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# UAE Banking Pulse

Quarter 1, 2021

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الإمارات  
THE EMIRATES

# FOREWORD

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Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q1'21 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.

Top ten UAE banks started the year on a mixed note, as total net income rebounded sharply (+85% QoQ), while loan & advances continued to contract (-0.7% QoQ). Asset quality deteriorated for the sixth straight quarter, with NPL/net loans ratio reaching 6.3%. The extension of the TESS program until June'22 has delayed a likely deterioration of the sector's asset quality.

Despite a strong increase in RoE (+4.7% points QoQ), it still remains in single digits (9.7%). While there has been an improvement in profitability metrics, the recovery path for the sector remains fairly long.

We hope 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*

# Author

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## Asad Ahmed

Managing Director  
Head of ME Financial Services

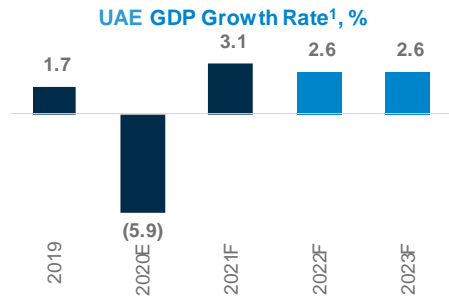
- 30+ years of experience in banking
- Focuses on performance improvement, turn-around, credit management, and formulating and managing strategic and operational changes in financial institutions
- Former CEO of banks in the UAE & Kenya

### CONTACT DETAILS

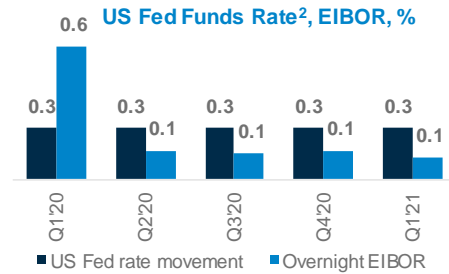
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# UAE Macro & Sector Overview

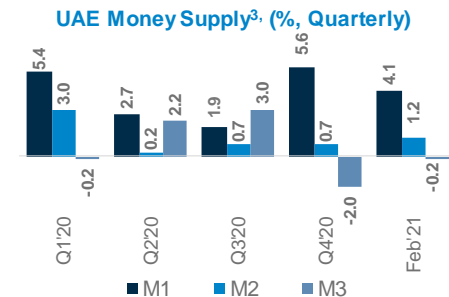
## Macro overview



- **The IMF, in its April'21 review, upgraded UAE's economic growth forecast to +3.1% from +1.3% for FY'21, citing swift vaccination drives in the country**
- Average Q1'21 UAEs Purchasing Managers' Index (PMI) increased to 51.5 compared to 50.1 in Q4'20, supported by boost in business confidence
- **The country's Economy Minister announced a plan to double the size of the economy to AED 3tn by FY'31, through the means of technological adoption**



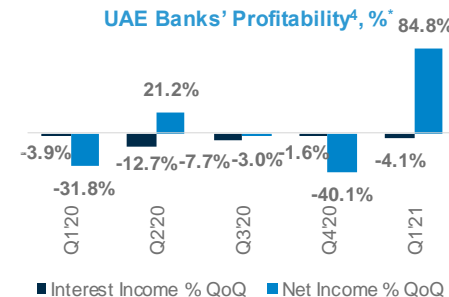
- In April'21, the US Fed reaffirmed to keep interest rate at record low levels until substantial progress in labor market is witnessed. However, risks of higher inflation could potentially challenge the Fed's stance over the coming period
- The overnight EIBOR saw a marginal decrease in Q1'21 by ~3.5 bps to 0.11% compared to Q4'20
- The UAE's central bank has extended its TESS program until the end of June'22 to offset the impact of pandemic. The banks' draw down under the scheme reached AED 22bn as on March'21 from AED 44bn in Q2'20



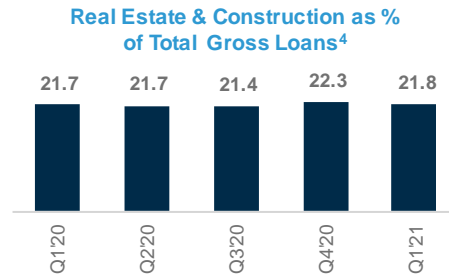
- M2 money supply rose by 1.2% during Dec'20 - Feb'21 to AED 1,496.0bn. It increased by 4.9% YoY
- M2 money supply increased as quasi monetary deposits grew by 4.6% between Dec'20 and Feb'21
- M1 money supply increased by 4.1% during Dec'20 - Feb'21 to AED 624.9bn. On an annual basis, M1 increased by 18.0%
- M3 money supply decreased by 0.2% during Dec'21 - Feb'21, due to 7.0% fall in government deposits. On an annual basis, M3 increased by 4.3%

<sup>1</sup> IMF, <sup>2</sup> US Board of Federal Reserve, <sup>3</sup> UAE Central Bank, <sup>4</sup> DIB's net income adjusted for one-time gains of AED 1.0bn on bargain purchase in 2020, <sup>5</sup> Bloomberg & A&M Analysis, <sup>6</sup> based on data of 8 banks, weighted average exposure of all banks; for consistency purpose data for all banks is captured from IR presentations \* Data for top ten UAE banks by asset size as of March 31<sup>st</sup> 2021

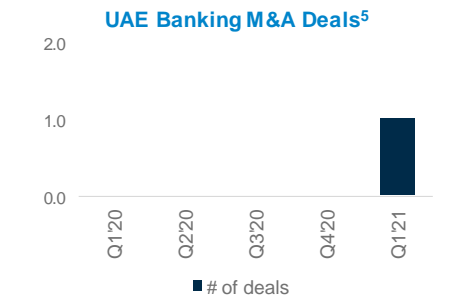
## Banking overview Q1'21



- Total interest income of top ten UAE banks continued to decline for the fifth consecutive quarter (-4.1% QoQ), on the back of persistently low interest rate environment
- Aggregate net income increased substantially by ~85% QoQ, due to decline in operating expenses and impairment charges which supported the overall profitability
- UAEs strong fiscal and external positions will continue to support the fundamentals of the banking sector. However, persistent pressure on real estate sector continue to pose increased risks for UAE banks



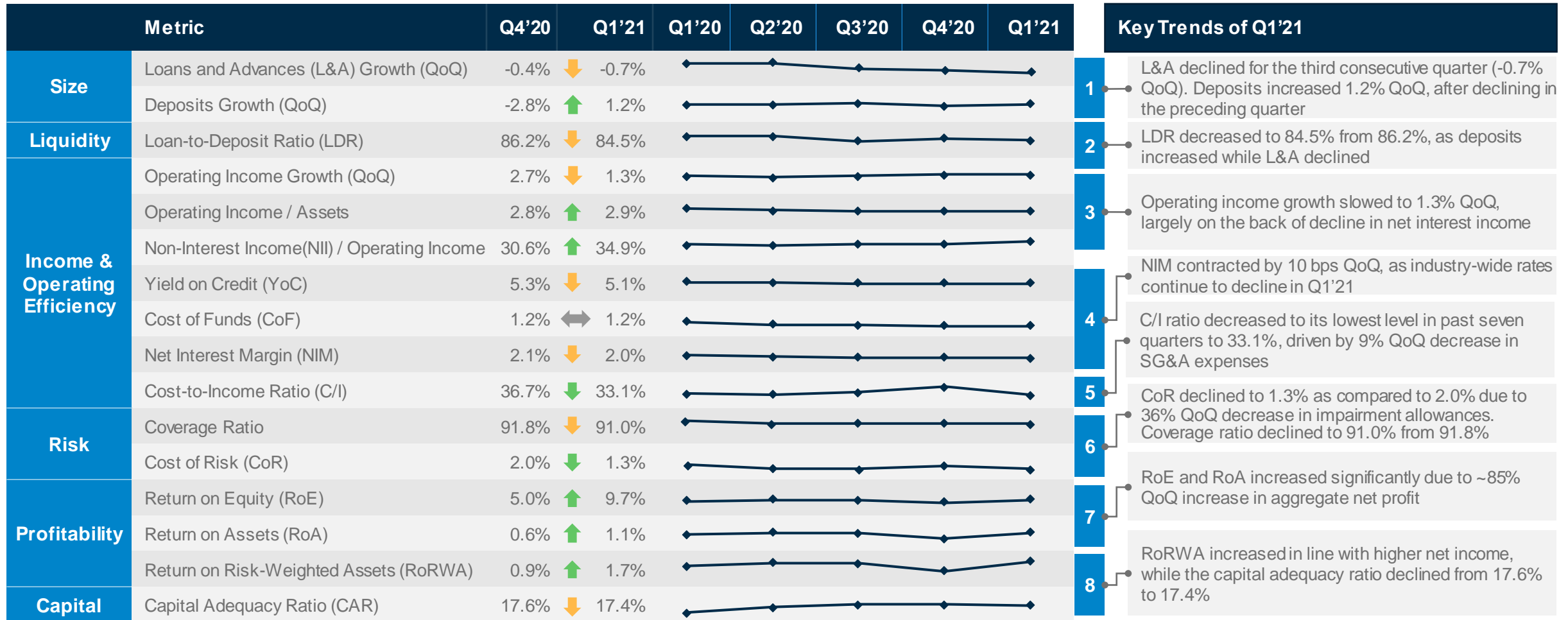
- The UAE banks' exposure to the real estate and construction sector reduced by ~50 bps<sup>6</sup> QoQ
- The ongoing headwinds in the nation's real estate market are likely to continue in the near term. The sector is expected to rebound over the medium to long term, driven by measures such as offering citizenships and golden visas



