



UAE Banking Pulse

Quarter 2, 2021



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THE EMIRATES

FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q2'21 edition of the UAE Banking Pulse ("The Pulse"). In this quarterly series, we share results from our research examining the top ten largest listed UAE banks by assets, and highlight key performance indicators of the sector. 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 metrics has been updated, where required, to reflect appropriate comparative information.

Q2'21 financial results of the top UAE banks suggest modest rebound in profitability and balance sheet metrics. L&A growth turned positive (+1.9% QoQ), after declining for three consecutive quarters. Dubai's mortgage market has showed robust signs of improvement, with number of mortgage issuances almost doubling between December 2020 and June 2021. Asset quality (NPL/ net L&A) decreased to 6.2%, after increasing for six consecutive quarters.

The RoE increased by +1.1% points QoQ to 10.9% as net income increased ~12% QoQ, on higher operating income and reduced provisioning.

We hope you will find the Pulse useful and informative.



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Co-Authors



Asad Ahmed

Co-Author, Managing Director
Head of ME Financial Services

- 30+ years of experience in banking
- Focuses on performance improvement, turn-around, credit management, and formulating and managing strategic and operational changes in financial institutions
- Former CEO of banks in the UAE & Kenya



Sumit Mittal

Co-Author, Senior Director
ME Financial Services

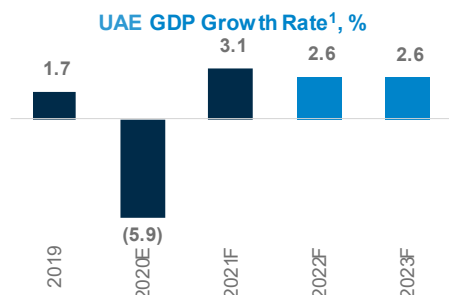
- 12+ years of experience in consulting and banking
- Focuses on strategy formulation & implementation, operating model design & execution, performance improvement and cost transformation

CONTACT DETAILS

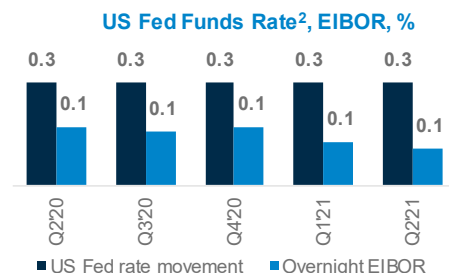
financialservices-me@alvarezandmarsal.com
Phone: +97145671065

UAE Macro & Sector Overview

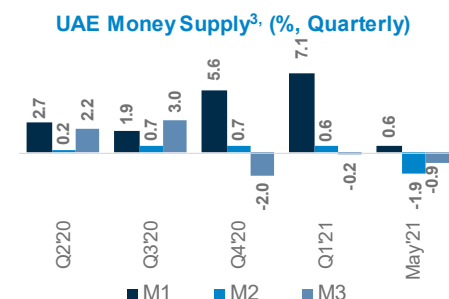
Macro overview



- In July'21, IMF reiterated its GDP growth outlook for UAE at 3.1% in FY'21 and 2.6% for FY'22. Meanwhile, the central bank expects the economy to grow by 2.4% in FY'21
- Average Q2'21 UAE's Purchasing Managers' Index (PMI) increased to 52.4 compared to 51.5 in Q1'21, due to increase in business activity and new orders
- UAE central bank announced its strategy which includes issuance of a digital currency and driving digital transformation in the nation's financial services sector by utilizing artificial intelligence and big data solutions

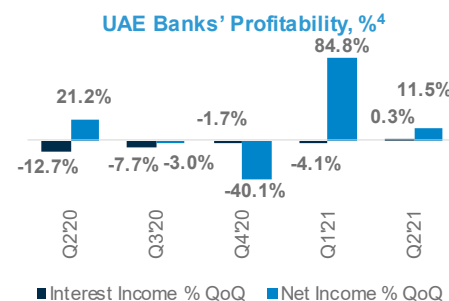


- In July'21 the US Fed Chair announced that the US labor market requires to show sizeable improvement before the Fed starts exploring rate hike options
- The overnight EIBOR saw a marginal decrease in Q2'21 by ~1.7 bps to 0.09% compared to Q1'21
- In June'21, the UAE's central bank raised its base rate for overnight deposits by 5 bps to 0.15%, in line with the US Fed

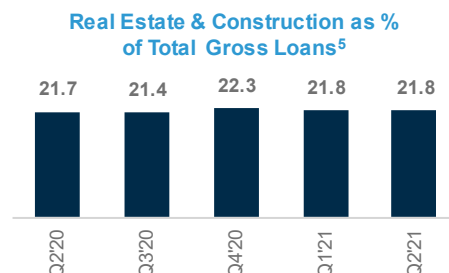


- M2 money supply decreased by 1.9% during Mar'21 - May'21 to AED 1,458.5bn. It increased by 0.5% YoY
- M2 money supply decreased as quasi monetary deposits fell by 3.9% between Mar'21 and May'21
- M1 money supply increased by 0.6% during Mar'21 - May'21 to AED 646.4bn. On an annual basis, M1 increased by 14.5%
- M3 money supply decreased by 0.9% during Mar'21 - May'21. On an annual basis, M3 increased by 0.1%

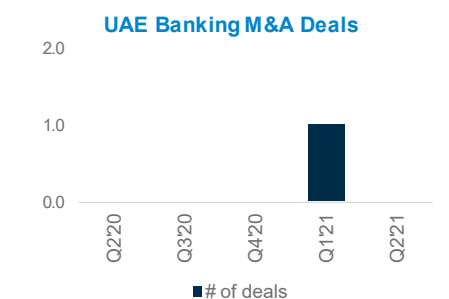
Banking overview Q2'21



- Total interest income of top ten UAE banks increased by 0.3% in Q2'21 after declining for five consecutive quarters
- Aggregate net income increased by ~12% QoQ, mainly supported by lower funding costs, increased cost efficiencies and lower impairments
- Consequently, RoE (10.9%) is back to the levels seen during December'19



- The UAE banks' exposure to the real estate and construction sectors remained stable at 21.8%
- The country's real estate sector is seen to be bouncing back and will continue to sustain the momentum in H2'21 due to visa reforms, vaccination drive and government measures to spur demand and manage over supply



- Emirates NBD had entered into an agreement with Eradah Capital to sell a controlling interest in Dubai Bank. The deal is expected to be completed by the end of 2021
- The central bank announced a new rule where domestic banks are required to have a minimum paid-up capital of AED 2.0bn by 2023
- The regulation is expected to drive the next wave of consolidation in the domestic banking sector. MSQ, NBF and RAK are among the top banks whose paid-up capital is less than AED 2.0bn

¹ IMF, ² US Board of Federal Reserve, ³ UAE Central Bank, ⁴ Bloomberg & A&M Analysis, ⁵ based on data of 8 banks, weighted average exposure of all banks; for consistency purpose data for all banks is captured from IIR presentations * Data for top ten UAE banks by asset size as of June 30th 2021

Pulse: Profitability Metrics of the UAE Banking Sector Improve Further, as Interest Income Increase and Impairments Decline

→ Improved ← Stable → Worsened

	Metric	Q1'21	Q2'21	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Key Trends of Q2'21
Size	Loans and Advances (L&A) Growth (QoQ)	-0.7%	↑ 1.9%						1 L&A (+1.9% QoQ) increased after declining for the three consecutive quarters. Deposits increased by 2.1% QoQ
	Deposits Growth (QoQ)	1.2%	↑ 2.1%						
Liquidity	Loan-to-Deposit Ratio (LDR)	84.5%	↓ 84.4%						2 LDR decreased for the second quarter to 84.4% from 84.5%, as deposits increased more than L&A
Income & Operating Efficiency	Operating Income Growth (QoQ)	1.3%	↑ 2.8%						3 Operating income increased 2.8% QoQ, supported by reduced cost of borrowing and higher investment income
	Operating Income / Assets	2.9%	↔ 2.9%						
	Non-Interest Income(NII) / Operating Income	34.9%	↓ 34.4%						4 NIM remained flat at 2.0%, as industry-wide rates continue to remain low in Q2'21
	Yield on Credit (YoC)	5.1%	↔ 5.1%						
	Cost of Funds (CoF)	1.2%	↓ 1.1%						5 C/I ratio decreased to its lowest level in past eight quarters to 33.0% as banks continue to optimize their overheads
	Net Interest Margin (NIM)	2.0%	↔ 2.0%						
Risk	Cost-to-Income Ratio (C/I)	33.1%	↓ 33.0%						6 CoR declined to 1.2% due to 9.3% QoQ decrease in impairment allowances. Coverage ratio increased to 92.3% from 91.0%
	Coverage Ratio	91.0%	↑ 92.3%						
Profitability	Cost of Risk (CoR)	1.3%	↓ 1.2%						7 RoE rebounded to reach double-digit levels (10.9%), as net income increased 11.5% QoQ
	Return on Equity (RoE)	9.8%	↑ 10.9%						
	Return on Assets (RoA)	1.1%	↑ 1.2%						8 RoRWA increased in line with higher net income, while the capital adequacy ratio declined from 17.4% to 17.0%
Capital	Return on Risk-Weighted Assets (RoRWA)	1.7%	↑ 1.8%						
	Capital Adequacy Ratio (CAR)	17.4%	↓ 17.0%						

