



UAE Banking Pulse

Quarter 3, 2021



الإمارات
THE EMIRATES

FOREWORD

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the Q3'21 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.

The Q3'21 results for most of the banks pointed towards increasing profitability, higher return ratios and an overall improved credit outlook. L&A growth turned positive (+0.6% QoQ). Aggregate NII increased by 6.8% QoQ supported by expansion in NIM by 10 bps QoQ to 2.2%. Asset quality (NPL/ net L&A) remained stable at 6.2% during the quarter.

RoE improved by +1.4% points QoQ to 12.3% as net income increased 14.4% QoQ, on higher operating income and lower provisioning. UAE's banking sector assets are expected to grow in 2022 on back of expected economic recovery and digital transformation of the banking industry.

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

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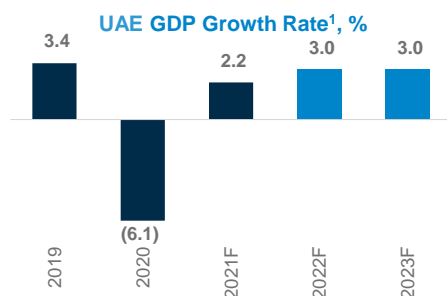
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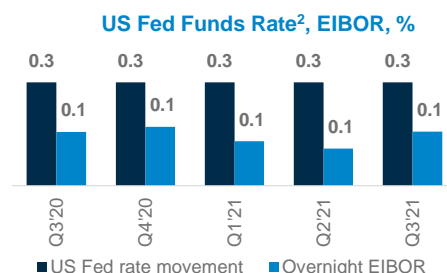
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UAE Macro & Sector Overview

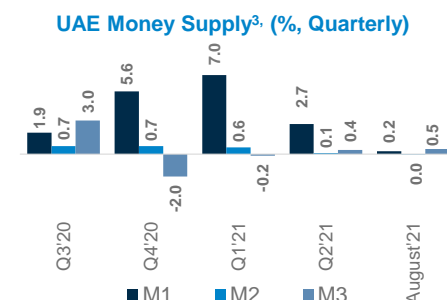
Macro overview



- In October'21, IMF reiterated its GDP growth outlook for UAE at 2.2% in FY'21 and 3.0% for FY'22. Meanwhile, the UAE central bank expects the economy to grow by 2.1% in FY'21 and 4.2% in FY'22
- Average Q3'21 UAE's Purchasing Managers' Index (PMI) increased to 53.7 compared to 52.4 in Q2'21, due to growth in business activity and new orders as economy started to open up post pandemic
- In September'21, the UAE central bank said it was beginning to gradually withdraw COVID-19 stimulus measures

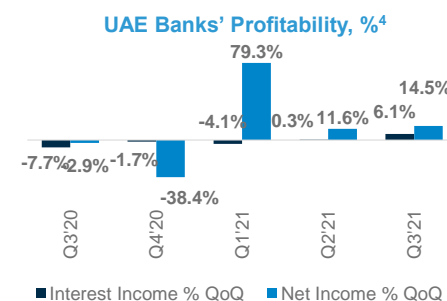


- In October'21 the US Fed officials stated plans to start reducing the pace of its monthly asset purchases as soon as mid-November'21. In Sep'21, the US Fed held interest rates steady
- The overnight EIBOR saw a marginal increase in Q3'21 by ~4.0 bps to 0.13% compared to Q2'21
- In Sep'21, the UAE's central bank announced that it is studying ways to replace the Emirates Interbank Offered Rate (EIBOR) as per proposals from global regulators

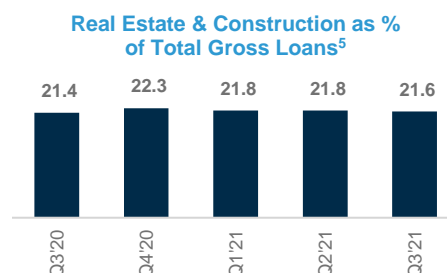


- M2 money supply decreased by 0.05% during Jun'21 - Aug'21 to AED 1,487.9bn. It decreased by 1.7% YoY
- M2 money supply decreased as quasi monetary deposits fell by 0.3% between Jun'21 and Aug'21
- M1 money supply increased by 0.2% during Jun'21 - Aug'21 to AED 661.1bn. On an annual basis, M1 increased by 16.6%
- M3 money supply increased by 0.5% during Jun'21 - Aug'21. On an annual basis, M3 decreased by 0.9%

Banking overview Q3'21



- Total interest income of top ten UAE banks increased by 6.1% in Q3'21
- Aggregate net income increased by ~15% QoQ, supported by improving economic conditions within the GCC region
- Consequently, RoE (12.3%) improved further compared to 10.9% in Q2'21



- The UAE banks' exposure to the real estate and construction sectors decreased by 21bps QoQ to 21.6%
- The country's real estate sector is expected to see strong rebound in upcoming 18 months due to efforts undertaken by the government
 - These includes visas for retirees, professionals working remotely and the expansion of the 10-year golden visa initiative