- In January'21 FAB announced plans to acquire Bank Audi SAE, the Egyptian arm of Lebanon-based Bank Audi SAL. The acquisition has been closed in April'21
- On the other hand, Emirates NBD Bank 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

# Pulse: Profitability Metrics of the UAE Banking Sector Increase, as Impairment and Operating Expenses Decline

→ Improved   ← Stable   → Worsened



Note 1: QoQ stand for quarter over quarter

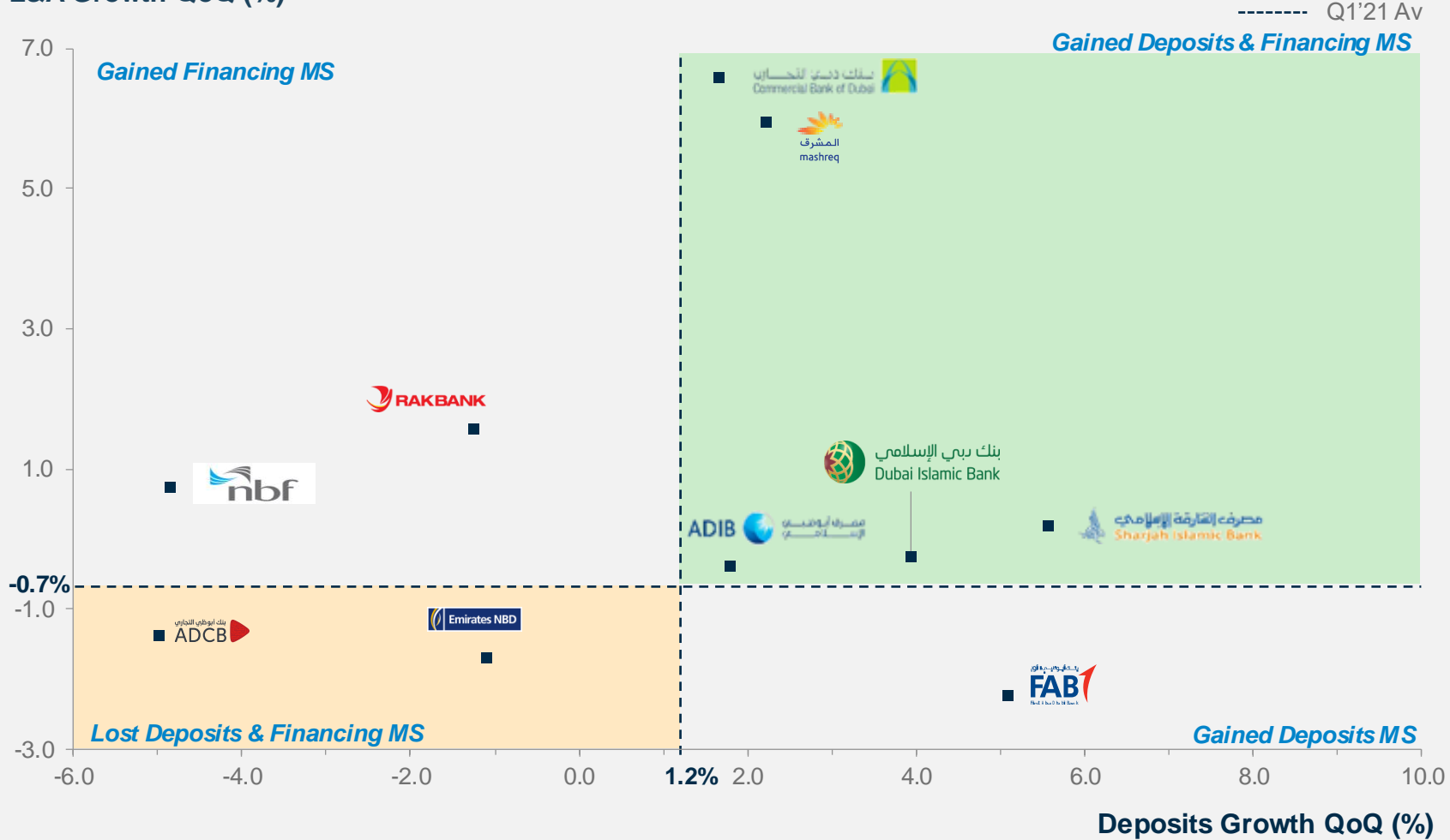
Note 2: Growth in loans & advances and deposits were presented QoQ instead of YoY

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

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

# 1 FAB Underperformed its Peers on L&A Growth, while SIB's Deposits Increased Substantially

L&A Growth QoQ (%)