Note 1: QoQ stand for quarter over quarter

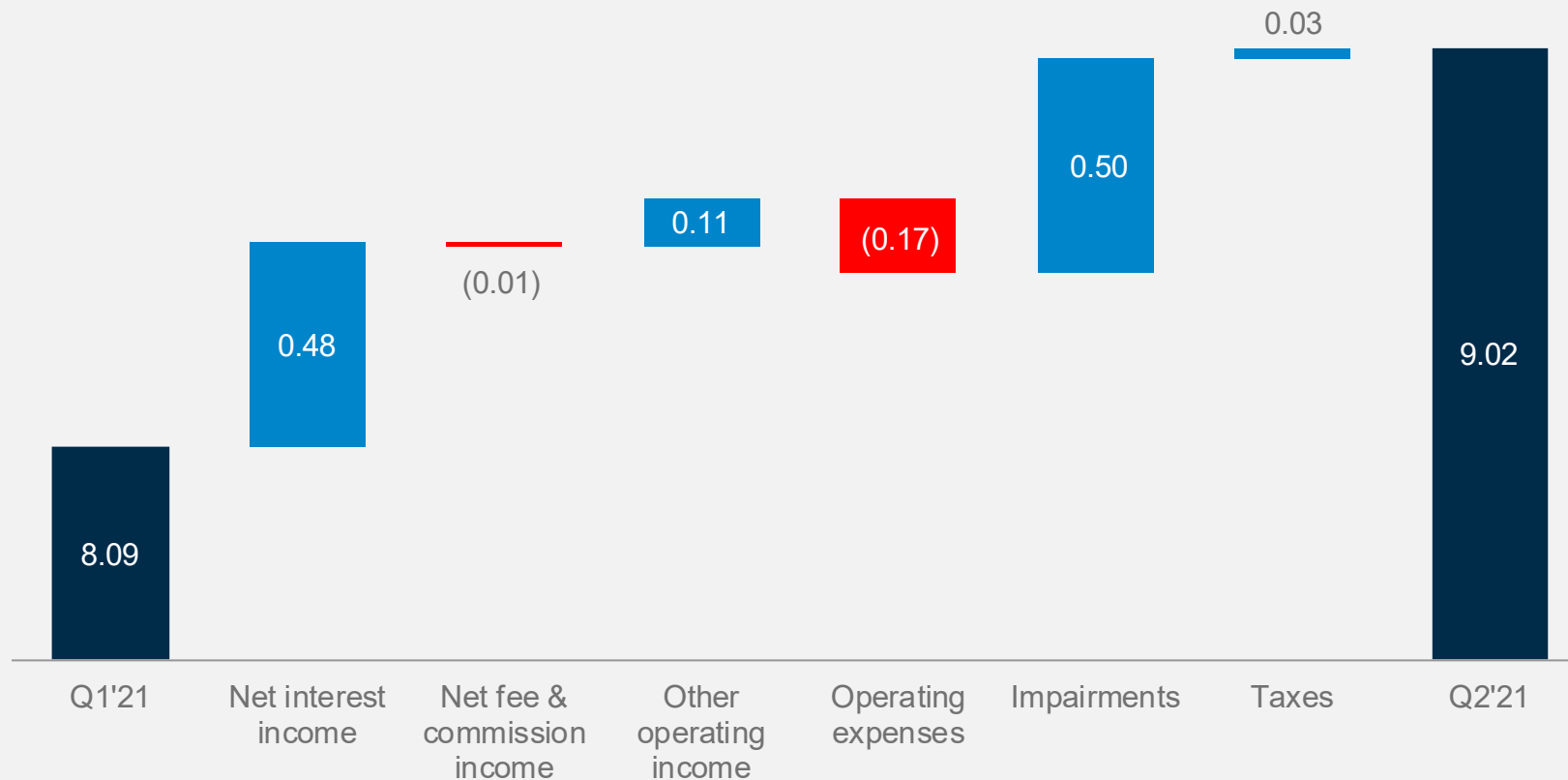
Note 2: Growth in loans & advances and deposits were presented QoQ instead of YoY

Note 3: Quarterly income was used in the calculation of operating income growth

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

Higher Operating Income and Lower Impairments Supported Net Income Growth

Net income bridge – AED Bn

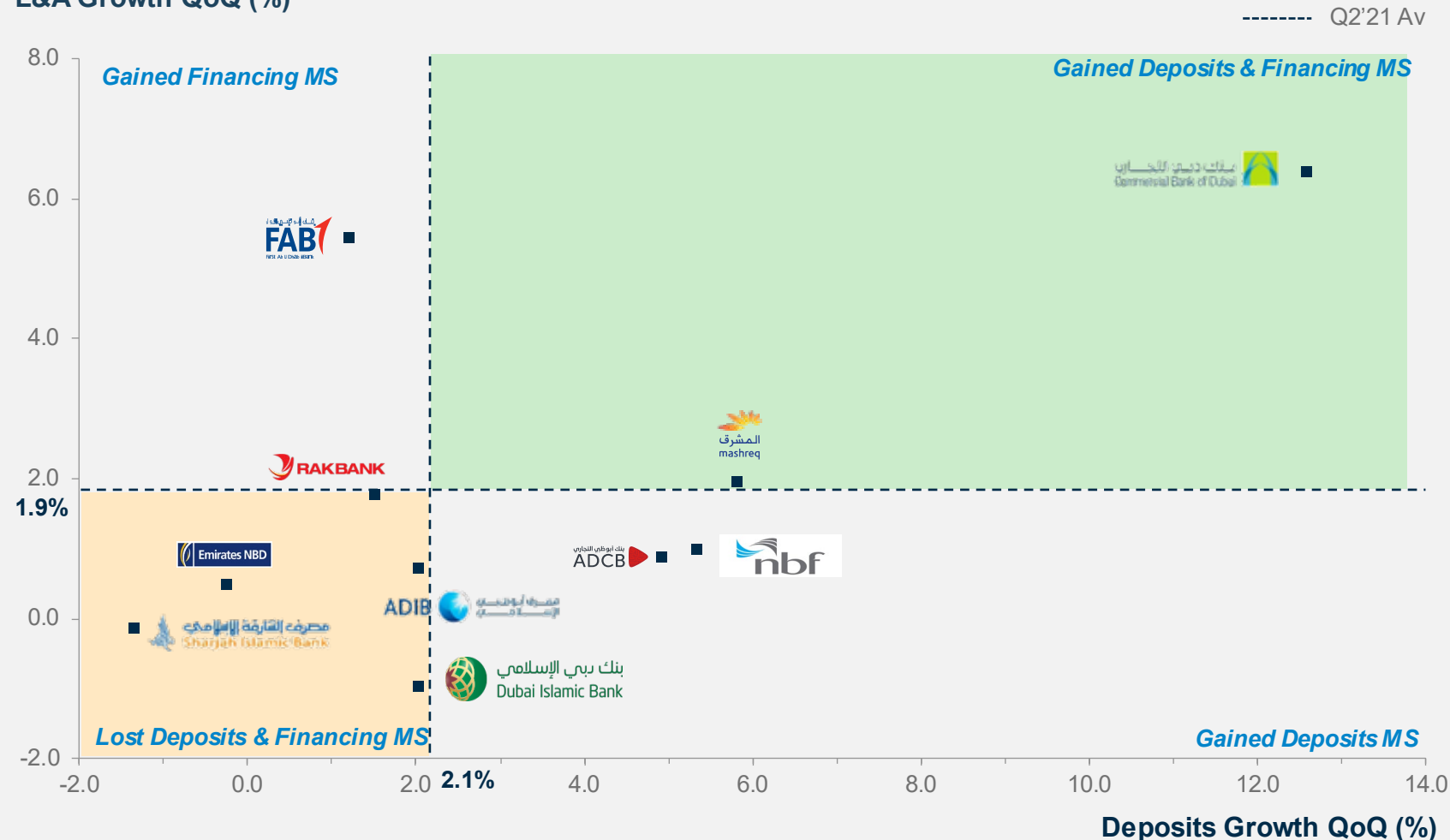


KEY TAKEAWAYS

- Aggregate net income increased 11.5% QoQ to AED 9.0bn
- Higher operating income (+2.8% QoQ) and lower impairments (-9.3% QoQ) were among the key drivers for net income growth
- Operating income grew on account of higher other income (+3.3% QoQ) and lower funding costs (-6.4% QoQ)
 - However, this was partially offset by a marginal decline in net fee income
- Impairments reduced as macroeconomic environment continued to improve and UAE customers payback their dues

CBD Outperformed its Peers on L&A and Deposit Growth

L&A Growth QoQ (%)