- UAE banks are looking for expansions abroad due to saturated banking market and sluggish domestic economic growth. First Abu Dhabi Bank purchased Bank Audi's Egypt unit earlier in 2021
- UAE bank earnings are recovering from the lows of COVID-19 pandemic when the economy was impacted by shutdowns and travel restrictions. Overall situation is expected to become favorable for merger and acquisition

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 IR presentations * Data for top ten UAE banks by asset size as of September 30th 2021

Pulse: While balance sheet growth slowed down, there was sharp uptick in profitability

→ Improved ← Stable → Worsened

	Metric	Q2'21	Q3'21	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Key Trends of Q3'21
Size	Loans and Advances (L&A) Growth (QoQ)	1.9%	0.6%						1 L&A (+0.6% QoQ) increased marginally as compared to Q2'21 (+1.9% QoQ). Deposits growth kept pace with Q2 level of 2.1% QoQ
	Deposits Growth (QoQ)	2.1%	2.1%						
Liquidity	Loan-to-Deposit Ratio (LDR)	84.4%	83.2%						2 LDR decreased for the third consecutive quarter to 83.2% (-1.2% points QoQ), due to slower L&A growth
Income & Operating Efficiency	Operating Income Growth (QoQ)	2.8%	7.4%						3 Operating income increased 7.4% QoQ due to higher NII (+6.8%) and other operating income (+25.4%); partially offset by lower commission and fee income
	Operating Income / Assets	2.9%	3.1%						
	Non-Interest Income(NII) / Operating Income	34.4%	34.8%						
	Yield on Credit (YoC)	5.1%	5.3%						4 NIM expanded by 10bps to 2.2%, due to 6.8% QoQ increase in net interest income
	Cost of Funds (CoF)	1.1%	1.1%						
	Net Interest Margin (NIM)	2.0%	2.2%						5 C/I ratio decreased further to its lowest level since 2018 to 31.8% as banks continue to optimize their operating expenses and overheads
	Cost-to-Income Ratio (C/I)	33.0%	31.8%						
									6 CoR declined marginally to 1.1% due to lower impairment allowance. Coverage ratio decreased 13bps QoQ to 92.2%
Risk	Coverage Ratio	92.3%	92.2%						7 RoE increased further to 12.3% (+1.4% points QoQ) and RoA increased to 1.4% (0.2% points QoQ) as they reached pre-pandemic levels
	Cost of Risk (CoR)	1.2%	1.1%						
Profitability	Return on Equity (RoE)	10.9%	12.3%						8 RoRWA increased in line with higher net income, while the capital adequacy ratio increased from 17.0% to 17.2%
	Return on Assets (RoA)	1.2%	1.4%						
	Return on Risk-Weighted Assets (RoRWA)	1.8%	2.0%						
Capital	Capital Adequacy Ratio (CAR)	17.0%	17.2%						

Note 1: QoQ stand for quarter over quarter

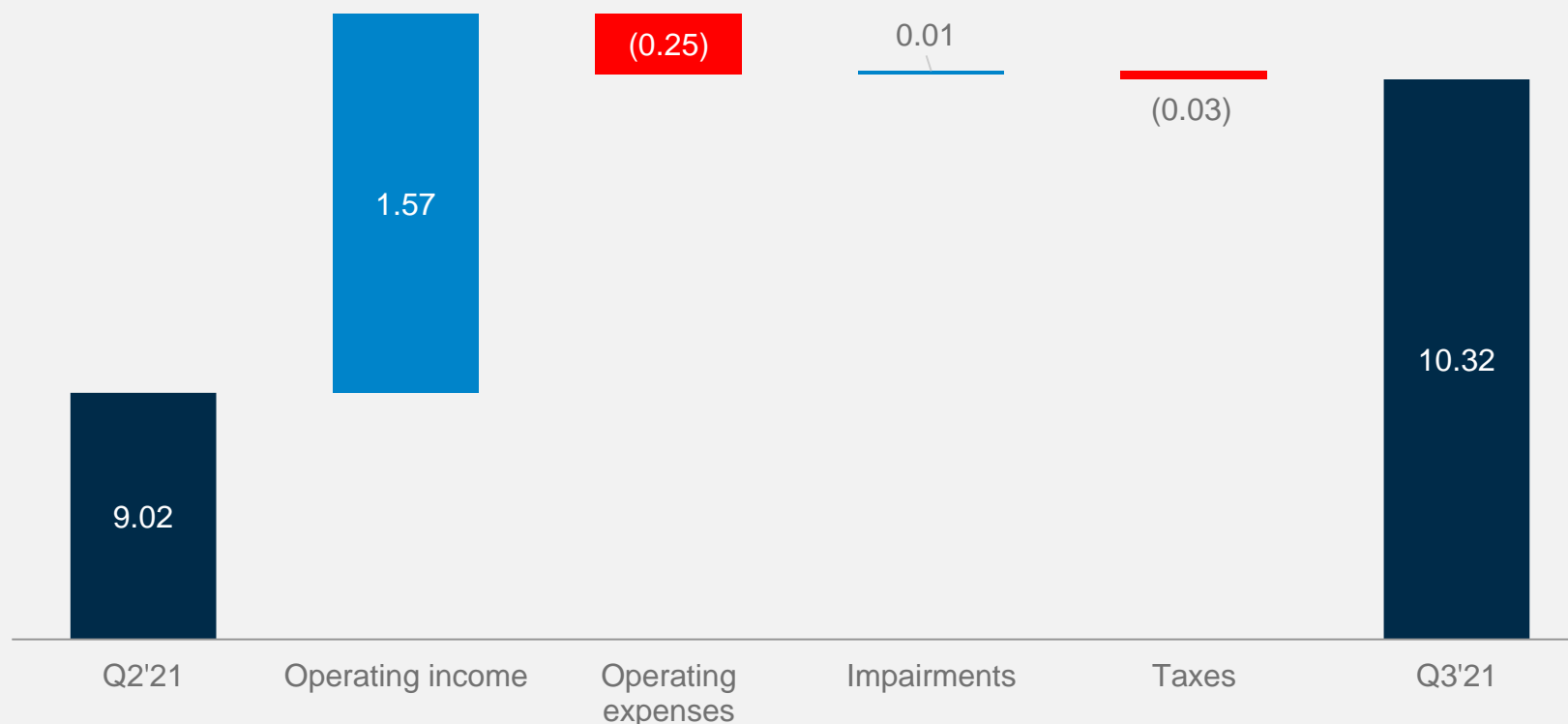
Note 2: Growth in loans & advances and deposits were presented QoQ instead of YoY