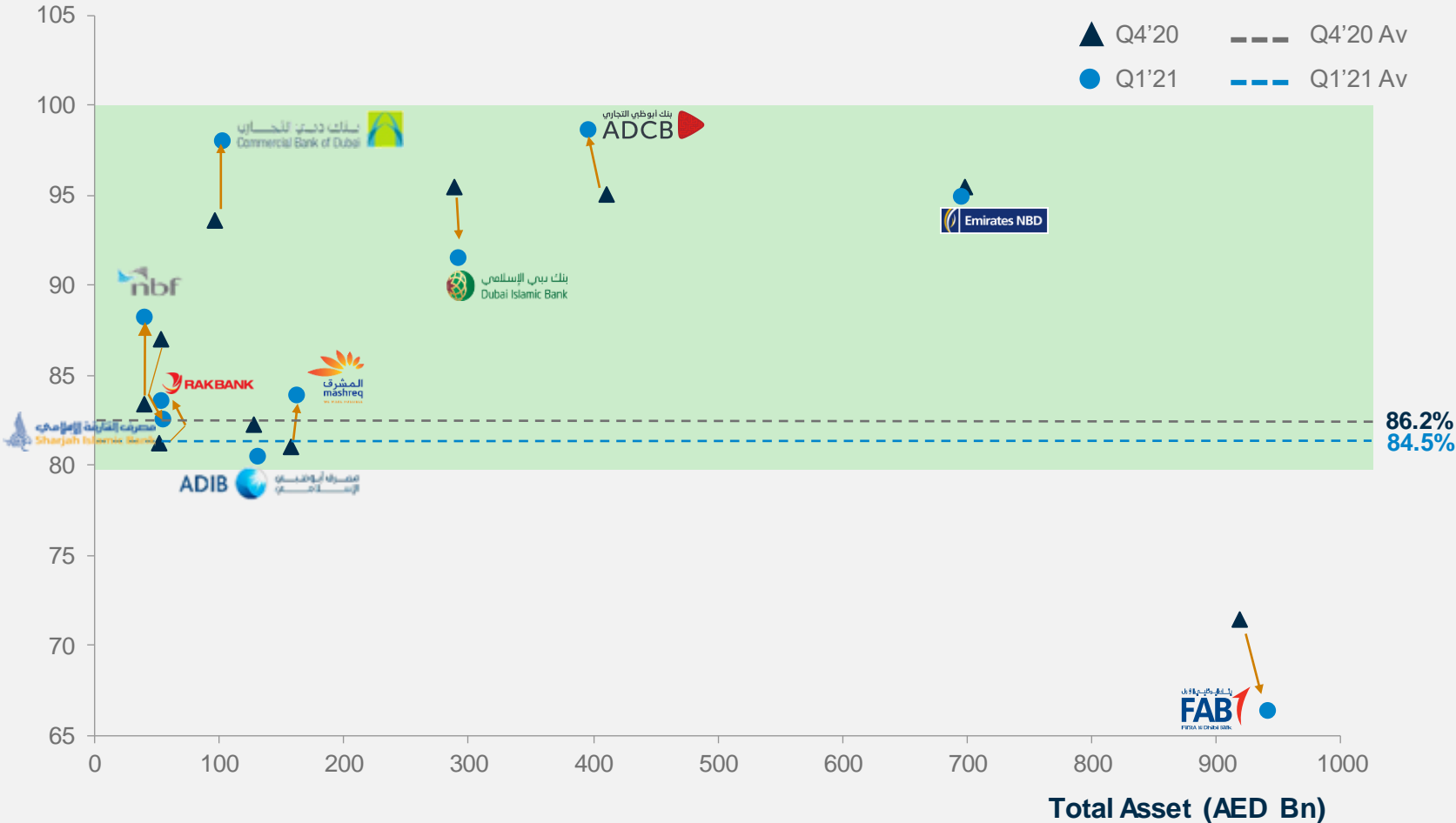
## KEY TAKEAWAYS

- Top ten UAE banks' L&A decreased by 0.7% QoQ while the deposits increased by 1.2% QoQ
- FAB's L&A fell 2.2%, on the back of muted demand and repayments in GRE loan book. CBD reported highest increase in L&A (+6.6% QoQ)
- SIB reported the highest increase in deposits (+5.6% QoQ), supported by sizeable growth in time deposits (+6.4% QoQ)
- On the other hand, ADCB witnessed the highest drop in deposits (-5.0% QoQ), as time deposits decreased 18.7% QoQ

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

## 2 Aggregate LDR Decreased After Increasing in the Preceding Quarter

Loans to Deposits Ratio (%)



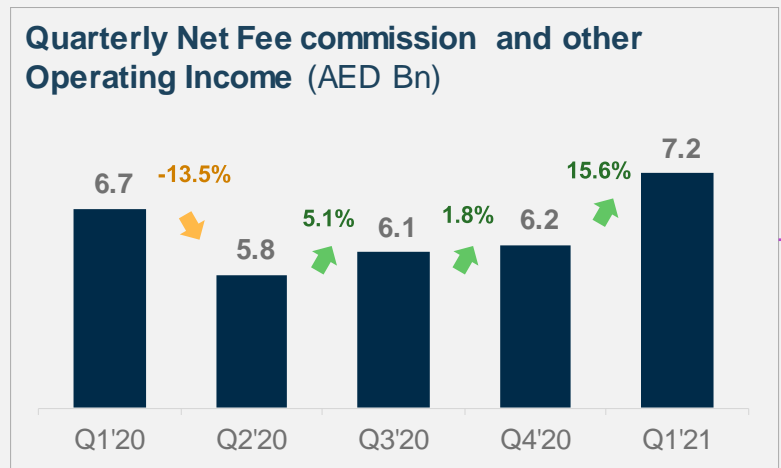
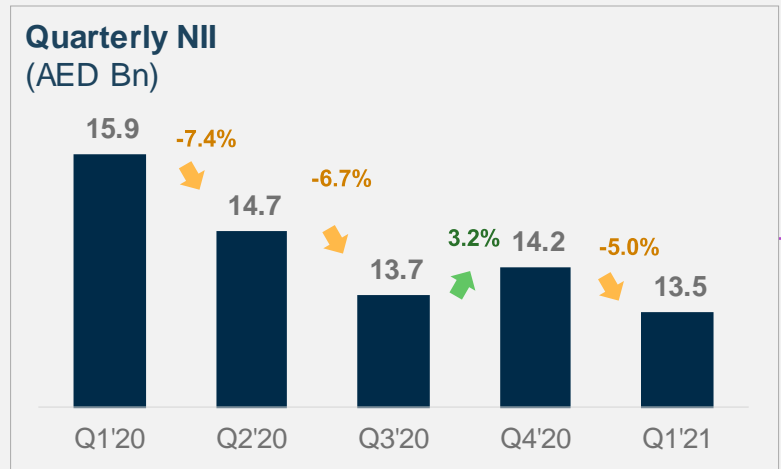
### KEY TAKEAWAYS

- Aggregate LDR decreased to 84.5% in Q1'21 compared to 86.2% in Q4'20
- FAB (-5.0% points QoQ) reported the highest decline in LDR to 66.5%
- NBF (+4.9% points) and CBD (+4.6% points) reported the highest increase in their LDR during the quarter

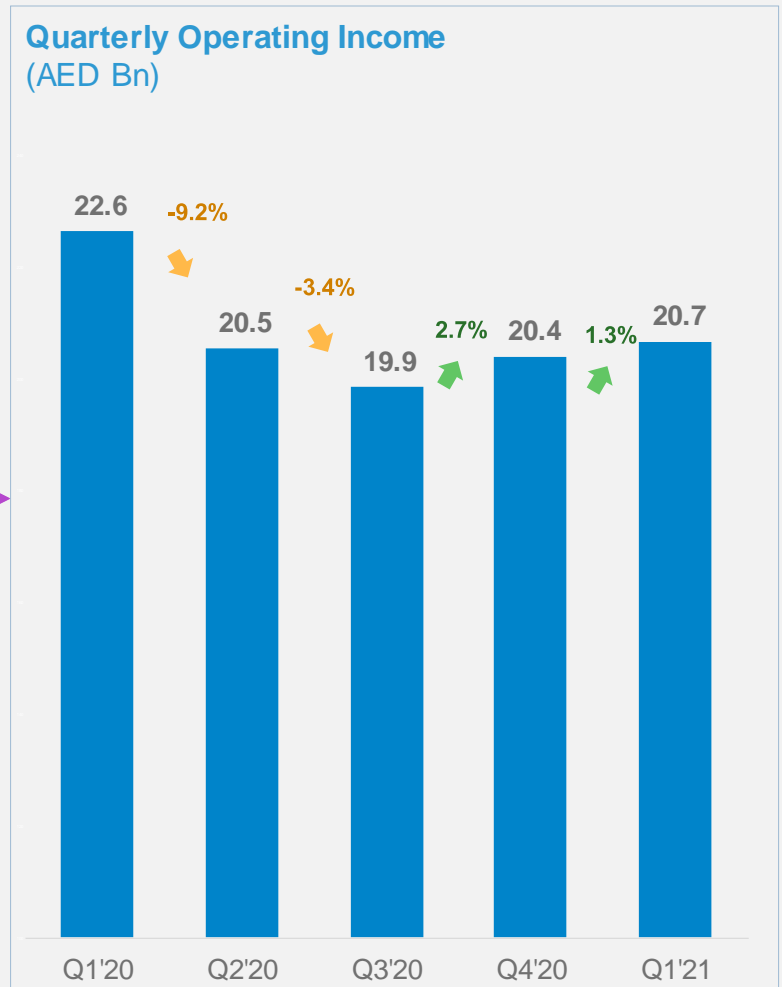
Note: The green zone is an area of healthy liquidity  
Source: Financial statements, A&M analysis

