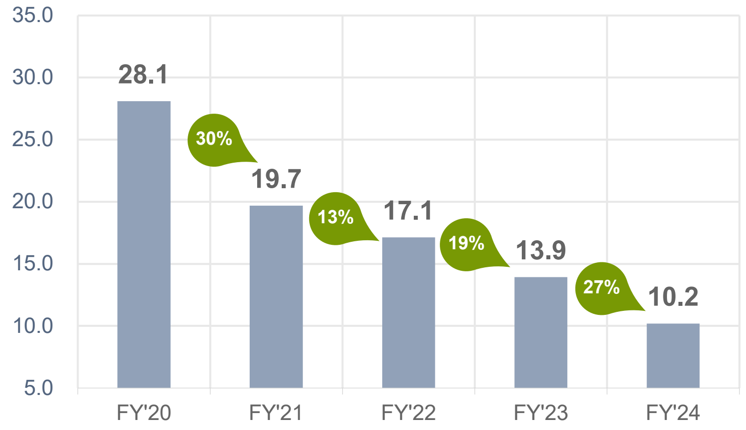
Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

Steady improvement in risk costs to a 5-year low indicate an improving aggregate portfolio

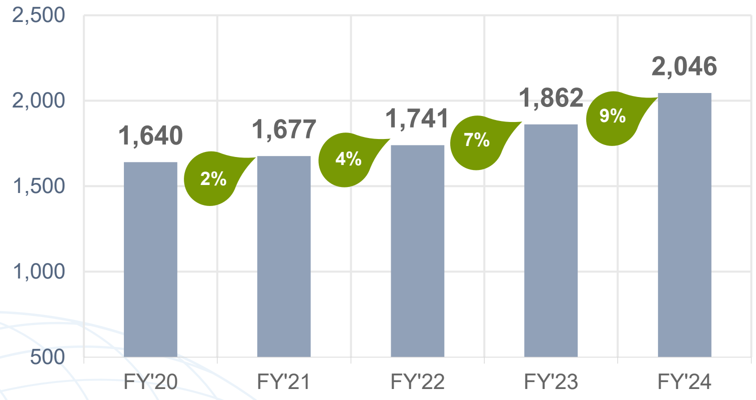
Key takeaways

- Aggregate Cost of Risk of the banks has improved over the past years and in FY24 reached a multi-year low at 0.5% (down by 25bps)
  - Banks are witnessing decreasing trend in net loan loss provisions
  - Drop in Stage 3 loans across major banks has helped lower provisioning requirement
- UAE banks have mostly contained their credit losses through higher recoveries of written-off loans which benefited from favorable macro environment and easing policy rates
- Over the years, UAE banks have gradually lowered its exposure to real estate and construction sectors which is down to ~14.0% of the total loans in FY2024 vs.~22.0% in 2020

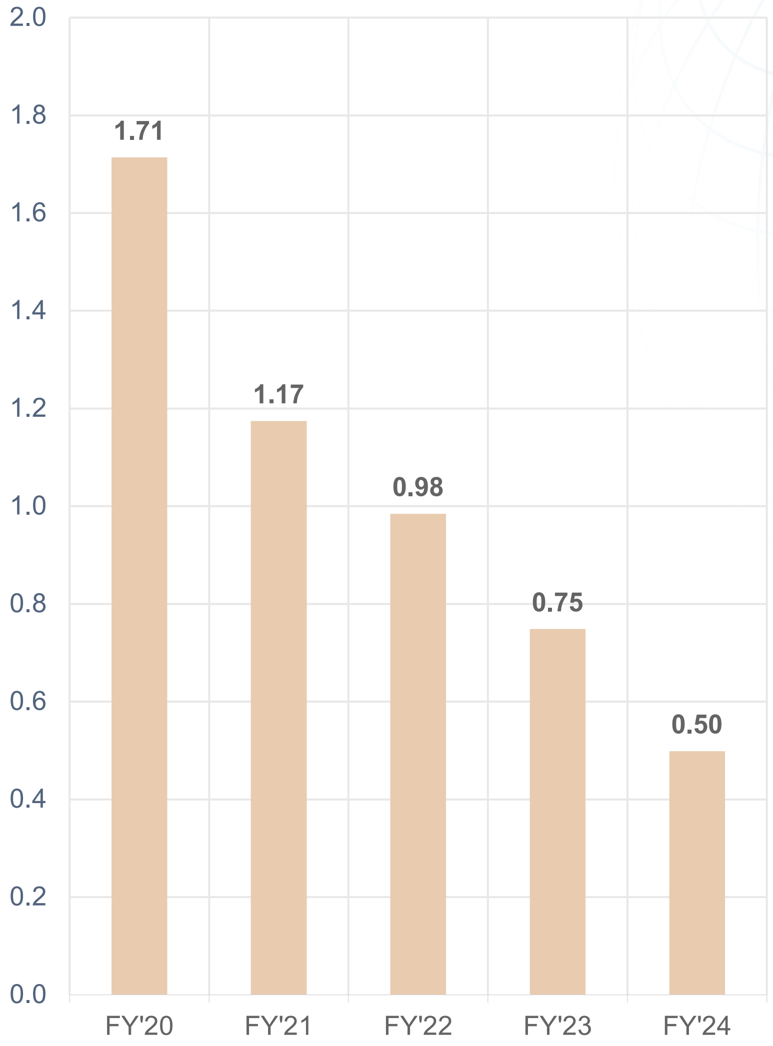
Net Loan Loss Provisions
(AED bn)