KEY TAKEAWAYS

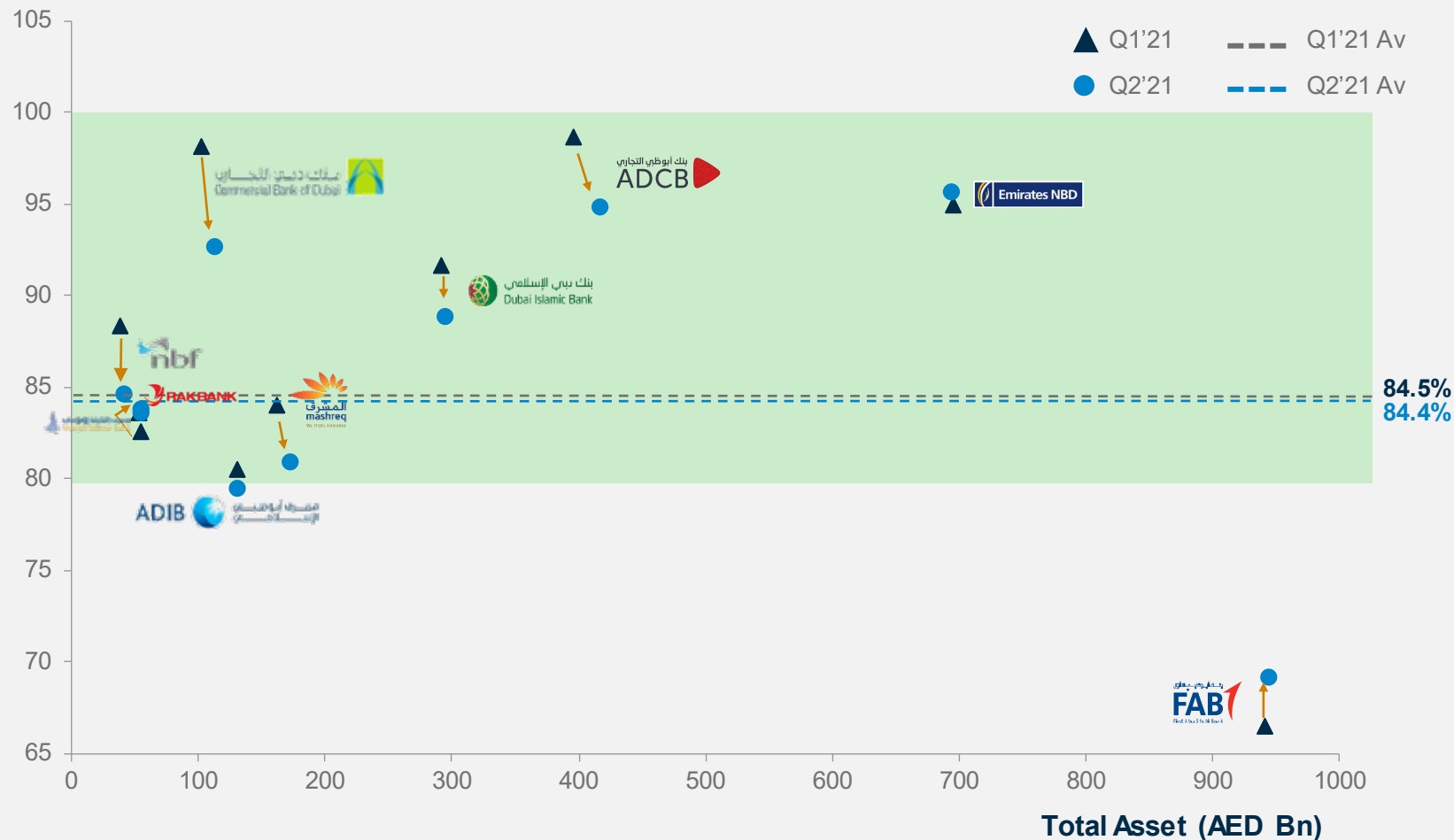
- Top ten UAE banks' L&A increased by 1.9% QoQ while the deposits increased by 2.1% QoQ
- CBD reported highest increase in L&A (+6.4% QoQ), driven by strong uptake in public (+43% QoQ) and mortgage (+19% QoQ) lending
- FAB's L&A rose 5.5%, driven by higher domestic, international corporate and trade-related lending
- CBD also reported the highest increase in deposits (+12.6% QoQ), supported by growth in government (+32% QoQ) and corporate (+12% QoQ) deposits

Note: MS stands for market share

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

Aggregate LDR Remained Largely Stable During the Quarter

Loans to Deposits Ratio (%)

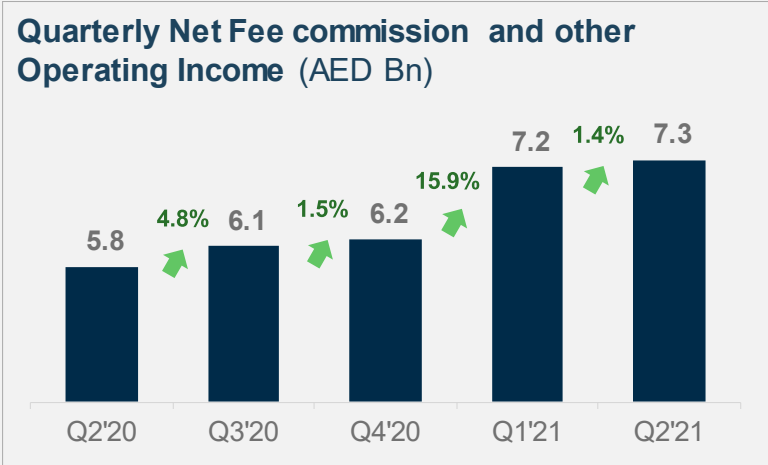
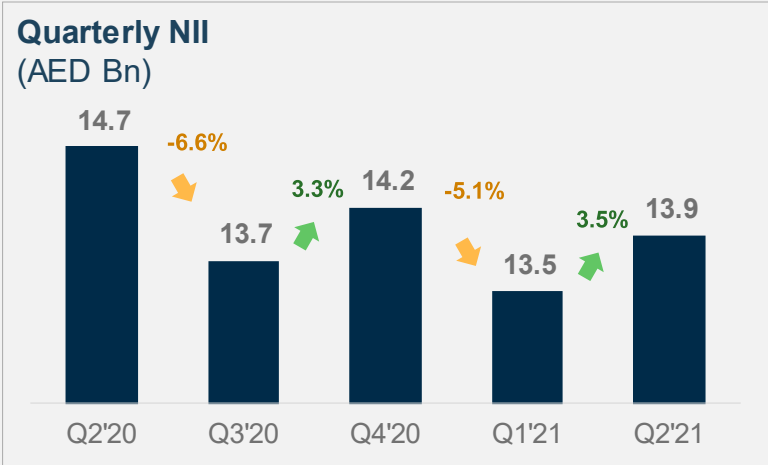


KEY TAKEAWAYS

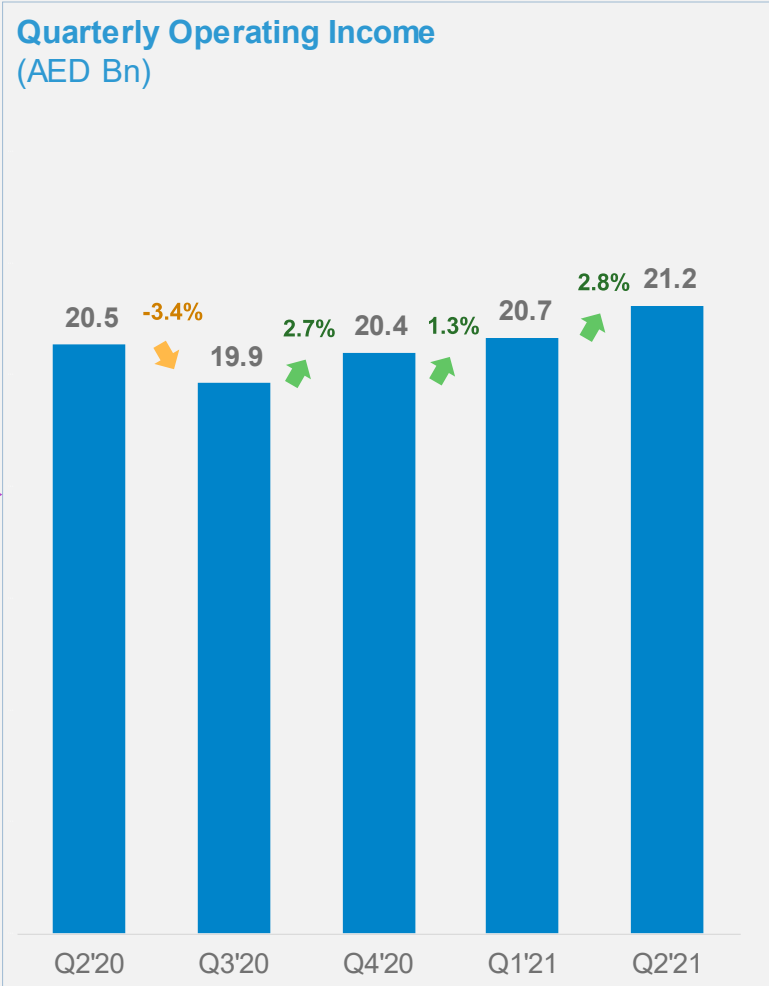
- Aggregate LDR decreased to 84.4% in Q2'21 compared to 84.5% in Q1'21
- CBD (-5.4% points QoQ) reported the highest decline in LDR to 92.8%
- FAB (+4.9% points) and SIB (+1.0% points) reported the highest increase in their LDR during the quarter
 - Despite an increase, FAB's LDR is the lowest among its major peers

