



UAE Banking Pulse

Year Ending 31st December 2020



الإمارات
THE EMIRATES

FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the 2020 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.

In this edition, we have made a change to our coverage universe by replacing Emirates Islamic Bank (EIB) with National Bank of Fujairah (NBF), as Emirates NBD reports consolidated financials including EIB. Hence, for consistency of comparison, all historical quarters data has been adjusted to include NBF instead of EIB.

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.

We hope that you will find the Pulse useful and informative.



Disclaimer:

The information contained in this document is of a general nature and has been obtained from publicly available information plus market insights. The information is not intended to address the specific circumstances of an individual or institution. There is no guarantee that the information is accurate at the date received by the recipient or that it will be accurate in the future. All parties should seek appropriate professional advice to analyze their particular situation before acting on any of the information contained herein

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Pulse: Low Interest Rate Environment and Sluggish Economic Conditions Weighed on Profitability and Return Metrics

→ Improved ← Stable → Worsened

	Metric	2019	2020	2017	2018	2019	2020
Size	Loans and Advances (L&A) Growth (YoY)	13.2%	↓ 1.4%				
	Deposits Growth (YoY)	11.9%	↓ 3.0%				
Liquidity	Loan-to-Deposit Ratio (LDR)	87.5%	↓ 86.2%				
Income & Operating Efficiency	Operating Income Growth (YoY)	8.2%	↓ -4.1%				
	Operating Income / Assets	13.8%	↓ 12.1%				
	Non-Interest Income(NII) / Operating Income	31.1%	↓ 29.9%				
	Yield on Credit (YoC)	7.1%	↓ 5.8%				
	Cost of Funds (CoF)	2.2%	↓ 1.5%				
	Net Interest Margin (NIM)	2.5%	↓ 2.3%				
	Cost-to-Income Ratio (C/I)	33.5%	↑ 34.5%				
Risk	Coverage Ratio	96.6%	↓ 91.9%				
	Cost of Risk (CoR)	1.0%	↑ 1.7%				
Profitability	Return on Equity (RoE)	13.3%	↓ 7.7%				
	Return on Assets (RoA)	1.6%	↓ 0.9%				
	Return on Risk-Weighted Assets (RoRWA)	2.4%	↓ 1.4%				
Capital	Capital Adequacy Ratio (CAR)	17.2%	↑ 17.6%				

Key Trends of 2020

- 1 Growth in L&A and deposits during FY'20 slowed substantially to 1.4% and 3.0%, respectively
- 2 LDR decreased to 86.2% during FY'20 due to higher increase in deposits compared to L&A
- 3 Operating income fell due to decline in Net Interest Income by 2.4% and Net Fee income by 8.9%
- 4 NIM compressed to 2.3% during FY'20, on the back of low interest rate environment
- 5 Operating efficiency (C/I ratio) deteriorated, as operating income decreased at a higher rate compared to operating expenses
- 6 Challenging economic environment resulted in 79% increase in provisions and 69 bps rise in cost of risk
- 7 RoE fell to single digits, as net income dropped by ~38% during the period
- 8 On the positive side, capital adequacy ratio increased from 17.2% in December'19 to 17.6% in December'20

Note 1: YoY stand for year over year

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

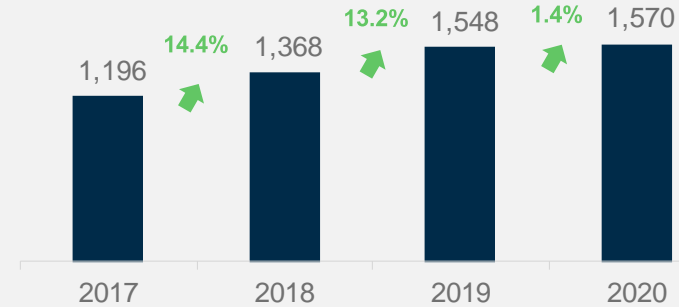
Note 3: Annual income was used in the calculation of operating income growth