# 3 Operating Income Increased as Higher Fees and Other Operating Income Offset Reduced NII

➔ Improved    ↔ Stable    ➔ Worsened



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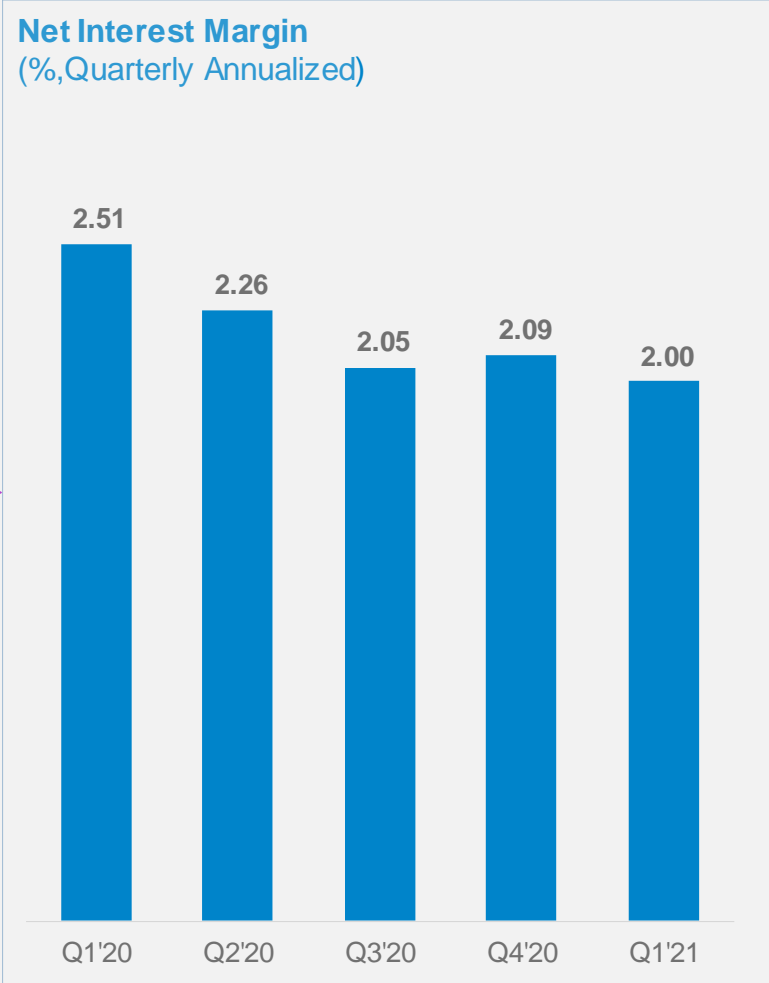
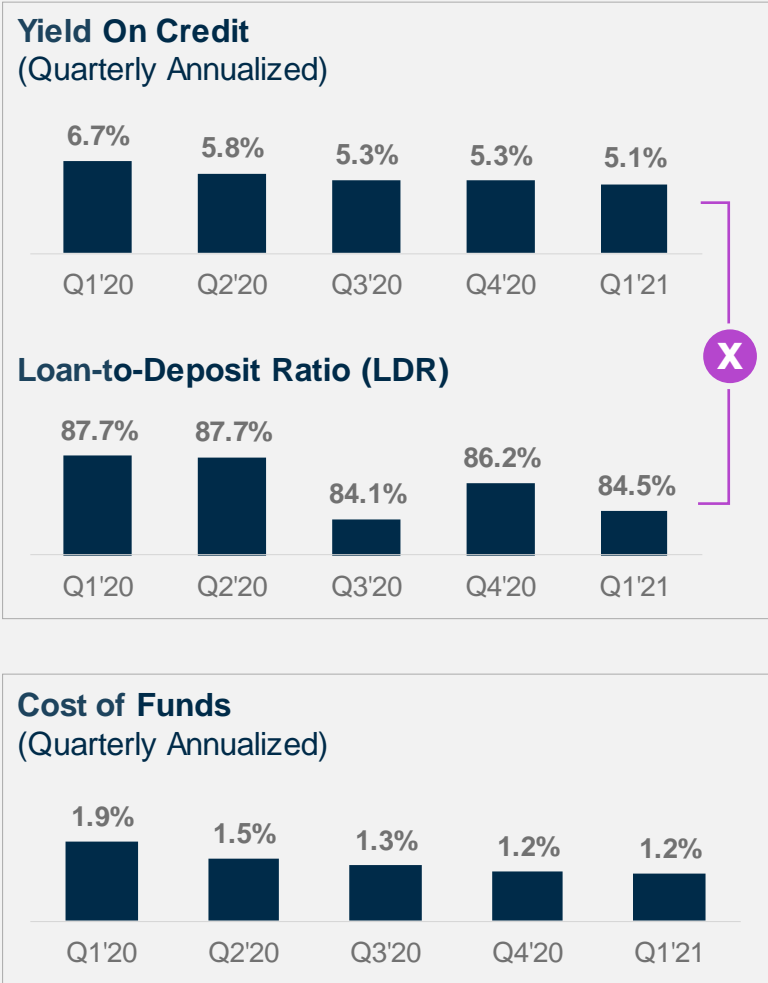
## KEY TAKEAWAYS

- Operating income increased by 1.3% QoQ, driven by 19.2% QoQ growth in fee income and 11.7% QoQ growth in other operating income
- This was partially offset by 5.0% QoQ decline in net interest income due to lower interest rates
- ENBD (+25.% QoQ) reported the highest increase in its total operating income, as fee income grew by 42%
  - The bank's fee income increased on account of higher business volumes
- Meanwhile, CBD (-17.3% QoQ) reported highest decline in operating income, followed by DIB (-12.2% QoQ)

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



# NIM Declined After Rising in the Previous Quarter



## KEY TAKEAWAYS

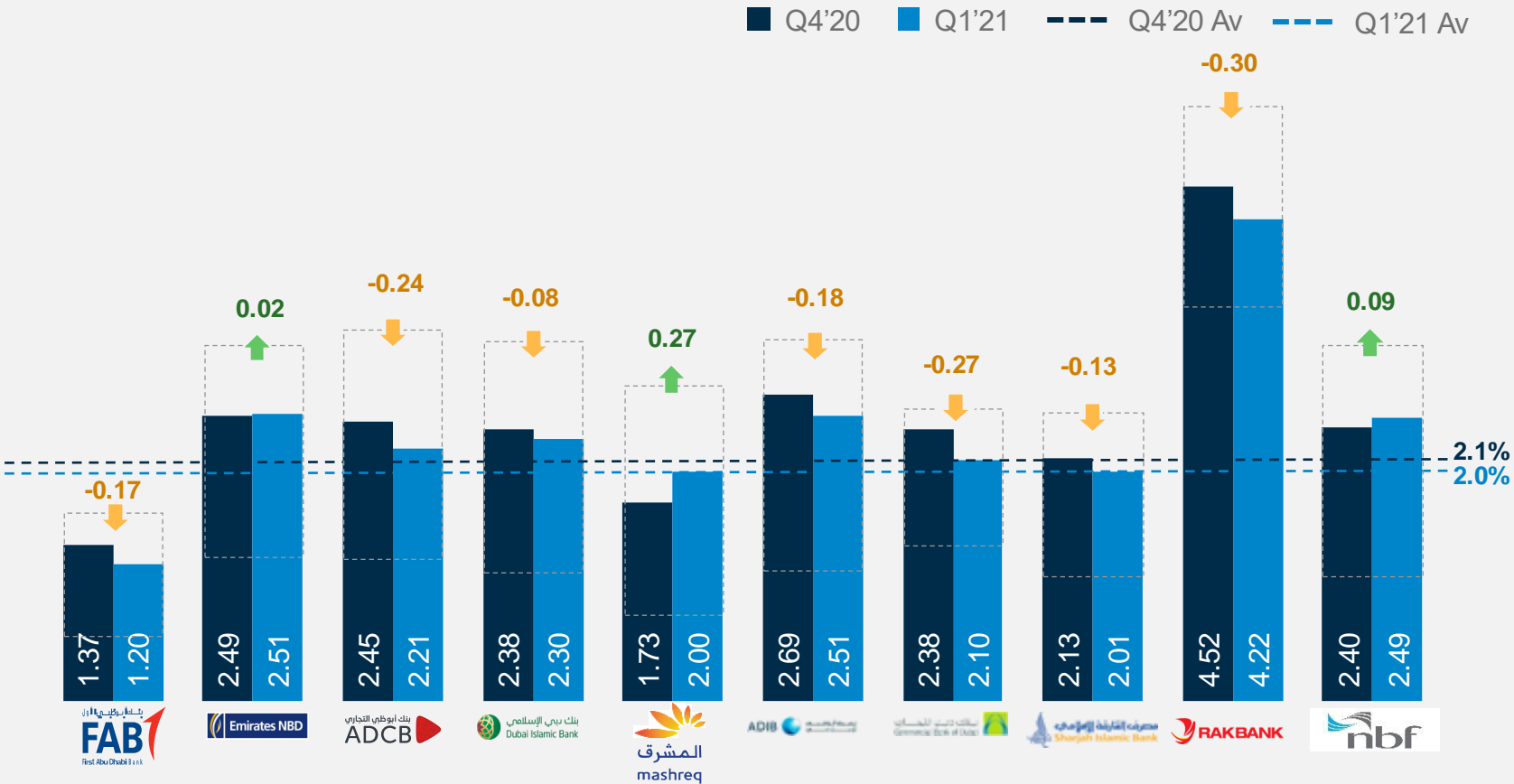
- NIM decreased by ~10 bps QoQ to 2.0%, falling to its multi-period low levels
- Yield on credit declined by 19 bps QoQ to 5.1%, while cost of funds remained largely flat at 1.2%