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

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

Net Income Growth was Driven by Higher Operating Income

Net income bridge – AED Bn

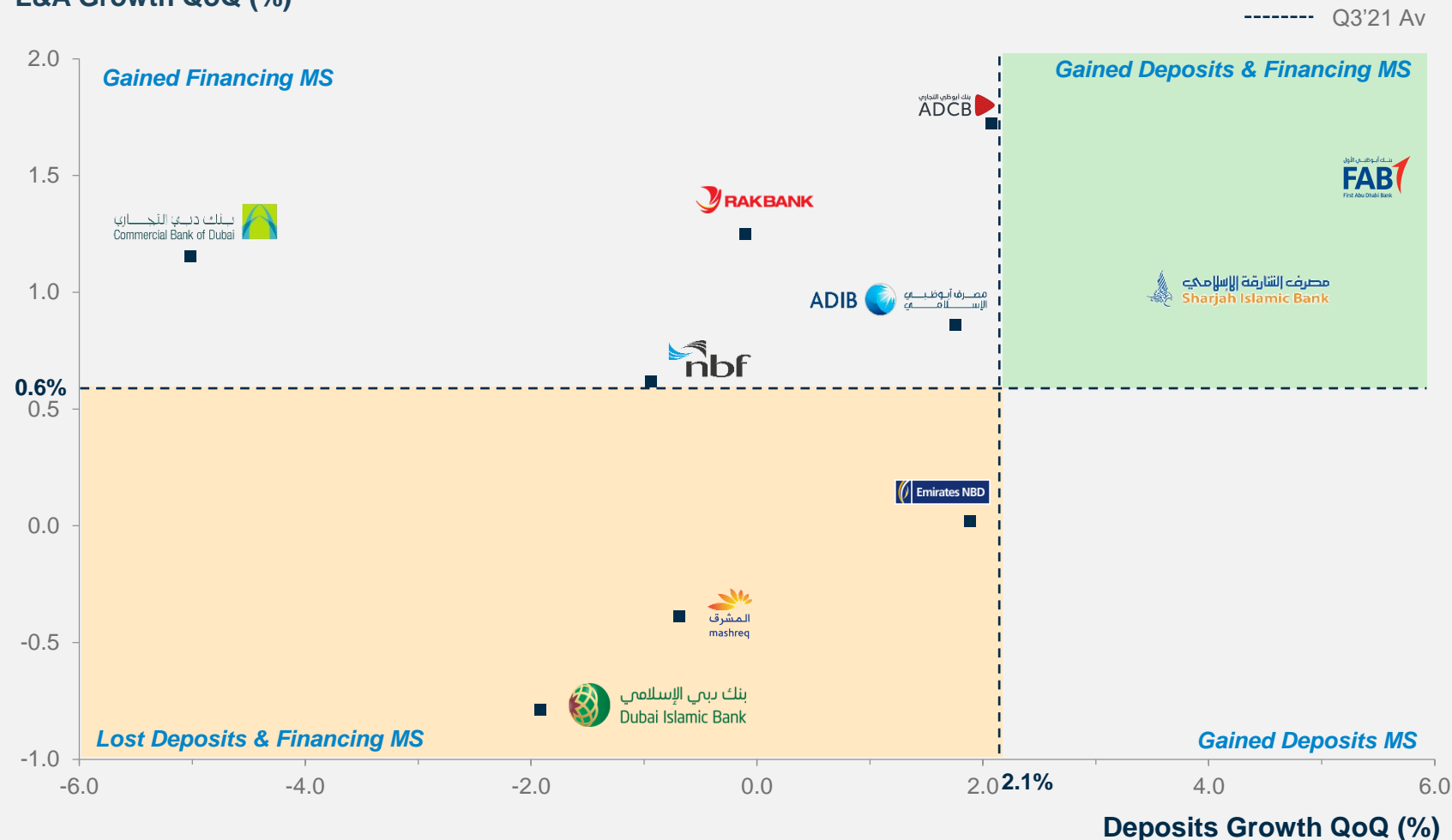


KEY TAKEAWAYS

- Aggregate net income increased 14.4% QoQ to AED 10.3bn
- Operating income grew on account of higher funded income (+6.8% QoQ) along with higher foreign exchange and investment related income (+25.4% QoQ)
- Higher operating income (+7.4% QoQ) and marginally lower impairments (-0.3% QoQ) were among the key drivers for net income growth
- Aggregate impairments reduced marginally by 0.3% points QoQ in Q3'21