Operating Income Continued to Grow for the Third Consecutive Quarter

➔ Improved
 ↔ Stable
 ➔ Worsened



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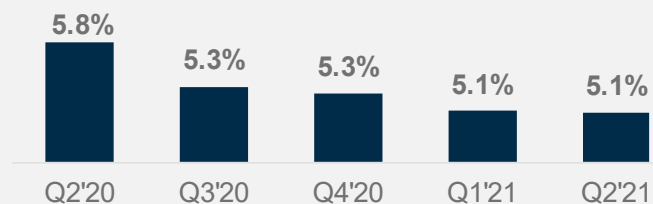
KEY TAKEAWAYS

- Operating income increased by 2.8% QoQ, driven by 3.5% QoQ growth in net interest income and 1.4% QoQ growth in non-funded income (fee + other operating income)
 - This helped in offsetting a marginal (-0.2% QoQ) decline in fee income
- FAB (+18.5% QoQ) reported the highest increase driven by higher fee, FX and investment income
 - The bank's fee income increased on account of strong deal pipeline execution and trade-related fees
 - FX income grew strongly amid substantial trading gains and portfolio returns from global markets
- ENBD operating income fell 13.4% QoQ due to lower fee (-14%QoQ) and FX income (-72% QoQ)

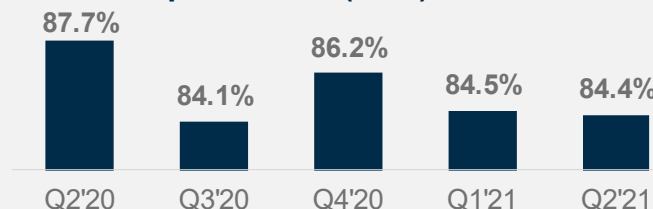
Note: Some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis

NIM Appear to Have Stabilize at Around 200 – 210 bps

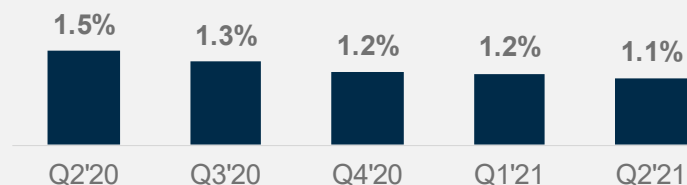
Yield On Credit
(Quarterly Annualized)



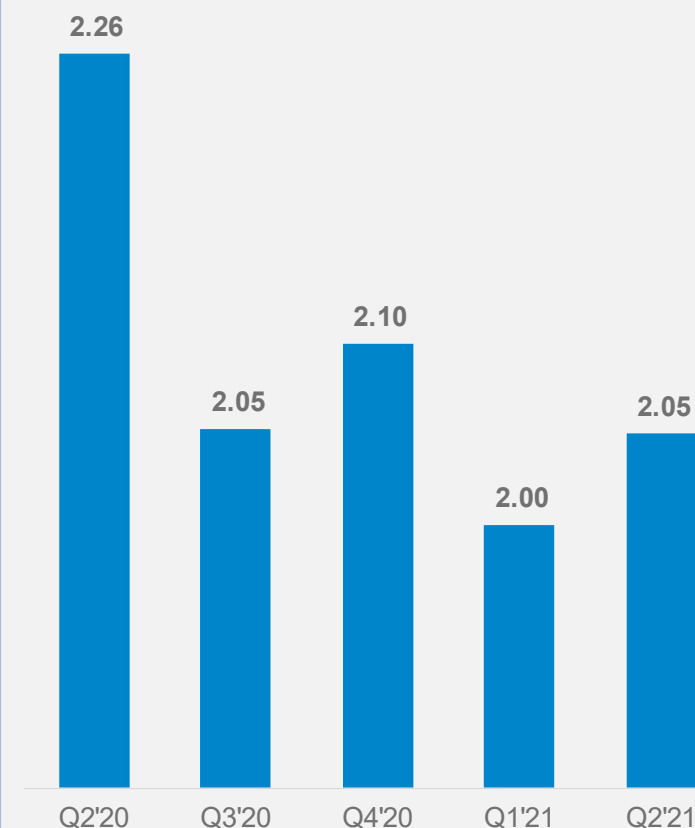
Loan-to-Deposit Ratio (LDR)



Cost of Funds
(Quarterly Annualized)



Net Interest Margin
(%, Quarterly Annualized)



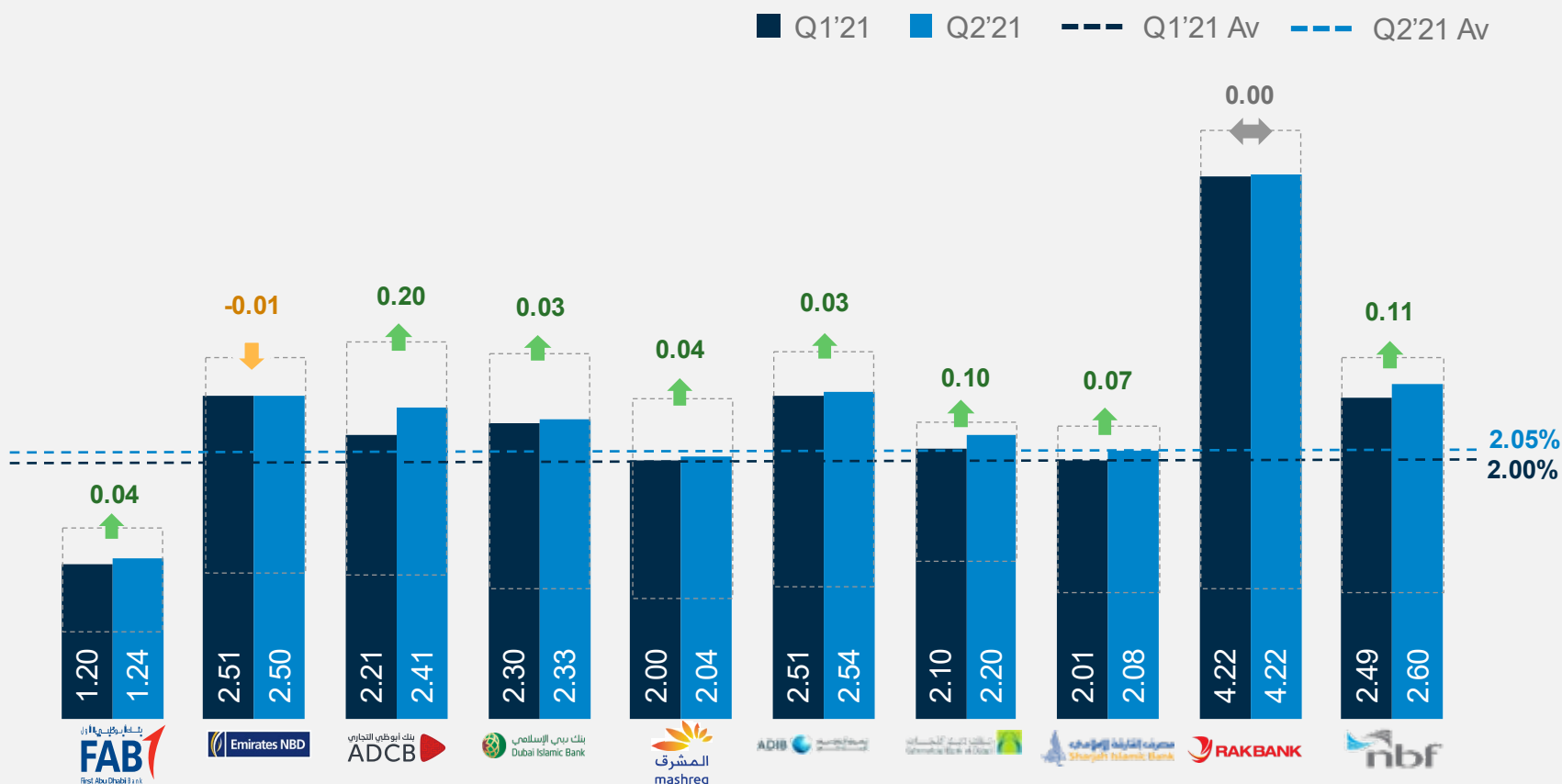
KEY TAKEAWAYS

- NIM increased by ~5 bps QoQ to 2.05%
- Yield on credit declined by 1.4 bps QoQ to 5.1%, while cost of funds decreased by 7.2 bps QoQ to 1.1%