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

# NIM Deteriorated for Most of the Banks

→ Improved   ← Stable   → Worsened

## Net Interest Margin (% Quarterly)



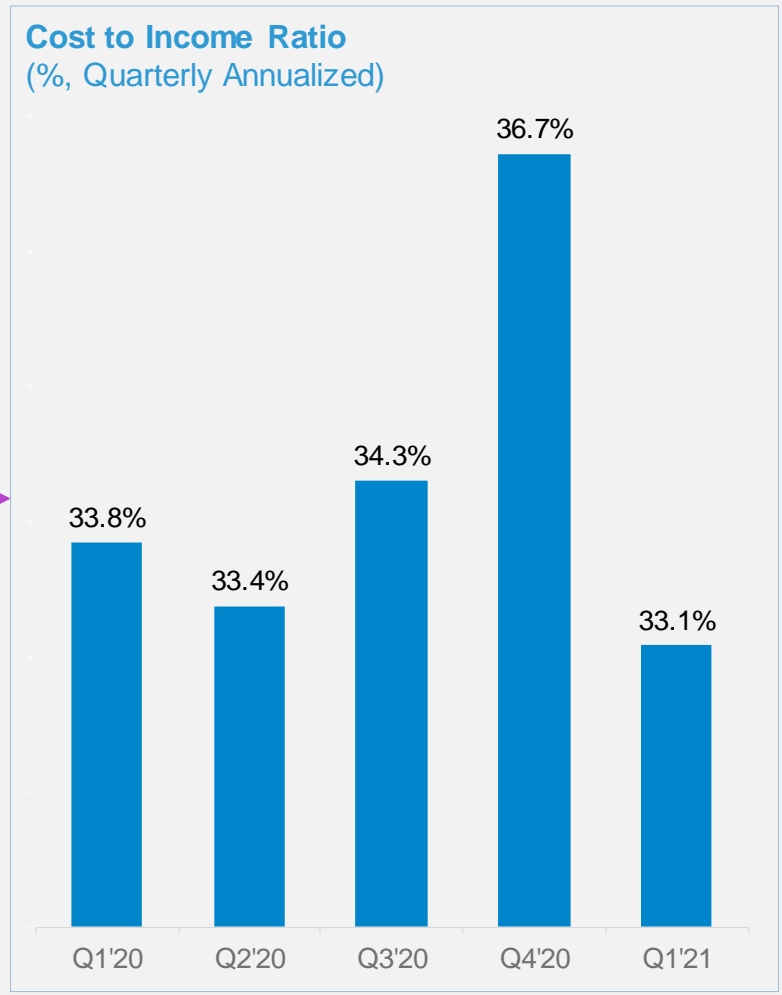
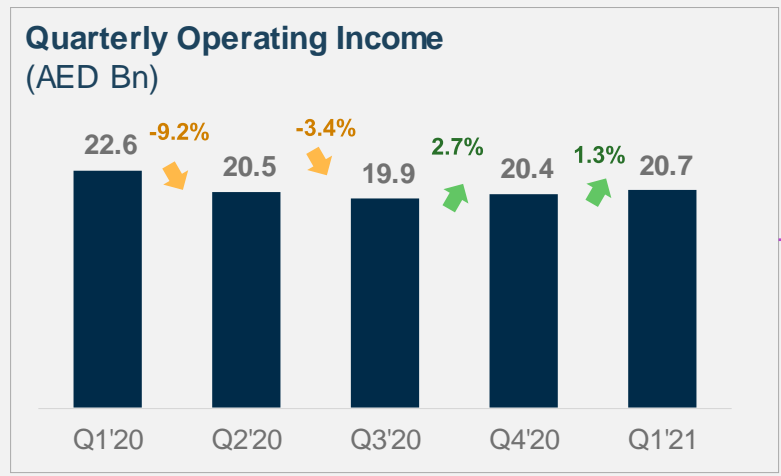
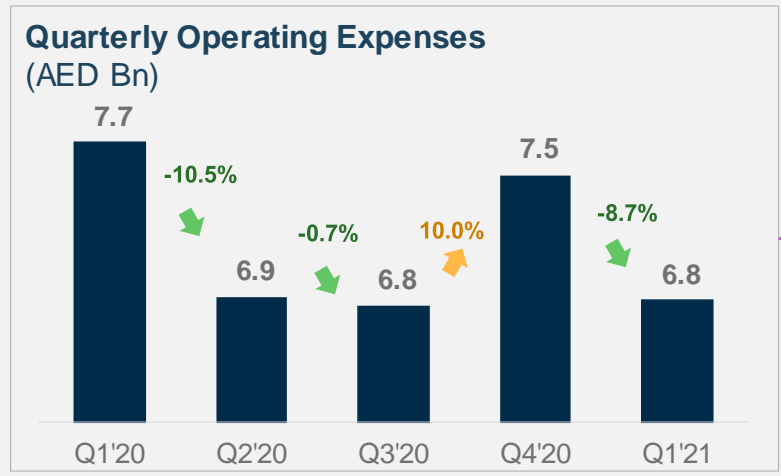
### KEY TAKEAWAYS

- NIM declined to a multi-year low, decreasing by ~10 bps QoQ to 2.0%, as funding costs remained flat whereas asset yields decreased
- RAK reported the highest decline in NIM (~30 bps QoQ), followed by CBD (~27 bps QoQ)
- MSQ (+27 bps QoQ), NBF (+9 bps QoQ) and ENBD (+2 bps QoQ) were the only banks which saw higher NIM

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

# 5 Cost to Income Ratio Decreased due to Lower Operating Costs

➔ Improved    ↔ Stable    ➔ Worsened



## KEY TAKEAWAYS

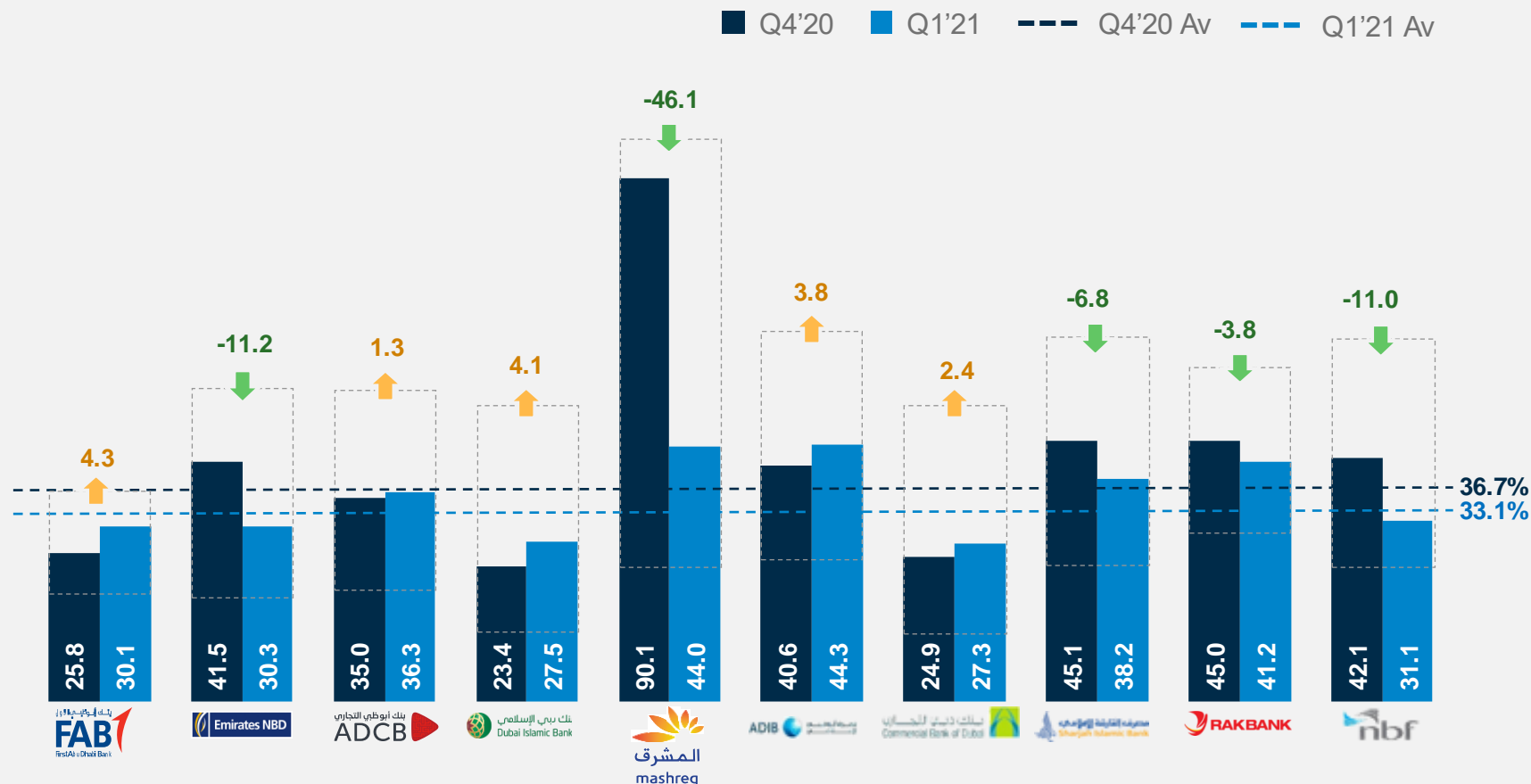
- C/I ratio decreased to 33.1% after increasing for two consecutive quarters
- Operating expenses declined by ~9% QoQ, after increasing sharply (+10% QoQ) in the preceding quarter
  - ENBD (-8.7% QoQ) reported a sizeable decline in expenses, as staff costs reduced 6.3% QoQ
  - MSQ's (-41.6% QoQ) operating expenses also reduced substantially, as the bank had incurred branch rationalization expense in Q4'20