Average Gross Loans
(AED bn)



Cost of Risk
(%, Annual)



Improved Worsened Stable

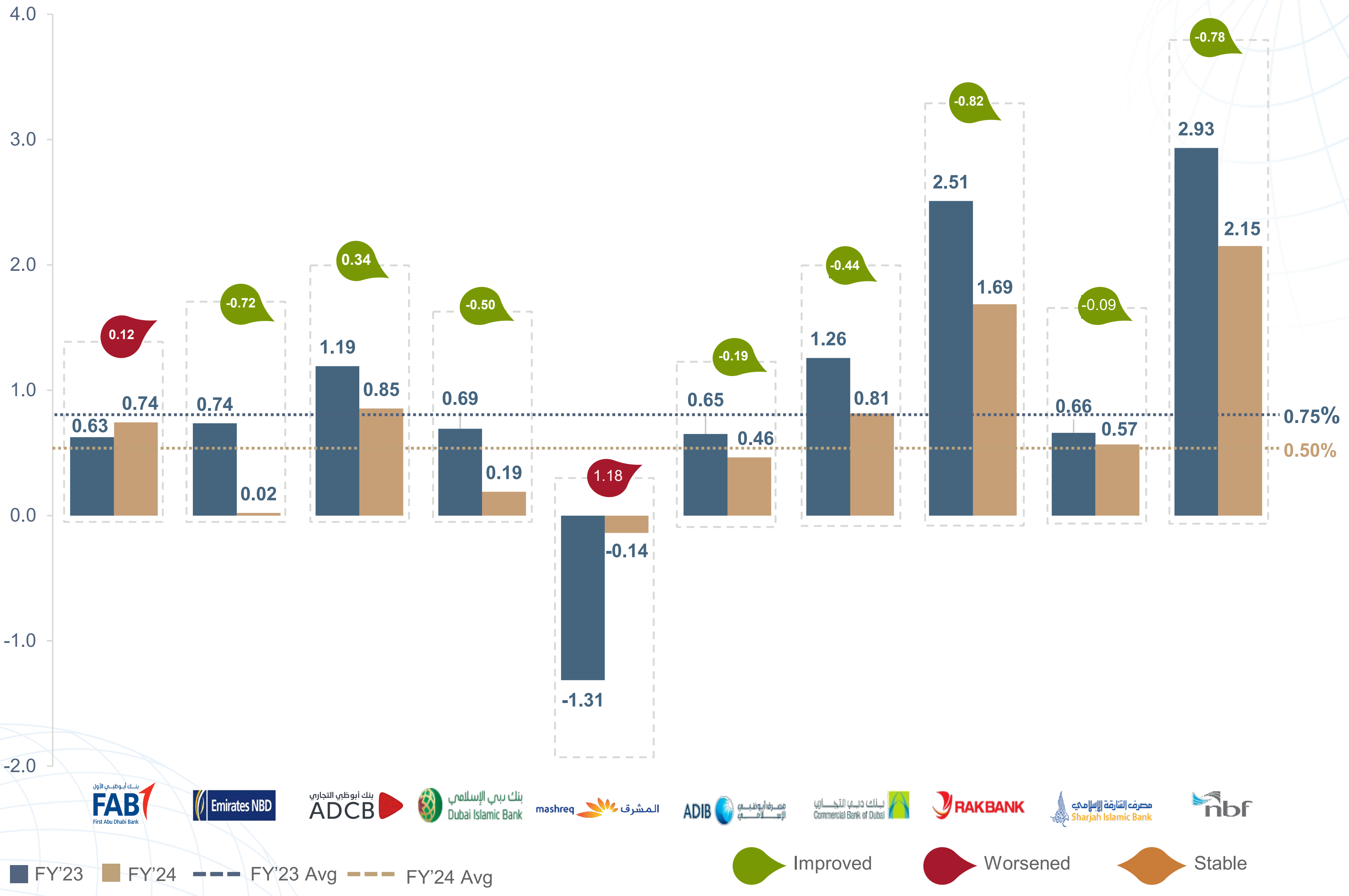
Note: Some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