ADCB, CBD and NBF Reported NIM Expansion by 10 – 20 bps; NIM for the Rest was Largely Unchanged

→ Improved ← Stable → Worsened

Net Interest Margin (% Quarterly)



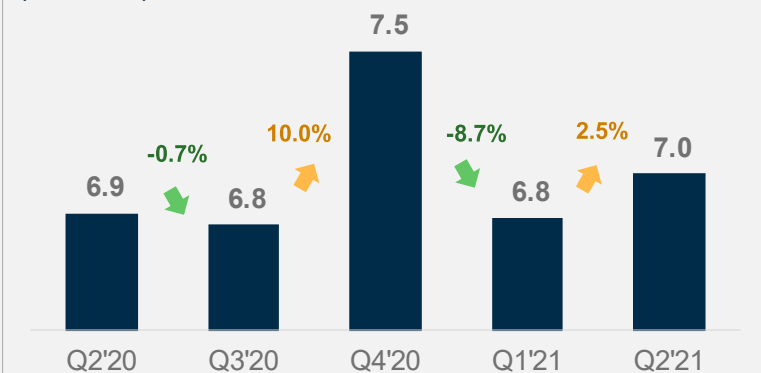
KEY TAKEAWAYS

- NIM increased by ~5 bps QoQ to 2.0% after declining in previous quarter
 - Driven by decrease in funding costs
- ADCB reported a 20 bps rise in NIM, on account of higher asset yields (+6 bps QoQ), increased business volumes and lower borrowing cost (-12 bps QoQ)
- ENBD's NIM declined 1 bps QoQ, on account of lower treasury yields (-6 bps QoQ) and drop in NIM from DenizBank (-1 bps QoQ)
 - ENBD continues to have the highest cost of funding for the last 3 quarters (>50% above peer average)

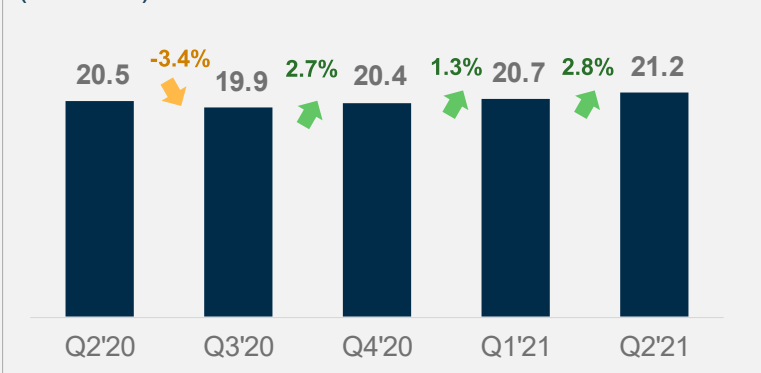
Cost to Income Ratio Remain Largely Unchanged This Quarter

→ Improved ← Stable → Worsened

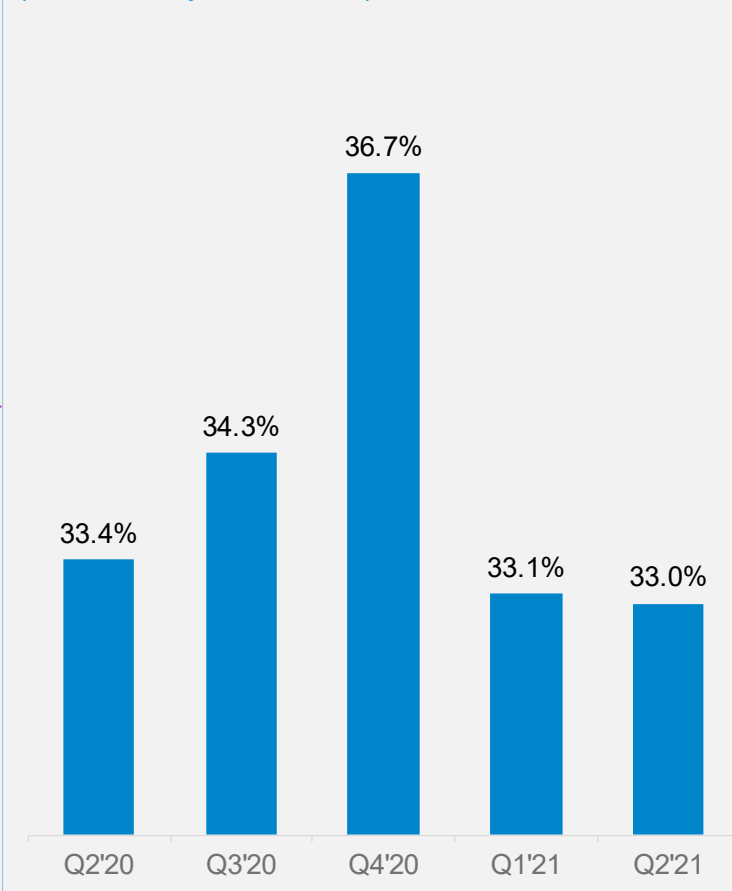
Quarterly Operating Expenses
(AED Bn)



Quarterly Operating Income
(AED Bn)



Cost to Income Ratio
(%, Quarterly Annualized)



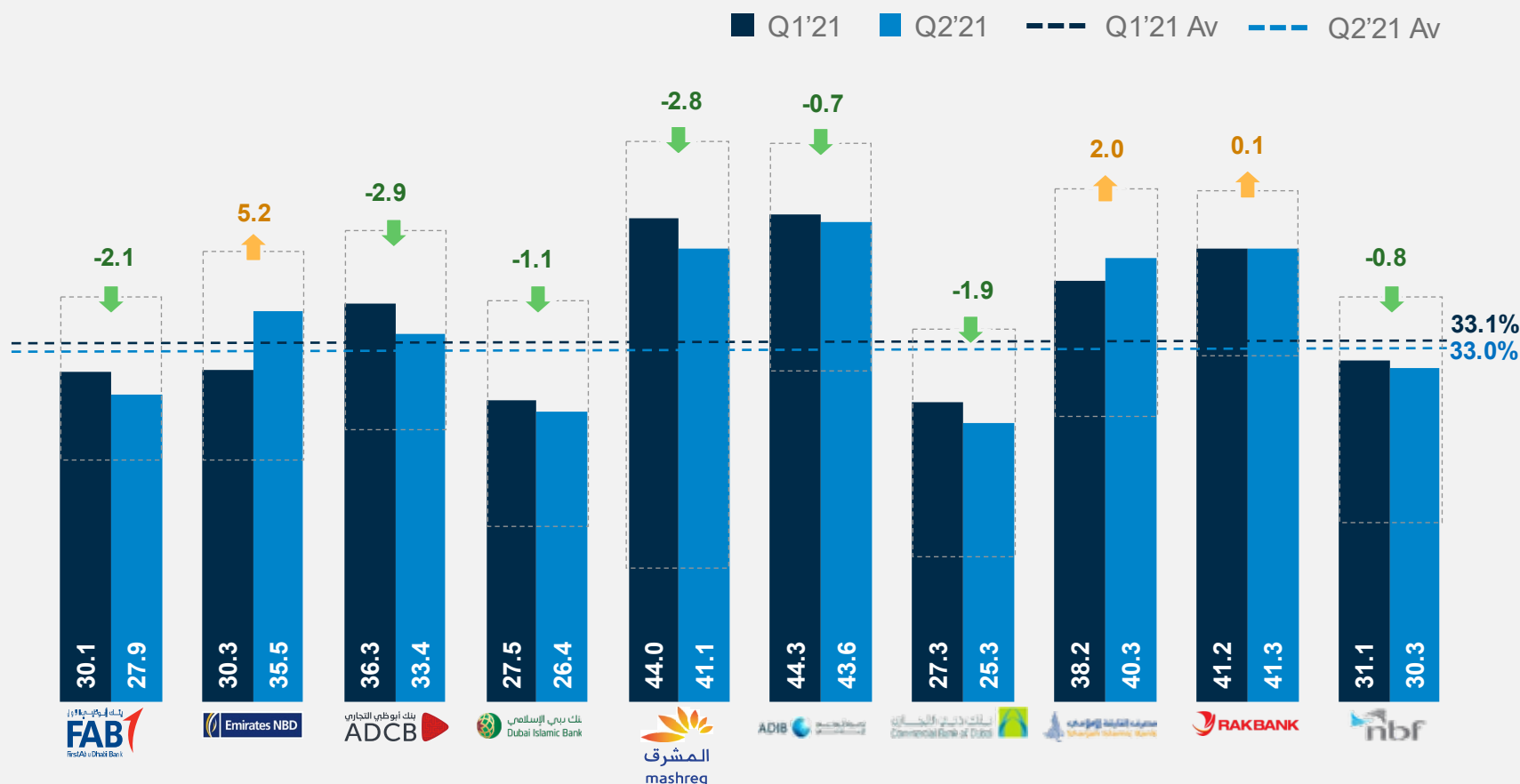
KEY TAKEAWAYS

- C/I ratio decreased marginally to 33.0% as SG&A expenses grew at a slower pace compared to the operating income
- ADCB (-5.2% points QoQ) reported highest improvement in C/I ratio, driven by lower administration costs (-5% QoQ)
- Cost rationalization along with increased digitization exercise were among the key drivers for C/I ratio improvement