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

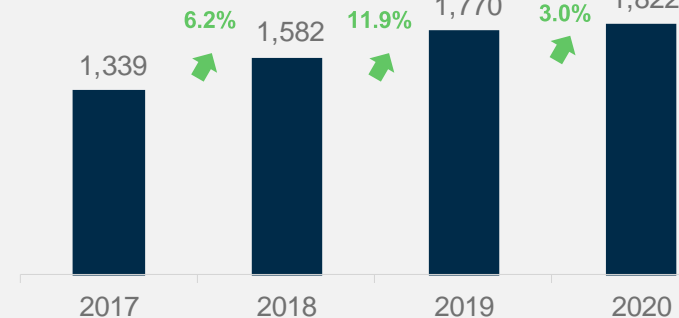
L&A Growth Slowed Considerably as Pandemic Impacted Economic Activities

➔ Improved ↔ Stable ➔ Worsened

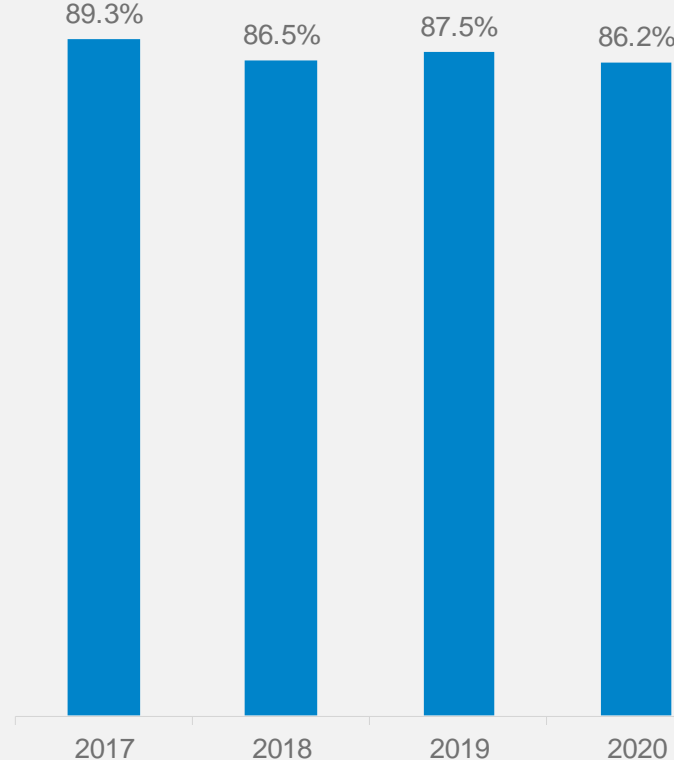
Total Loans and Advances (L&A)
(AED Bn)



Total Deposits
(AED Bn)