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

# 5 Efficiency Ratios of MSQ and ENBD Witnessed the Highest Improvement

➔ Improved   ➔ Stable   ➔ Worsened

## Cost to Income Ratio (% , Quarterly)



### KEY TAKEAWAYS

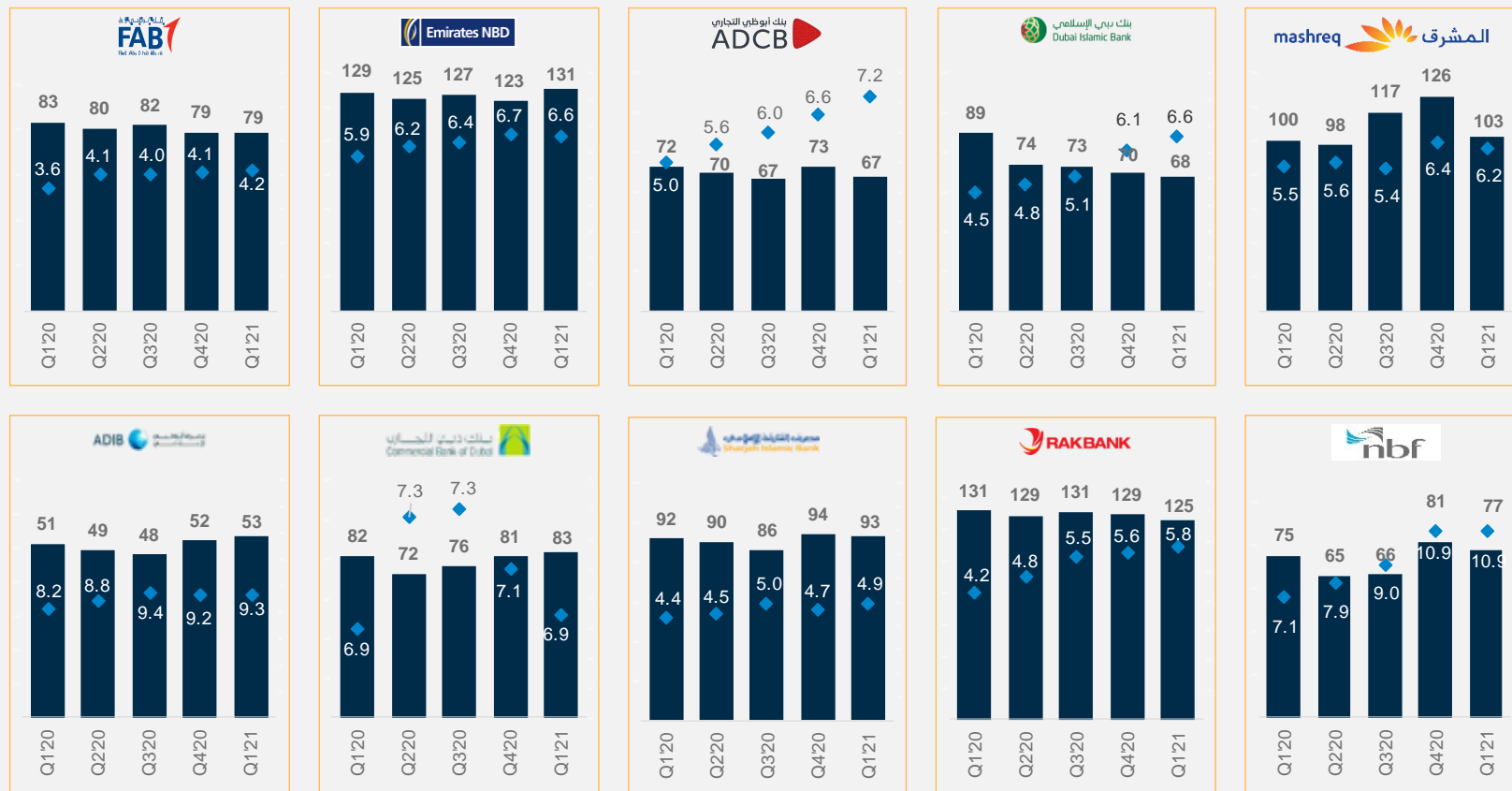
- Five of the top ten banks reported decreased C/I ratio
- MSQ's C/I ratio decreased the most (+46.1% points QoQ)
- Similarly, ENBD's C/I ratio improved by 11.2% points QoQ followed by NBF's (-11.0% points QoQ)
  - ENBD's C/I ratio improved on the back of lower marketing expenses
- On the other hand, FAB reported the highest deterioration in C/I ratio (+4.3% points QoQ), as other administration expenses increased ~25% QoQ

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

# Aggregate Coverage Ratio Decreased; NPL/Net Loan Ratio Increased for the Sixth Consecutive Quarter

■ Coverage Ratio, %    ◆ NPL / Net loans, %

## Coverage Ratio<sup>1</sup> and NPL / Net Loans Ratio (% , Quarterly)



## KEY TAKEAWAYS

- Aggregate coverage ratio for the banks decreased to 91.0% from 91.8%
  - UAE banks need to book AED 18.2bn worth of more provisions (20% more than FY'20 provisions) to have 100% coverage ratio
- Coverage ratio of MSQ (-23.5% points QoQ) and ADCB (-5.2% points QoQ) declined the most
  - ADCB need to book AED 5.5bn more provisions (1.4x FY'20 provisions) to have a coverage ratio of 100%
  - ADIB would need AED 3.6bn of additional provisions (2.8x FY'20) to reach 100% coverage ratio levels
- Aggregate NPL / net loan ratio continued to rise for the sixth consecutive quarter to reach 6.3%, as NPLs increased ~1.7%

## NPL/Net Loans Ratio (Aggregate %)

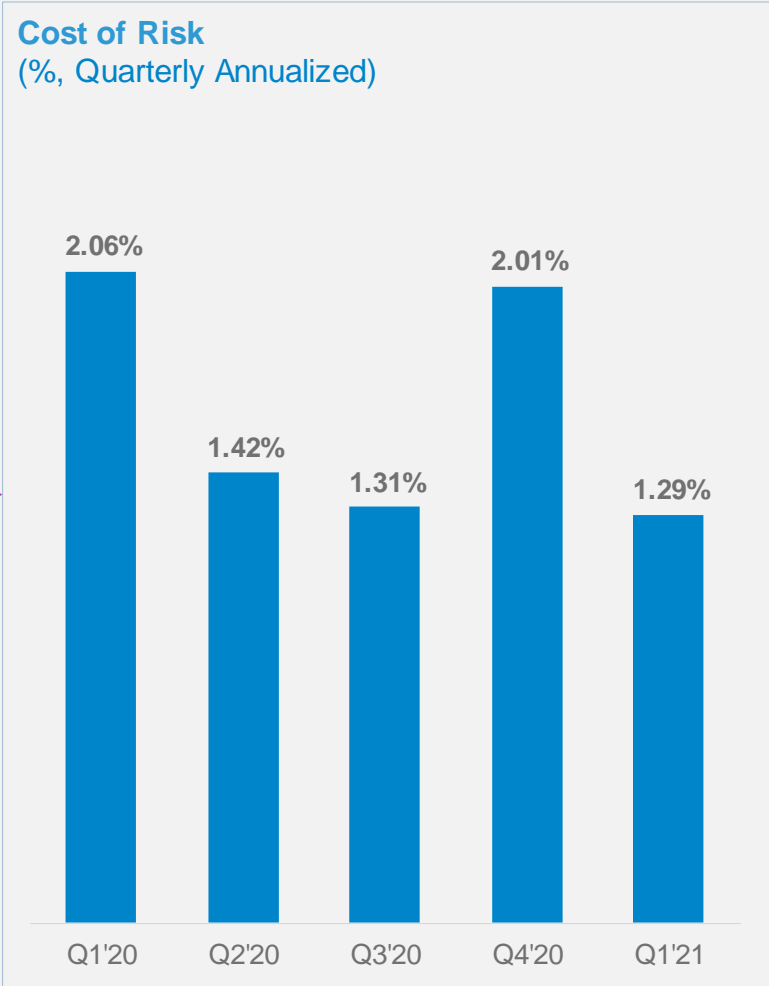
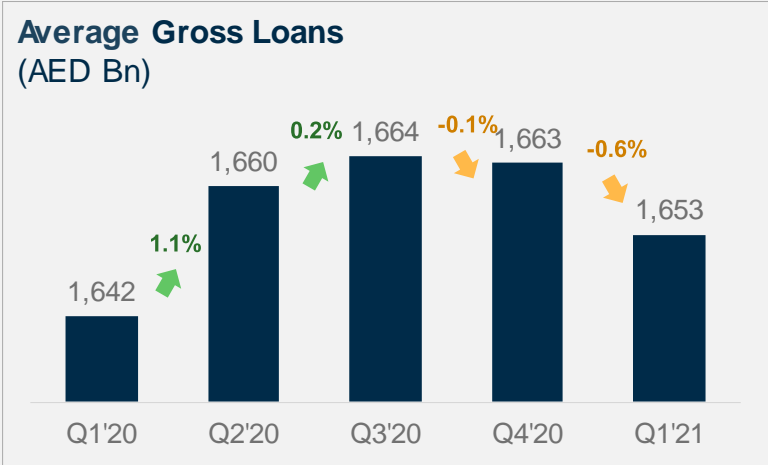
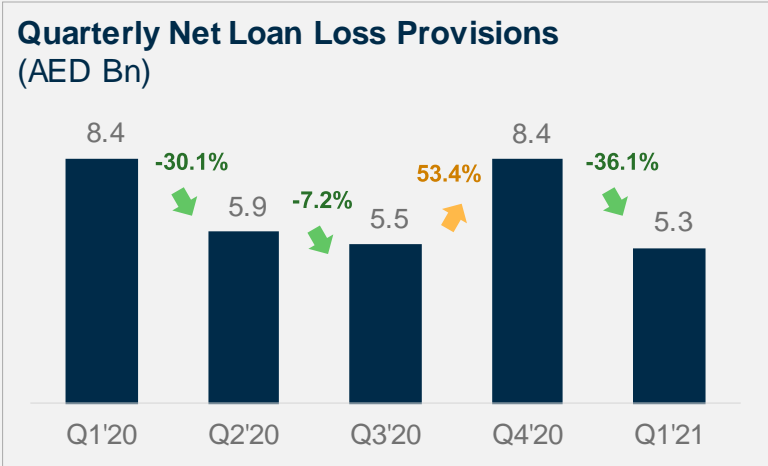