Efficiency Ratios of ADCB and MSQ Witnessed the Highest Improvement

→ Improved ← Stable → Worsened

Cost to Income Ratio (% , Quarterly)



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

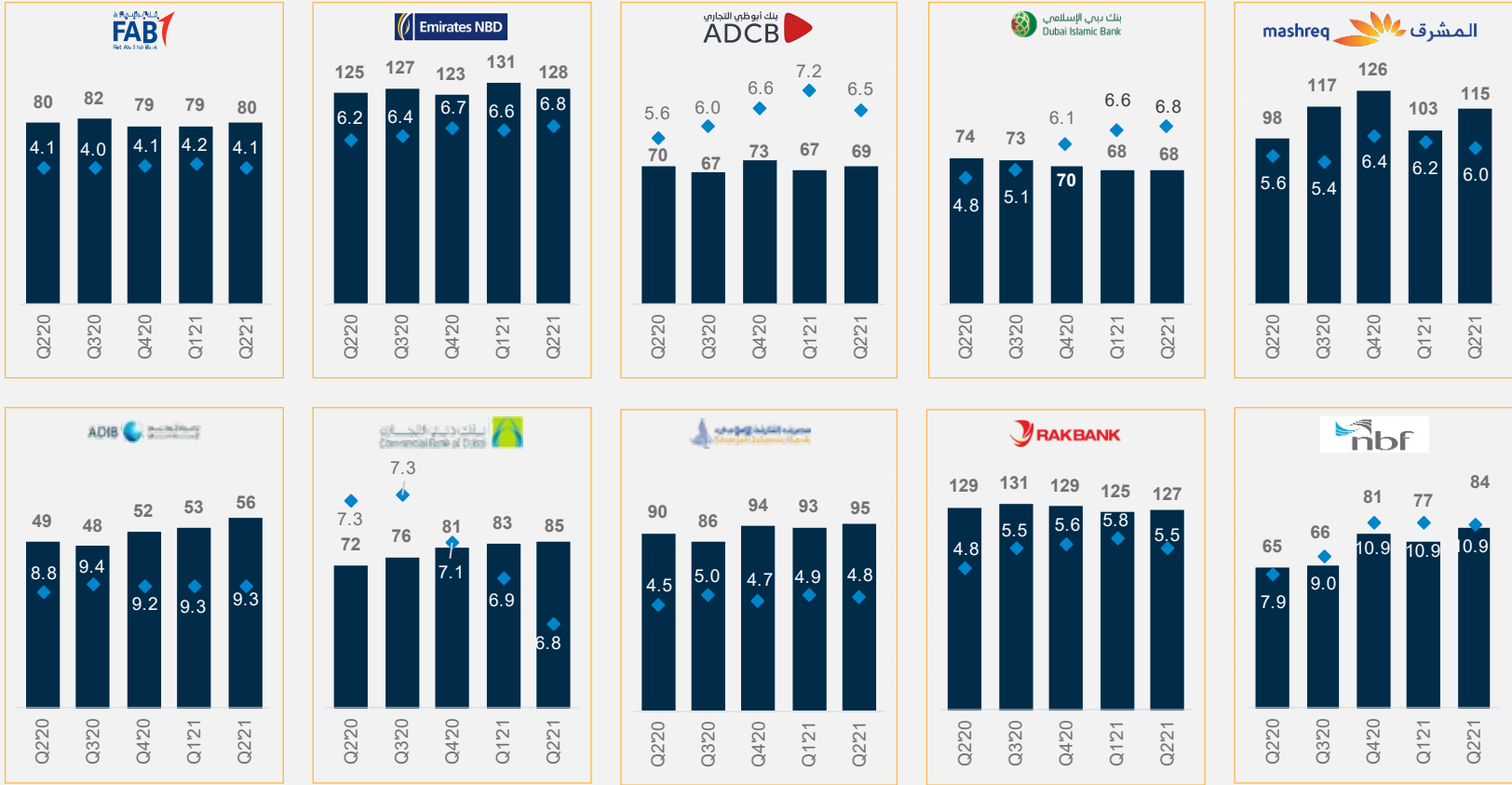
KEY TAKEAWAYS

- Seven of the top ten banks reported improvement in C/I ratio
- ADCB's C/I ratio improved the most (-2.9% points QoQ), followed by MSQ (-2.8% points QoQ)
 - ADCB's operating expenses decreased by just 0.5% QoQ, while MSQ was able to reduce its expenses by 3% QoQ
- FAB's C/I ratio improved 2.1% points QoQ (expenses up 10% QoQ), as the bank deployed cost saving initiatives and generated synergies from Bank Audi Egypt's integration
- CBD's operating expenses increased by ~9% QoQ, while its C/I ratio decreased by 1.9% points
- ENBD's C/I ratio deteriorated the most by 5.2% points QoQ followed by SIB (+2.0% points QoQ)
 - ENBD's C/I ratio deteriorated on the back of lower operating income and higher costs

Asset Quality Appears to Have Stabilized After Deteriorating in 2020; Only Three Banks have Coverage Ratio of 100%+

Coverage Ratio, % NPL / Net loans, %

Coverage Ratio¹ and NPL / Net Loans Ratio (% , Quarterly)



KEY TAKEAWAYS

- Aggregate coverage ratio for the banks increased to 92.3% from 91.0%
 - UAE banks need to book AED 16.9 bn worth of more provisions (12% more than FY'20 provisions) to have 100% coverage ratio
- Coverage ratio of MSQ (+12.2% points QoQ) and NBF (+6.7% points QoQ) increased the most
- ENBD reported a fall in coverage ratio from 130.6% in Q1'21 to 127.7% in Q2'21
- Aggregate NPL / net loan ratio declined in Q2'21 after increasing for six consecutive quarters to reach 6.2%

NPL/Net Loans Ratio (Aggregate)

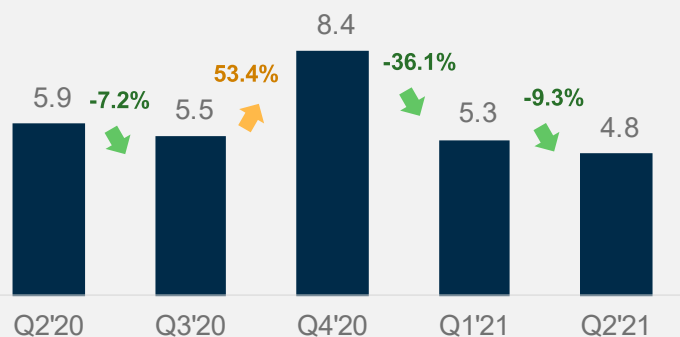


Note: Scaling and some numbers might not add up due to rounding
Source: Financial statements, investor presentations, A&M analysis, ¹ accumulated allowance for impairment / NPL

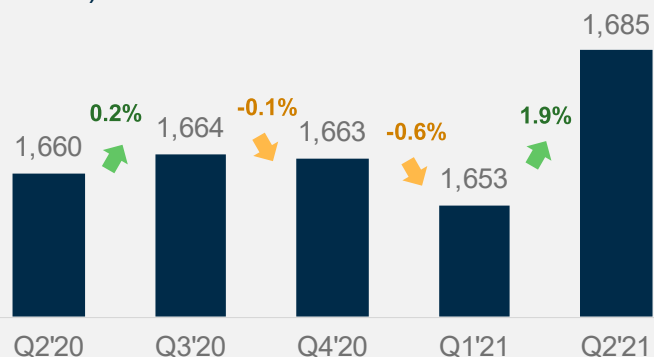
Lower Provisioning by Banks Underline an Improved Credit Outlook

→ Improved ← Stable → Worsened

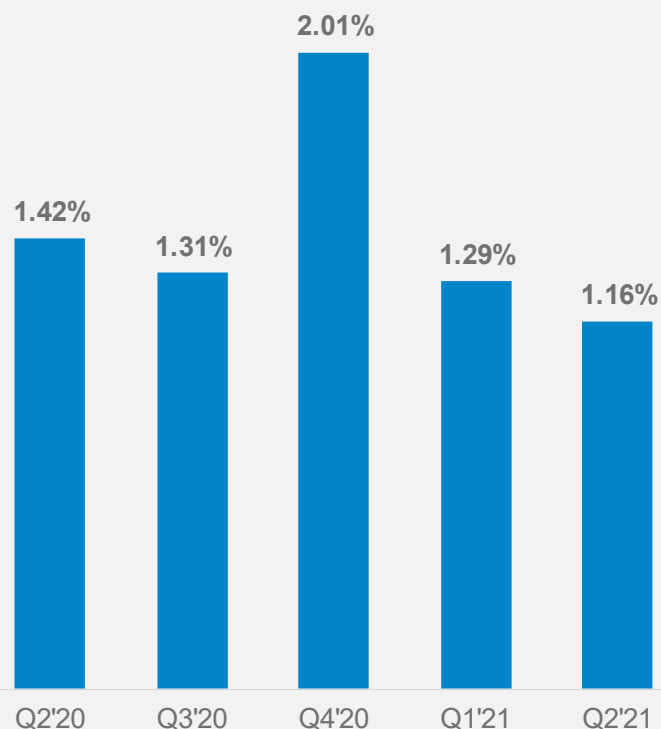
Quarterly Net Loan Loss Provisions
(AED Bn)