FAB Emerged as the Outperformer in Gaining Market Share Across Loans and Deposits

L&A Growth QoQ (%)



KEY TAKEAWAYS

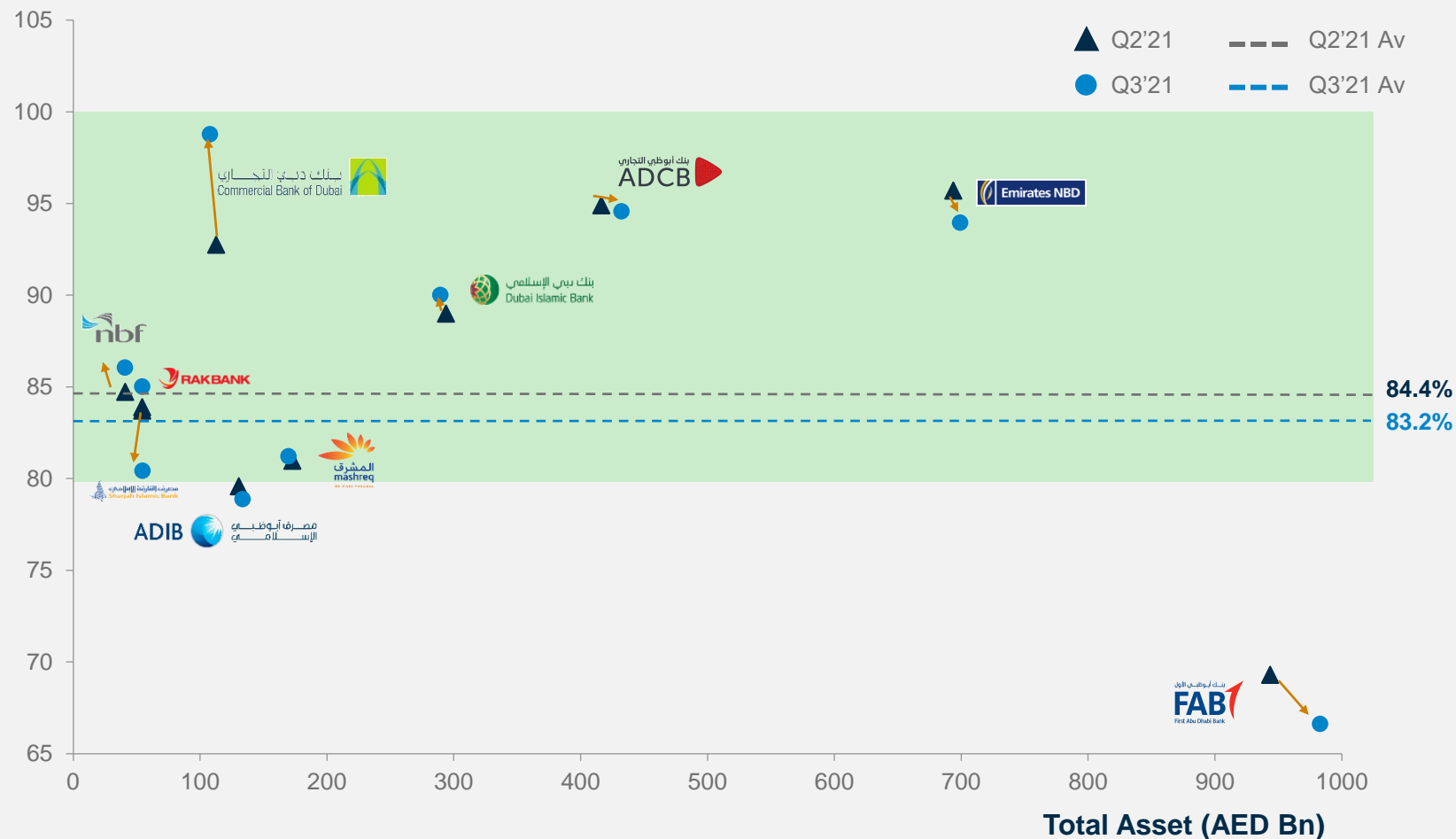
- Top ten UAE banks' L&A increased by 0.6% QoQ while the deposits increased by 2.1% QoQ
- ADCB reported highest increase in L&A (+1.7% QoQ) driven by:
 - Increased lending to Government Related Entities (GRE) while reducing real estate exposure
- FAB's L&A rose 1.3%, driven by GREs, trade finance and IPO-related lending
- FAB reported the highest increase in deposits (+5.4% QoQ), mainly driven by higher deposits from government and corporate clients