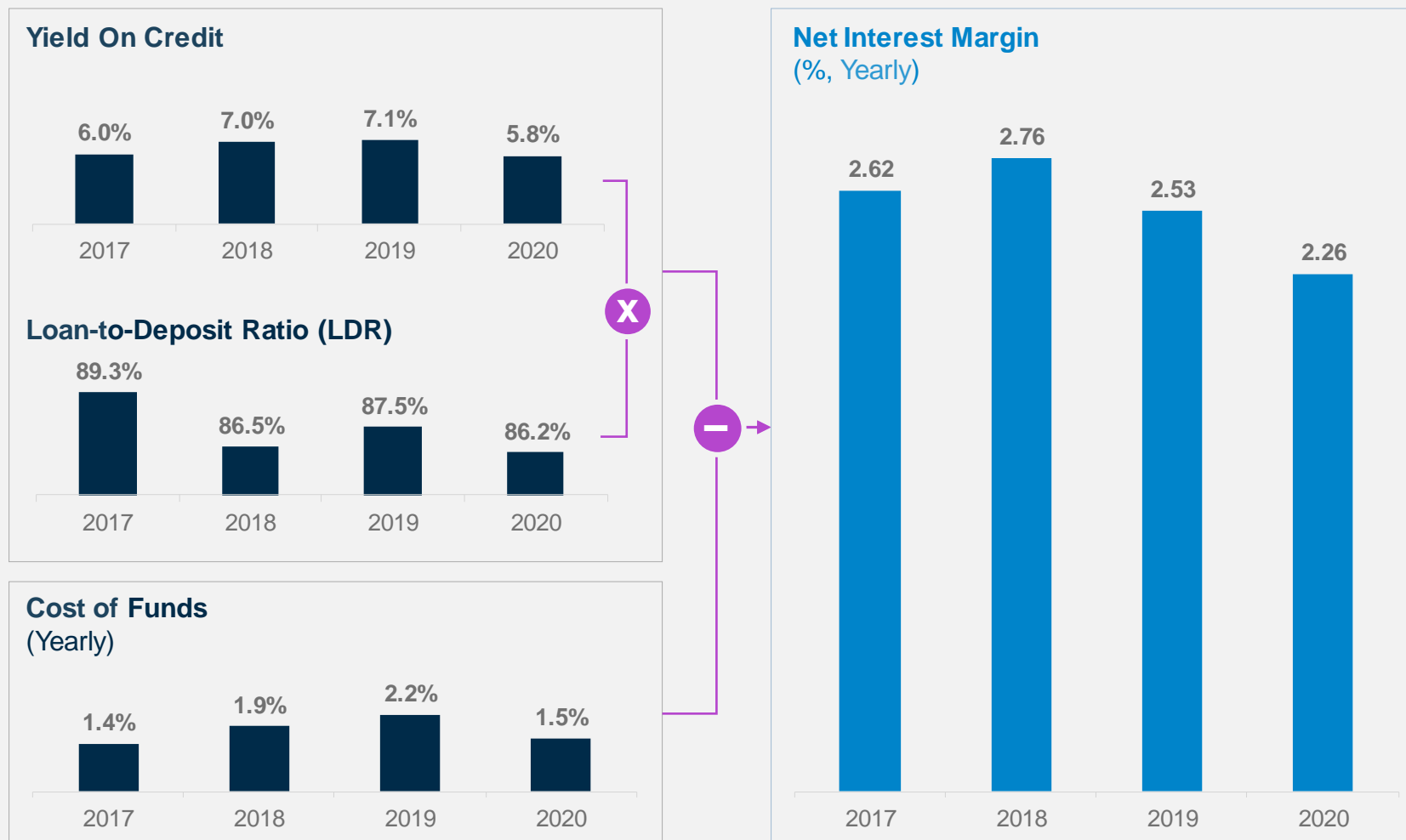
Loan-to-Deposit Ratio
(%, Yearly)



KEY TAKEAWAYS

- Aggregate L&A for banks grew at a marginal rate (+1.4%) in FY'20, on the back of sluggish economic environment due to the outbreak of pandemic
 - DIB (30.3%) reported the highest increase in L&A, largely due to the acquisition of Noor Bank
 - RAK (-13.1%) and NBF (-8.3%) reported the highest decline in L&A
- Similarly, deposits increased at a modest rate of 3.0%, after growing at a double digit rate of 11.9% in FY'19
- Consequently, aggregate LDR fell to 86.2% from 87.5%