Note: Scaling and some numbers might not add up due to rounding

Source: Financial statements, investor presentations, A&M analysis, <sup>1</sup> accumulated allowance for impairment / NPL

# Cost of Risk Declined Significantly as Provisioning Decreased

➔ Improved    ↔ Stable    ➔ Worsened



## KEY TAKEAWAYS

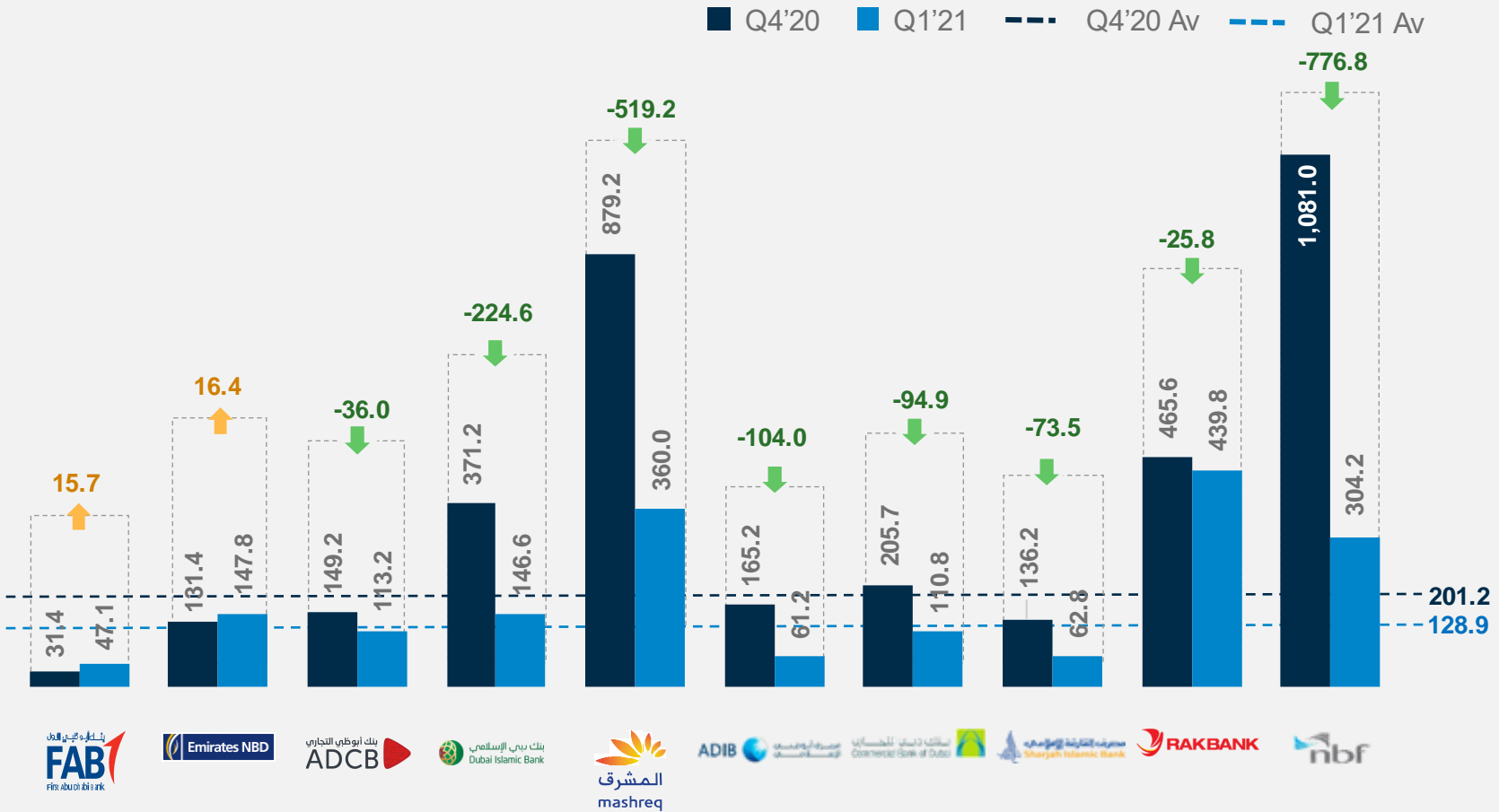
- Aggregate cost of risk decreased by ~72 bps QoQ, as total provisioning decreased ~36.1% to AED 5.3bn
  - Overall decrease in provisioning was driven by lower impairments from NBF (-71.7% QoQ), DIB (-60.5% QoQ) and MSQ (-58.5%)
- FAB (+48.1% QoQ) and ENBD (+11.9% QoQ) were the only banks which reported an increase in provisions