Note: MS stands for market share

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

LDR Decreased Marginally Across the Sector

Loans to Deposits Ratio (%)



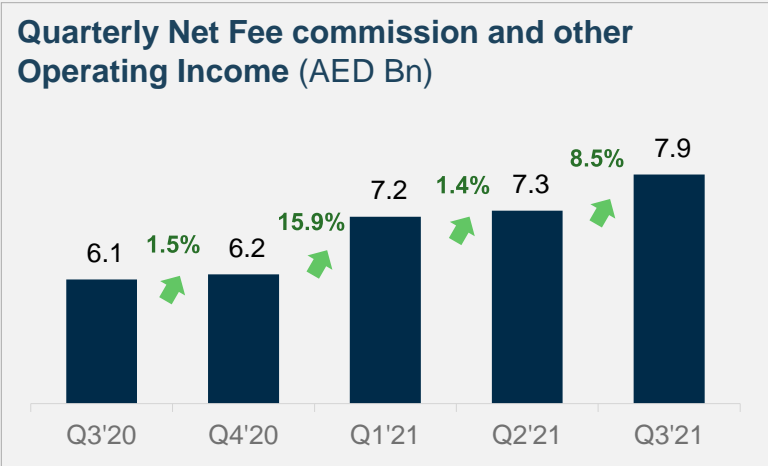
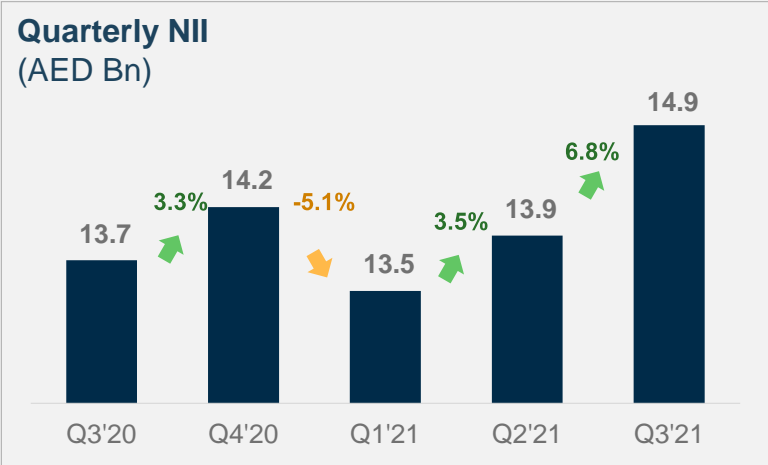
Note: The green zone is an area of healthy liquidity
Source: Financial statements, A&M analysis

KEY TAKEAWAYS

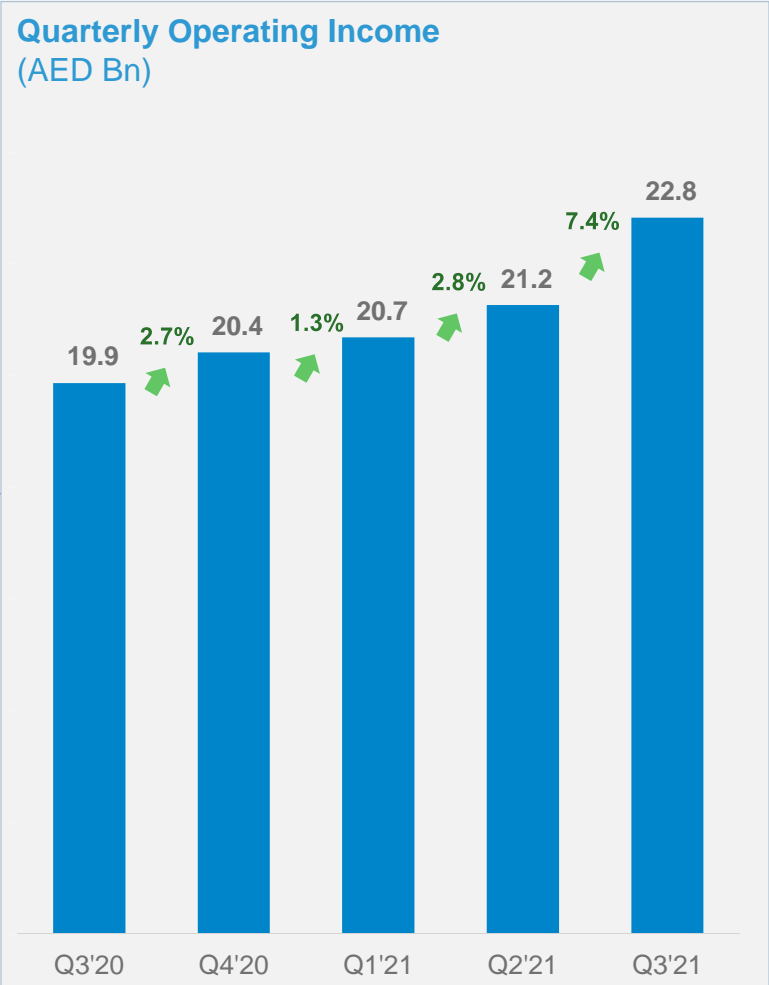
- Aggregate LDR decreased further to 83.2% in Q3'21 compared to 84.4% in Q2'21
- FAB (-2.7% points) and SIB (-3.3% points) reported the highest decrease in their LDR during the quarter
- CBD (6.5% points QoQ) reported the highest increase in LDR to 98.8%