NIM Compressed Further as System-wide Rates Reached Multi-Year Low Levels



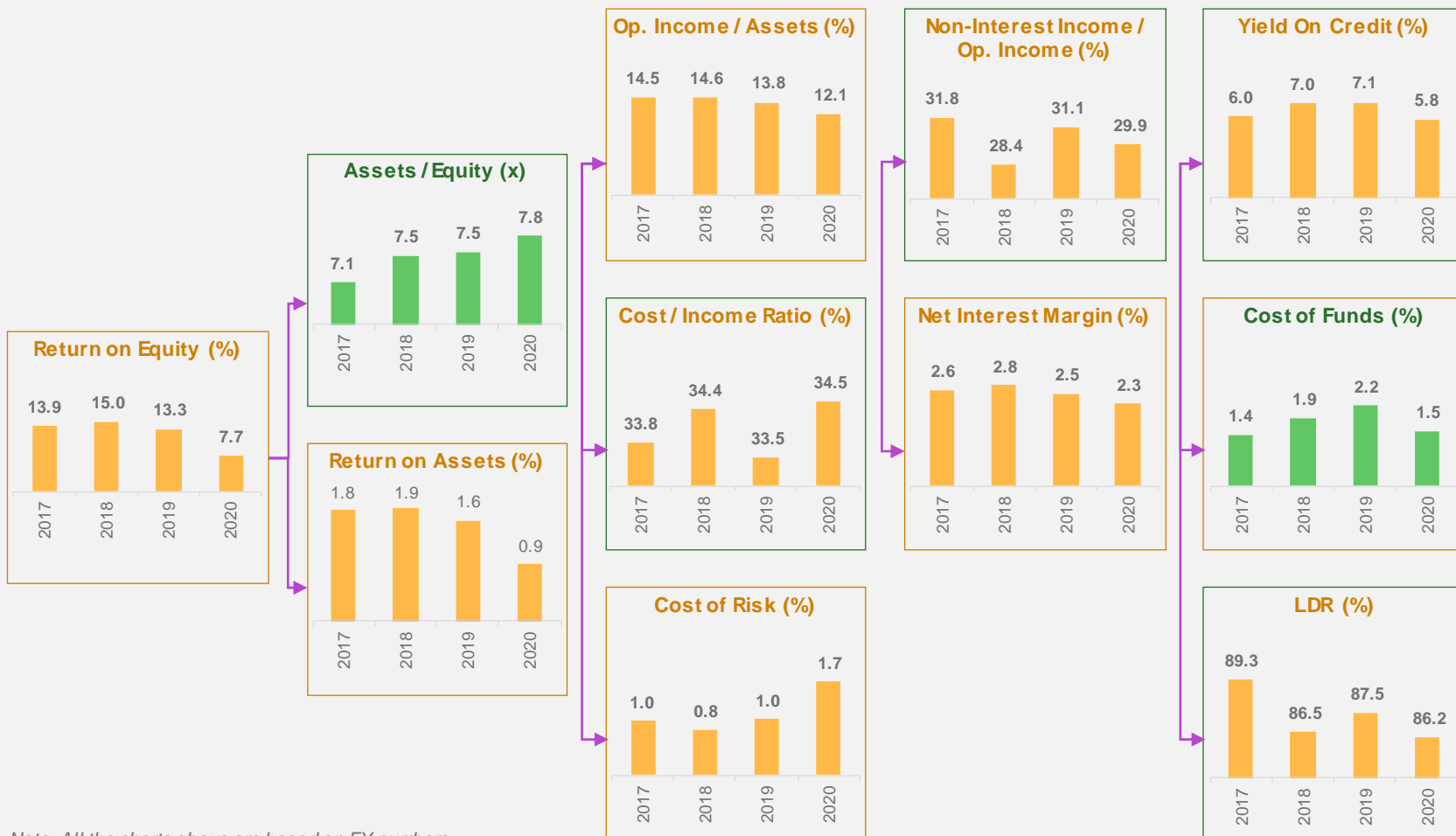
Note: Relation between elements above represents a functionality and not necessarily an exact mathematical formula
Source: Financial statements, Investor presentations, A&M analysis

KEY TAKEAWAYS

- NIM deteriorated to 2.3% during FY'20 as compared to 2.5% in FY'19
- The primary reasons for deterioration was the low interest environment, as the UAE's central bank reduced benchmark rates by 125 bps
- MSQ (-86 bps) and RAK (-54 bps) reported the highest decrease in NIM
- Aggregate yield on credit declined by 129 bps YoY, while cost of funds fell 69 bps YoY

UAE's Banking Sector to Witness Less Volatility During FY'21 Amid Optimism About a Partial Recovery from the Pandemic

■ Improved
 ■ Stable
 ■ Worsened



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 slipped to single digits during FY'20, as total income fell 4%, while impairments increased ~79%
- While there could be some spill-over effect of the pandemic in H1'21 on the banking sector, the year is expected to remain less volatile
- Events such as Expo and a gradual economic improvement are expected to be the key catalysts for the sector in the near term
- However, interest rates are likely to remain low in the foreseeable future that would impact income streams for banks

Glossary













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	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

Glossary (cont'd.)

Bank	Assets (AED Bn)*	Abbreviation	Logo
First Abu Dhabi Bank	919.1	FAB	
Emirates NBD	698.1	ENBD	
Abu Dhabi Commercial Bank	411.2	ADCB	
Dubai Islamic Bank	289.6	DIB	
Mashreq Bank	158.5	MSQ	
Abu Dhabi Islamic Bank	127.8	ADIB	
Commercial Bank of Dubai	97.4	CBD	
Sharjah Islamic Bank	53.6	SIB	
National Bank of Ras Al-Khaimah	52.8	RAK	
National Bank of Fujairah	39.9	NBF	

Note: Banks are sorted by assets size
* As on 31st December 2020