Average Gross Loans
(AED Bn)



Cost of Risk
(%, Quarterly Annualized)



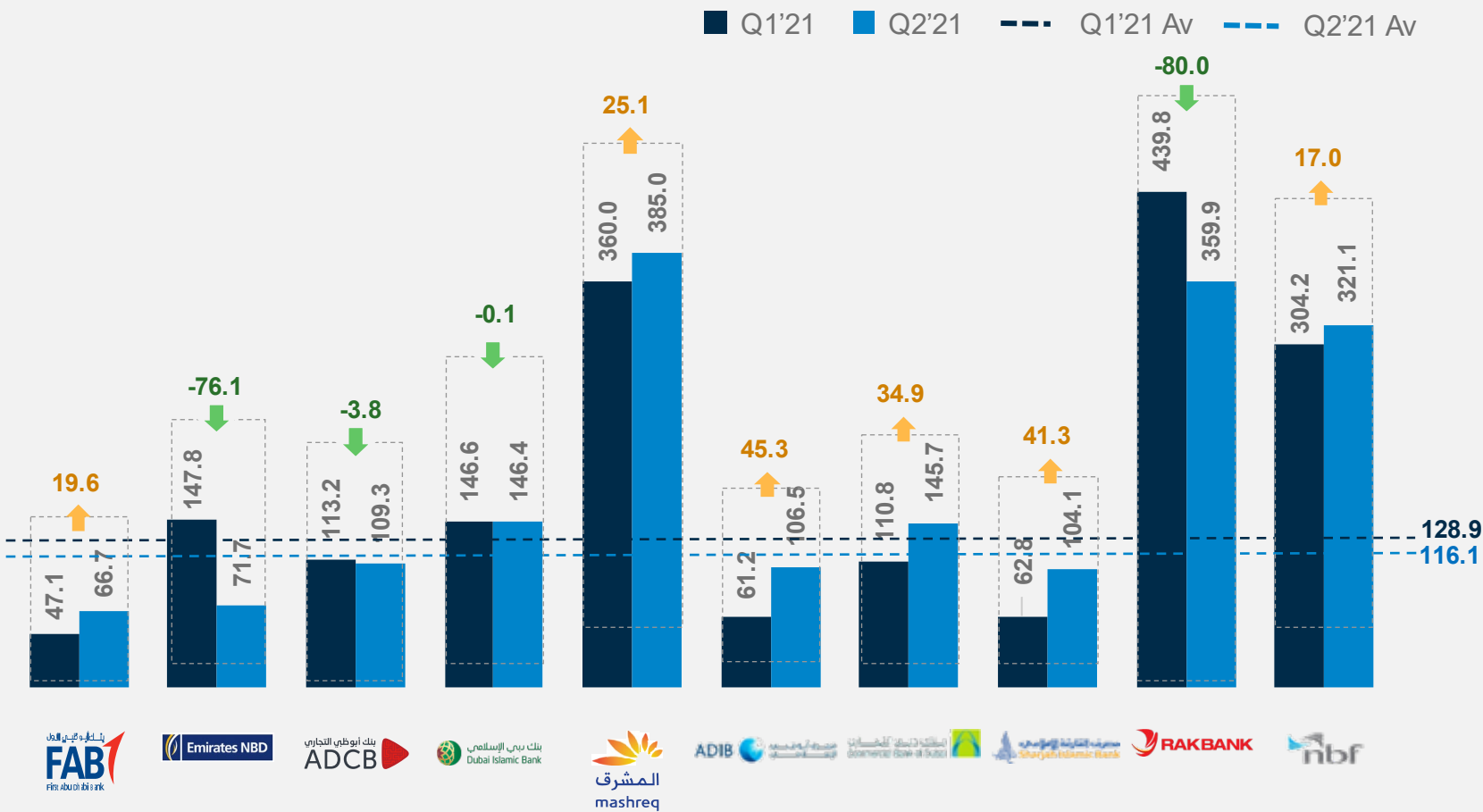
KEY TAKEAWAYS

- Aggregate cost of risk decreased by ~13 bps QoQ, as total provisioning decreased ~9.3% to AED 4.8bn
 - Provisioning reduced on the back of improving economic situation and as UAE customers continue to repay their dues
- ENBD (-52% QoQ) and RAK (-17% QoQ) reported the largest decrease in provisioning during the quarter

Aggregate Cost of Risk Reduced, as ENBD, ADCB and RAK Reported Lower Provisioning

→ Improved ← Stable → Worsened

Cost of Risk (bps) – Net of Reversals



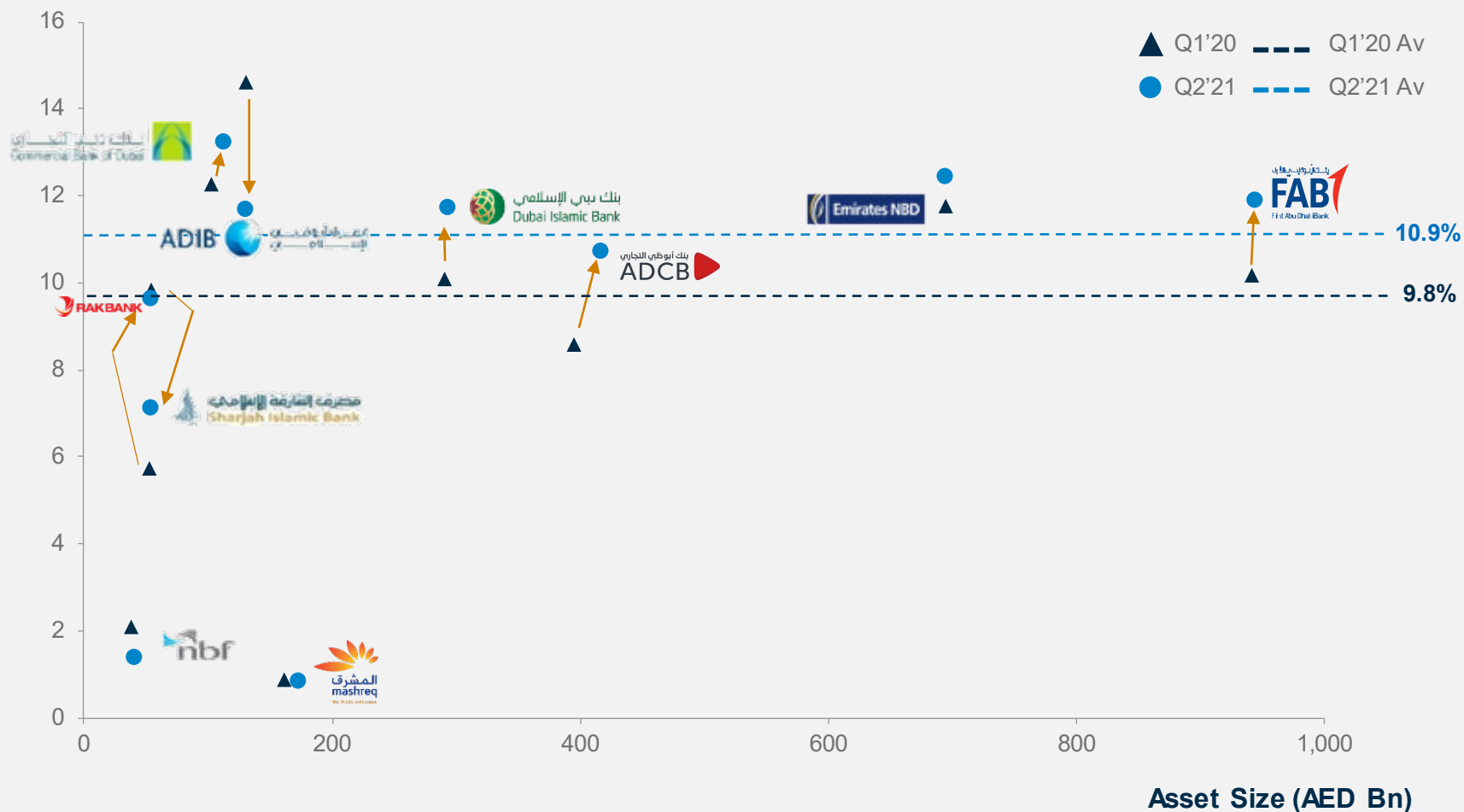
KEY TAKEAWAYS

- Aggregate cost of risk fell 12.8 bps QoQ, despite six of the top ten banks reporting increased cost of risk
- RAK (-80.0 bps QoQ) and ENBD (-76.1 bps QoQ) reported the highest decline in cost of risk
- RAK’s cost of risk fell, as the bank reported lower provisioning in its credit card and personal loan portfolio
- ADIB (+45 bps QoQ), SIB (+41 bps QoQ) and CBD (+35 bps QoQ) were among the banks which reported major increase in cost of risk