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

# Most Banks Reported Lower Cost of Risk, as Impairment Allowances Reduced on Improved Macroeconomic Conditions

→ Improved   ← Stable   → Worsened

## Cost of Risk (bps) – Net of Reversals



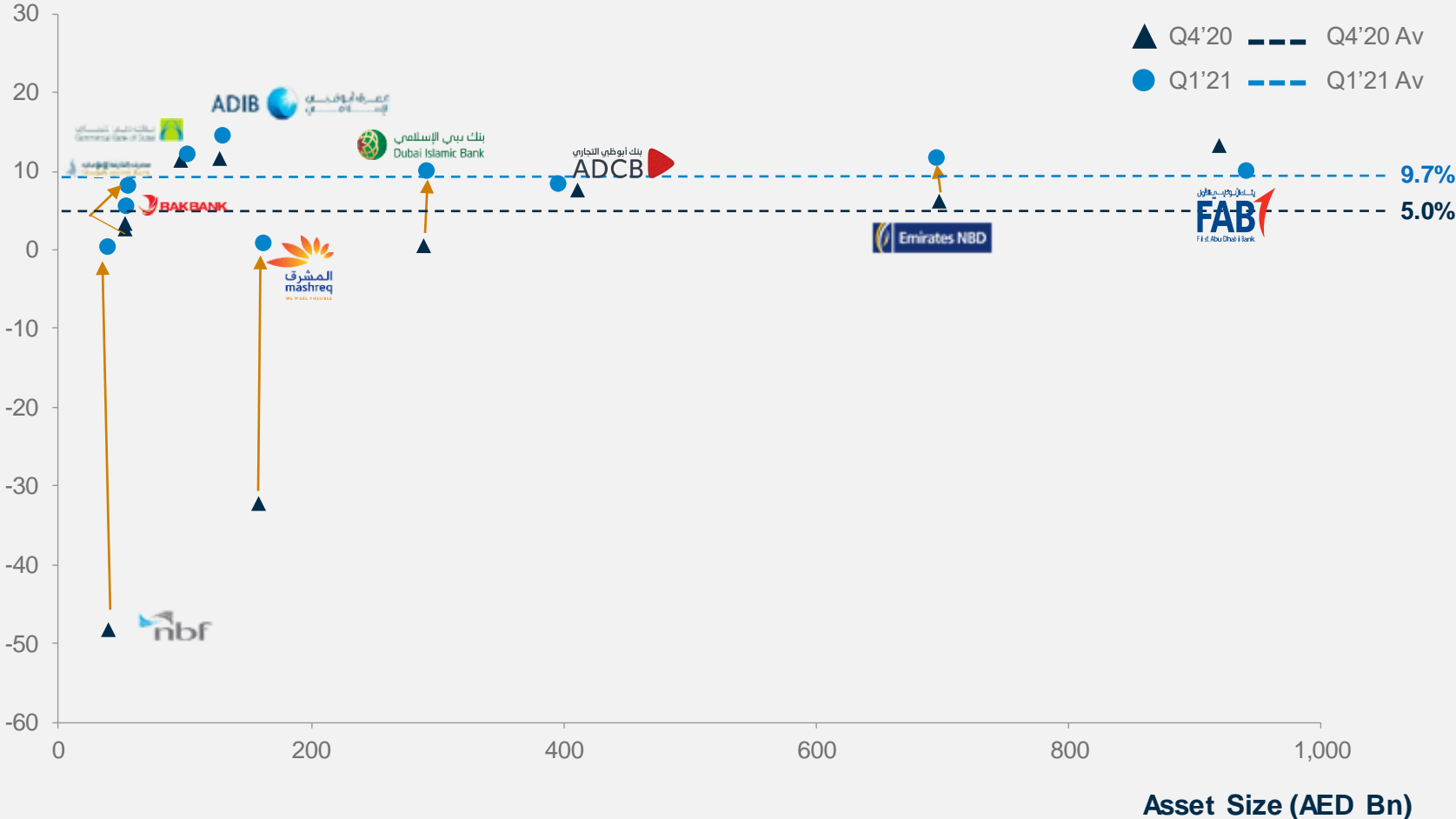
### KEY TAKEAWAYS

- Eight of the top ten banks reported a decrease in cost of risk, as improved macroeconomic environment led to lower provisioning
- NBF (-776.8 bps QoQ) and MSQ (-519.2 bps QoQ) reported the highest decline in cost of risk
- ADCB’s cost of risk fell 36 bps QoQ. The bank has stated that it has booked sufficient provisions related to NMC Health, Finabl and related companies
- ENBD’s cost of risk increased 16.4 bps QoQ, as the bank reported increased provisions under its corporate segment

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

# RoE Increased Supported by Improved Profitability

Return on Equity (%)



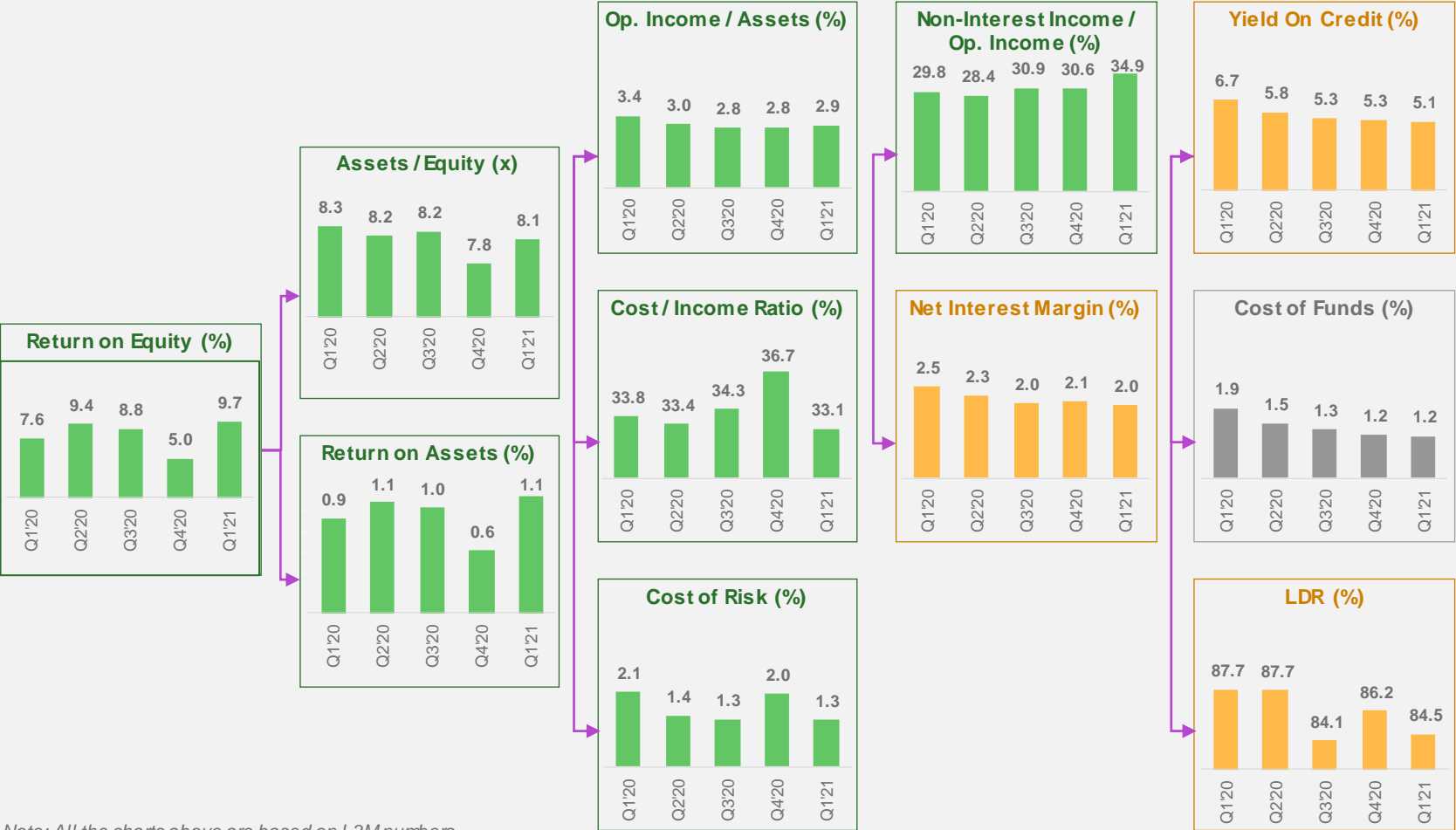
## KEY TAKEAWAYS

- Aggregate RoE improved from 5.0% in Q4'20 to 9.7% in Q1'21, as net income increased 85% QoQ
  - While there was an increase, RoE continued to remain in single-digits
- MSQ and NBF reported substantial increase in RoEs as both banks had reported losses in Q4'20
- All the banks except FAB reported a growth in RoE
  - FAB's RoE fell 3.0% points QoQ to 10.2%, on the back of 23% drop in net income (as NII fell 12% QoQ and provisions increased 48% QoQ)



# Recovery of the UAE's Banking Sector Remains Fragile

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

- While there was a sizeable improvement in the sector's profitability, the recovery remains fairly fragile
- The extension of the TESS program until June'22 has delayed a likely deterioration of the sector's asset quality
- Income streams are expected to remain under pressure, as interest rates are likely to remain at historic low levels in the foreseeable future
- The sector could witness the next wave of M&A once the full impact of the pandemic headwinds are visible

# 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 Khalij 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

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# Glossary

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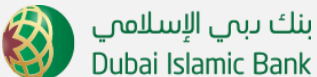








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# Glossary

	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	940.7	FAB	
Emirates NBD	695.1	ENBD	
Abu Dhabi Commercial Bank	395.8	ADCB	
Dubai Islamic Bank	291.7	DIB	
Mashreq Bank	162.3	MSQ	
Abu Dhabi Islamic Bank	130.7	ADIB	
Commercial Bank of Dubai	102.5	CBD	
Sharjah Islamic Bank	54.9	SIB	
National Bank of Ras Al-Khaimah	53.2	RAK	
National Bank of Fujairah	39.1	NBF	

Note: Banks are sorted by assets size  
 • As on 31<sup>st</sup> March 2021