Strong Growth in Operating Income Driven by Both NII and non-interest income

➔ Improved
 ↔ Stable
 ➔ Worsened



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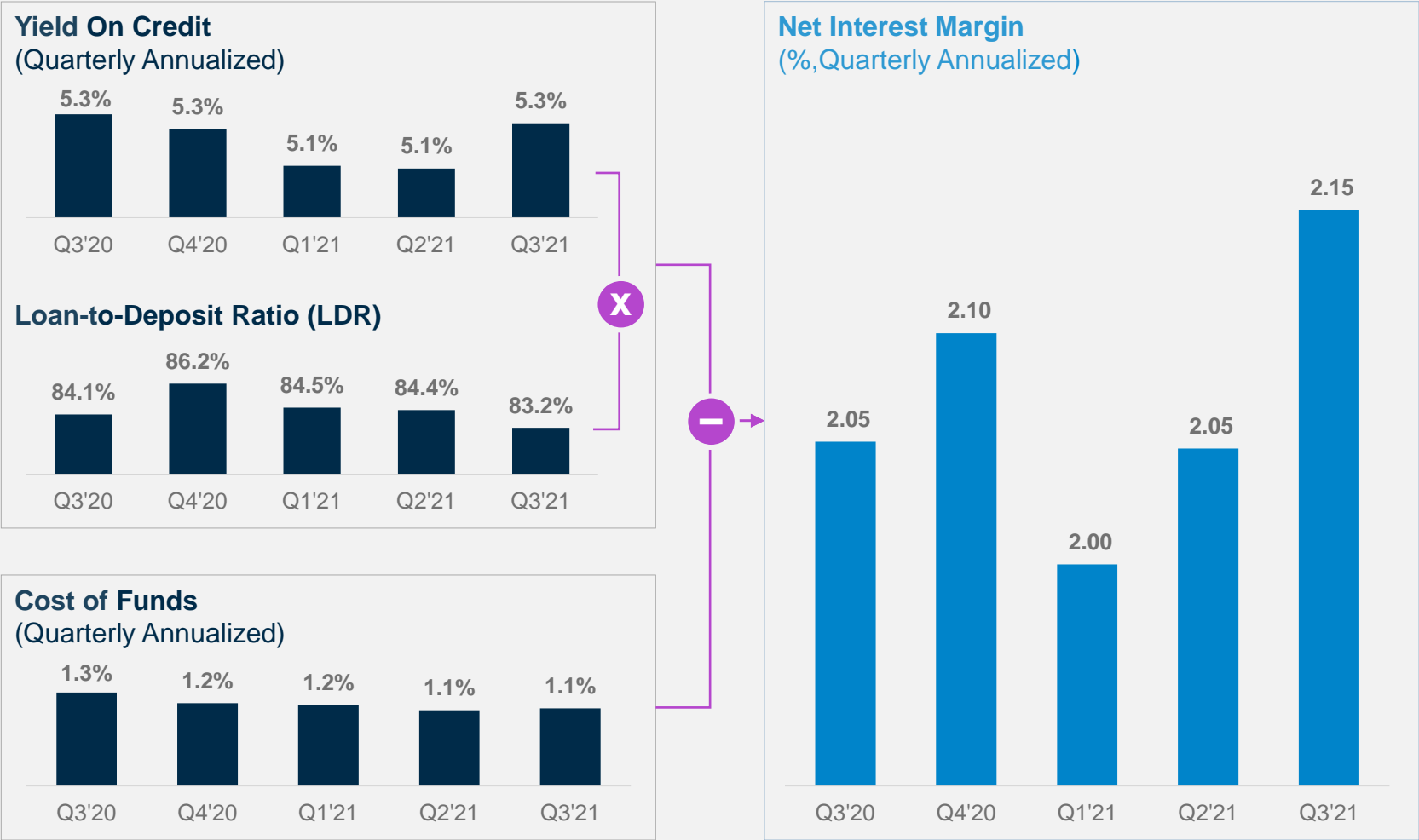


KEY TAKEAWAYS

- Operating income increased by 7.4% QoQ, driven by 6.8% QoQ growth in net interest income along with 8.5% increase in net fee and commission and other operating income
 - Other operating income grew by 25.4% QoQ, partially offset by 7.0% QoQ decrease in net fee and commission income
- FAB (+23.5% QoQ) reported the highest increase in operating income driven by:
 - 58.7% QoQ increase in non-interest income due to gains in investment income (AED 760 mn) and property related gains (AED 207mn)
- ADCB operating income fell 8.0% QoQ due to lower NII (-5.9% QoQ), fee and commission income (-13%QoQ) and trading income (-14% QoQ)