Asset quality generally improved as lower provisioning and reversals contain risk costs

Key takeaways

- ENBD posted ~0% CoR due to significant recoveries, surpassing guidance for CoR which was set at 10-20bps for FY'24
- NBF has the highest CoR of 2.15%; however, for last three years the bank has been working on improving it, and in FY'24 it improved by 78 bps YoY
- Out of ten banks, FAB and Mashreq witnessed deterioration in CoR
  - CoR of FAB deteriorated by 12bps YoY and reached 0.7%
  - Due to lesser net release of AED 166.1mn (-87.9% YoY) in allowance of impairment, Mashreq bank's CoR increased to -0.1% bps (+118bps YoY)

Cost of Risk % - Net of Reversals



Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis

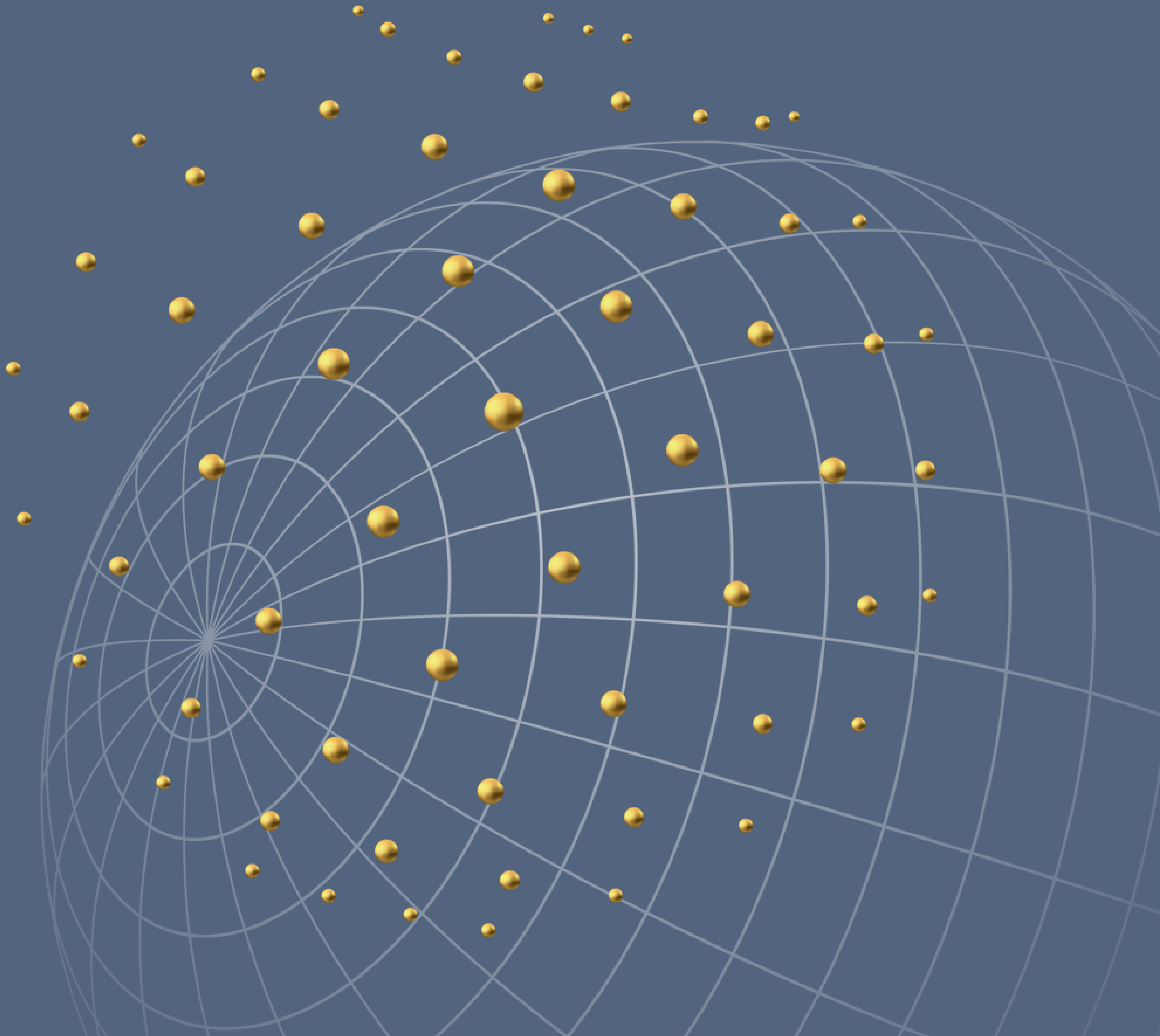
UAE banks successfully weathered rate cycle swings with steady balance sheet growth, well managing both costs and asset quality