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

Aggregate RoE Reaches its Highest Level in Last Five Quarters

Return on Equity (%)

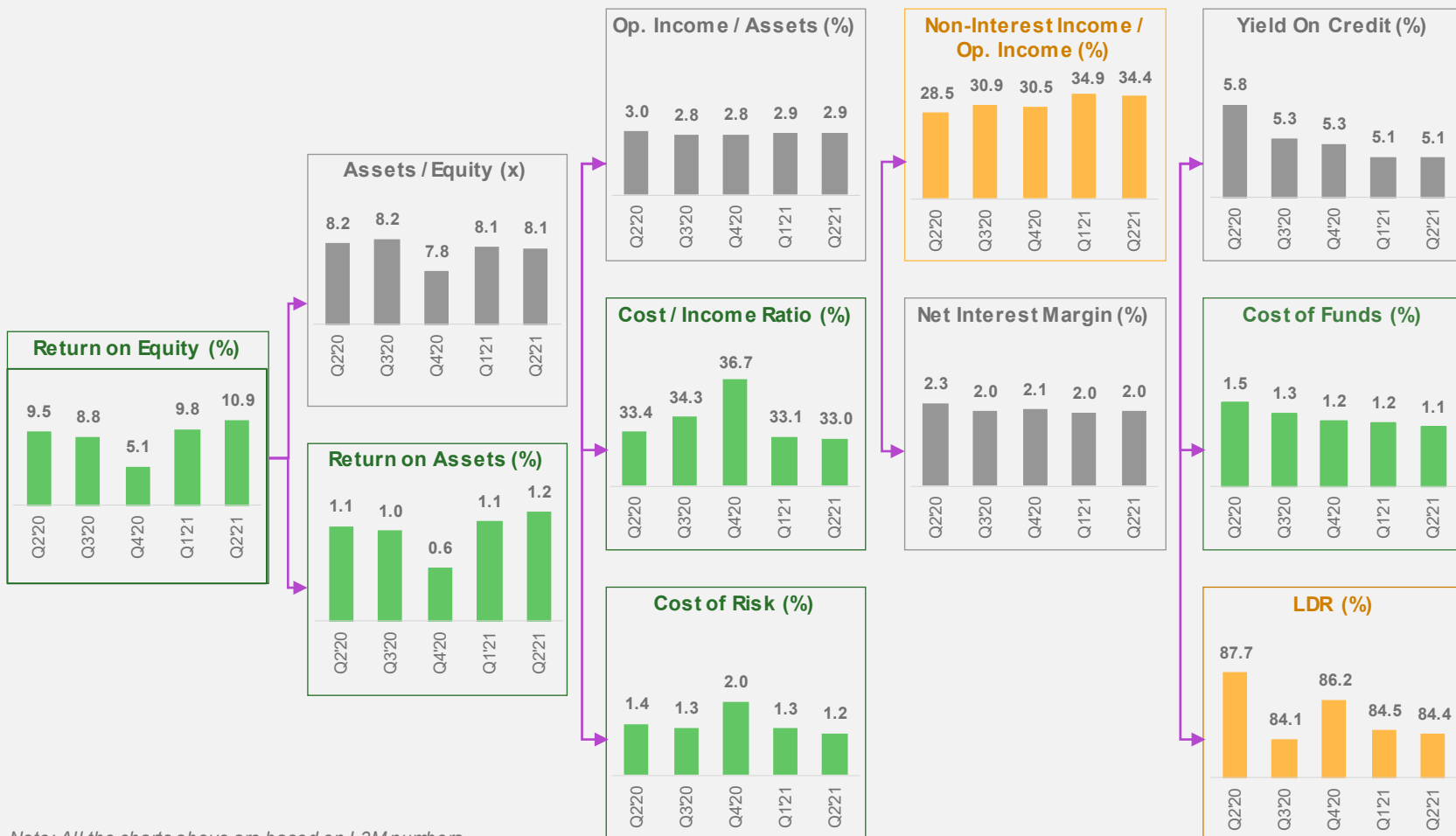


KEY TAKEAWAYS

- Aggregate RoE improved from 9.8% in Q1'21 to 10.9% in Q2'21, as net income increased 11.5% QoQ
 - Aggregate RoE has moved to be double-digits as the economic conditions continue to improve
- RAK, FAB and DIB reported substantial increase in RoEs as all the three banks have reported sequential increase in net profit
- On the other hand, ADIB reported a decline in RoE (11.7% vs 14.6% in Q1'21), as the bank reported a 75% increase in provisioning

UAE Banking Sector Showing Green Shoots Amid a Fragile Economic Environment

■ Improved ■ Stable ■ Worsened



Note: All the charts above are based on L3M 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

- Continued improvement in profitability provides some early signs of recovery in the banking sector
- Central bank's Q2'21 credit sentiment survey disclosed that the domestic credit demand remains strong across all sections of the economy
 - Mortgage market in Dubai remains particularly strong, with a 91% increase in mortgage completions during YTD June'21
- However, US Fed's commitment to maintain interest rates at current low levels would keep income streams for UAE banks under pressure
 - Thus, the banks are expected focus on rationalizing their costs to improve profitability

GCC Banking Consolidation

GCC list of M&A transactions in banking sector since January 2019

Announcement Date	Target Company	Target Country	Acquirer Company	% Sought	Consideration (AED Mn)	Deal Status*
20-Jan-21	Bank Audi SAE (Egypt)	Egypt	First Abu Dhabi Bank PJSC	100%	NA	Completed
16-Sep-20	Ahli United Bank Egypt SAE	Egypt	Ahli United Bank BSC	14.4%	298	Pending
30-Jun-20	Al Khaliq Commercial Bank PQSC	Qatar	Masraf Al Rayan QSC	100%	4,404	Pending
25-Jun-20	Samba Financial Group SJSC	Saudi Arabia	National Commercial Bank SJSC	100%	57,252	Completed
31-Dec-19	Alizz Islamic Bank SAOG	Oman	Oman Arab Bank SAOC	81%	NA	Completed
12-Sep-19	Ahli United Bank BSC	Bahrain	Kuwait Finance House KSCP	100%	21,431	Pending
15-Aug-19	Cqur Bank LLC	Qatar	VTB Bank PJSC	19%	NA	Completed
08-Aug-19	DenizBank AS	Turkey	Emirates NBD PJSC	0.20%	NA	Completed
20-Jun-19	Warba Bank KSCP	Kuwait	Kuwait & Middle East Financial Investment Co KSCP	75.70%	NA	Proposed
12-May-19	Gulf Bank KSCP	Kuwait	Alghanim Industries Ltd	16%	NA	Completed
21-Apr-19	HSBC Saudi Arabia Ltd	Saudi Arabia	HSBC Holdings PLC	2%	31	Completed
10-Apr-19	Invest bank PSC	UAE	Emirate of Sharjah United Arab Emirates	50%	989	Completed
07-Apr-19	Noor Bank PJSC	UAE	Dubai Islamic Bank PJSC	100%	NA	Completed
03-Apr-19	Oman United Exchange Co	Oman	Private Investor	25%	NA	Completed
15-Mar-19	Banque Saudi Fransi	Saudi Arabia	Olayan Investments, Ripplewood Advisors LLC	5%	1,609	Completed
29-Jan-19	Union National Bank PJSC	UAE	Abu Dhabi Commercial Bank PJSC	100%	11,531	Completed
29-Jan-19	Al-Hilal Bank PJSC	UAE	Abu Dhabi Commercial Bank PJSC	100%	NA	Completed

Source: Bloomberg

*Proposed Status: Board suggests shareholders to consider the acquisition

*Pending Status: Acquisition has announced

*Completed Status: Acquisition has completed

Glossary






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	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		QoQ growth in EOP net loans and advances for the top 10
	Deposits Growth		QoQ 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		QoQ 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

Glossary (cont'd.)

Bank	Assets (AED Bn)*	Abbreviation	Logo
First Abu Dhabi Bank	943.6	FAB	
Emirates NBD	693.8	ENBD	
Abu Dhabi Commercial Bank	416.3	ADCB	
Dubai Islamic Bank	293.8	DIB	
Mashreq Bank	172.8	MSQ	
Abu Dhabi Islamic Bank	130.6	ADIB	
Commercial Bank of Dubai	112.8	CBD	
Sharjah Islamic Bank	54.4	SIB	
National Bank of Ras Al-Khaimah	54.3	RAK	
National Bank of Fujairah	41.1	NBF	

Note: Banks are sorted by assets size
 • As on 30th June 2021