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

While NIMs Expanded by 10bps Supported by Higher Yields, They Remain Below Pre-Pandemic Levels



KEY TAKEAWAYS

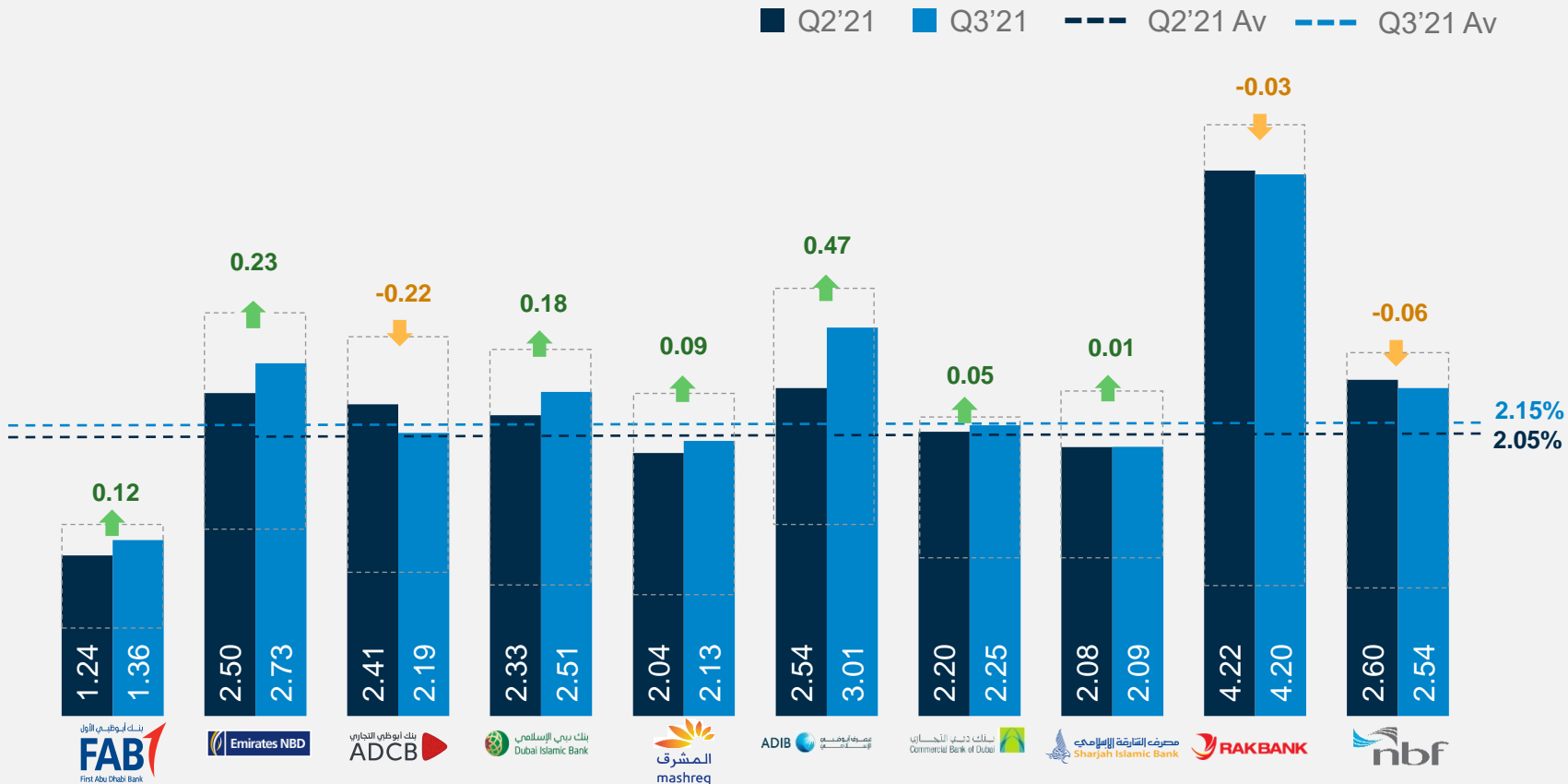
- NIM increased by ~10 bps QoQ to 2.15% as a result of higher yield on loans
- However, the current NIM levels are still below the pre-pandemic levels of 2.6% (2019 average)
- Yield on credit increased by 24 bps QoQ to 5.3%, due to 6.1% QoQ increase in aggregate interest income along with higher loans and advances
- Cost of funds remained flat QoQ to 1.1%

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

NIMs Expanded Across the Board, though ADCB Witnessed a Decline by ~20bps

→ Improved ↔ Stable → Worsened

Net Interest Margin (% Quarterly)