Key takeaways

- Profitability ratios deterioration caused RoE and RoA to decline by 87bps and 6bps respectively
- According to GASTAT, UAE GDP grew by 4.4% YoY in Q4’24; oil activities recorded a growth of 3.4% YoY
  - Growth momentum was also seen in non-oil and government activities which grew by 4.6% and 2.2% YoY respectively in Q4’24
- CBUAE is expected to continue anchoring its key rate along with US Fed (25bps cut in December’24) and UAE banks are well positioned to navigate through the cycle
- UAE banks have responded well to competition from fintech / neobanks by focusing on their digital initiatives to improve customer experience and manage costs
- In terms of the outlook, despite expected monetary policy tightening, government support and a strong capital position should help the UAE banks continue its earnings growth momentum into FY’25

Note: All the charts above are based on annual 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

Glossary



Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		FY growth in EOP net loans and advances for the top 10
	Deposits Growth		FY 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		FY growth in aggregate quarterly operating income generated by the top 10
	Operating Income / Assets		(Annualized quarterly operating income / quarterly average assets) for the top 10
	Non-Interest Income / Operating Income		(Quarterly non-interest income / quarterly operating income) for the top 10
	Net Interest Margin	NIM	(Aggregate annualized quarterly net interest income) / (quarterly 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	(Annualized quarterly gross interest income / quarterly average loans & advances) for the top 10
	Cost of Funds	CoF	(Annualized quarterly interest expense + annualized quarterly capital notes & tier I sukuk interest) / (quarterly average interest bearing liabilities + quarterly average capital notes & tier I sukuk interest) for the top 10
	Cost-to-Income Ratio	C/I	(Quarterly operating expenses / quarterly operating income) for the top 10
Risk	Coverage Ratio		(Loan loss reserves / non-performing loans) for the top 10
	Cost of Risk	CoR	(Annualized quarterly provision expenses net of recoveries / quarterly average gross loans) for the top 10
Profitability	Return on Equity	RoE	(Annualized quarterly net profit attributable to the equity holders of the banks – annualized quarterly capital notes & tier I sukuk interest) / (quarterly average equity excluding capital notes) for the top 10
	Return on Assets	RoA	(Annualized quarterly net profit / quarterly average assets) for the top 10
	Return on Risk-Weighted Assets	RoRWA	(Annualized quarterly net profit generated / quarterly 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
First Abu Dhabi Bank	1,213.2	FAB
Emirates NBD	996.6	ENBD
ADCB	652.8	ADCB
Dubai Islamic Bank	344.7	DIB
mashreq	267.5	MASQ
ADIB	225.9	ADIB
Commercial Bank of Dubai	140.2	CBD
RAKBANK	88.3	RAK
Sharjah Islamic Bank	79.2	SIB
nbf	60.9	NBF

Note: Banks are sorted by assets size
**As on 31st December 2024*

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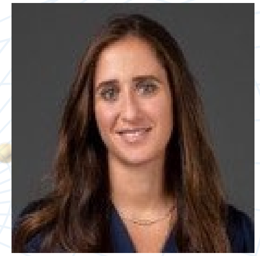

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