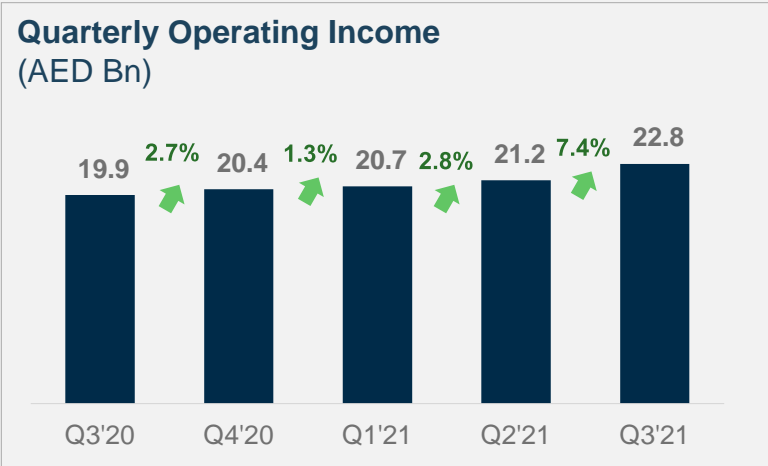
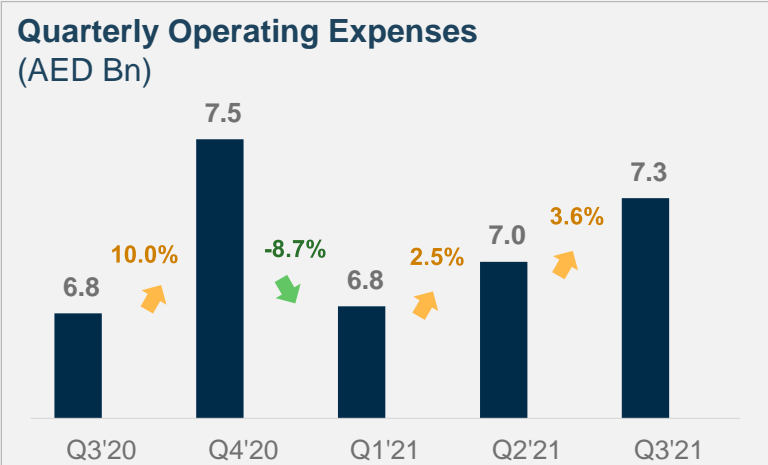


KEY TAKEAWAYS

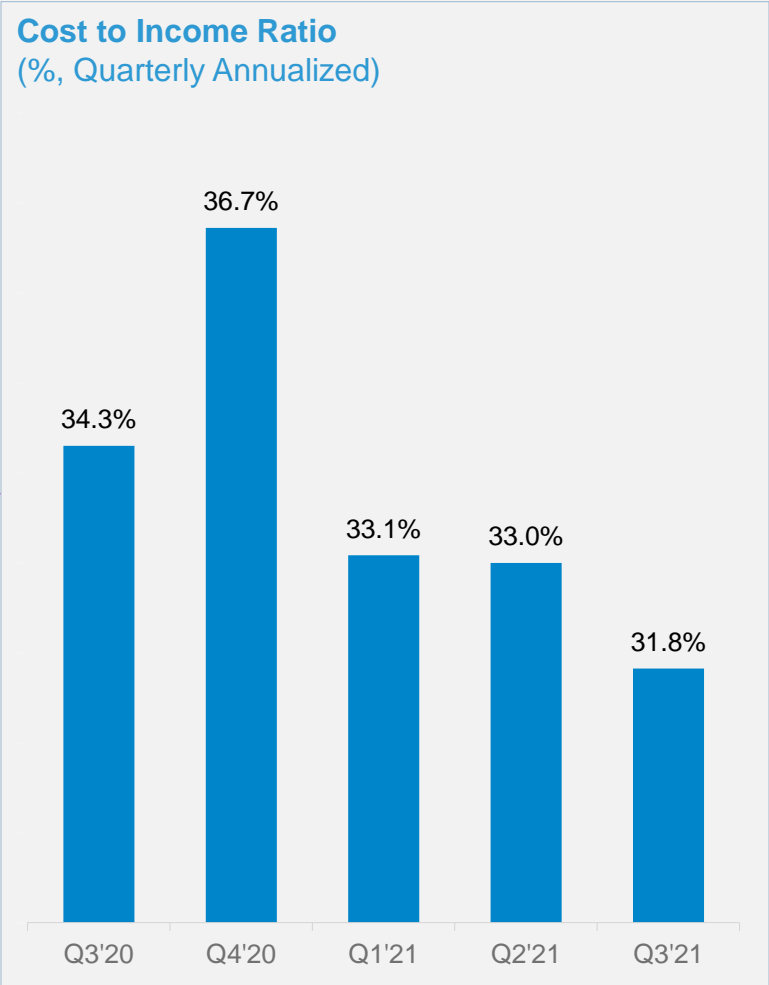
- NIM increased by ~10 bps QoQ to 2.2%, driven by increase in aggregate net interest income by 6.8% QoQ
- ADIB reported a 47 bps rise in NIM, driven by 17.0% QoQ increase in net interest income, which was the highest since 2019
- ADCB, RAK and NBF are the only banks to report a contraction in net interest margins
- NIM for ADCB declined by 22 bps QoQ, due to higher interest in suspense reversal and fair value unwinds of Q2'21
 - The decline was also due to decline in asset yields driven by lower benchmark interest rates

Operational Efficiency Continued to Improve as growth in Operating Income outpaced expenses

➡ Improved ↔ Stable ➡ Worsened



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KEY TAKEAWAYS

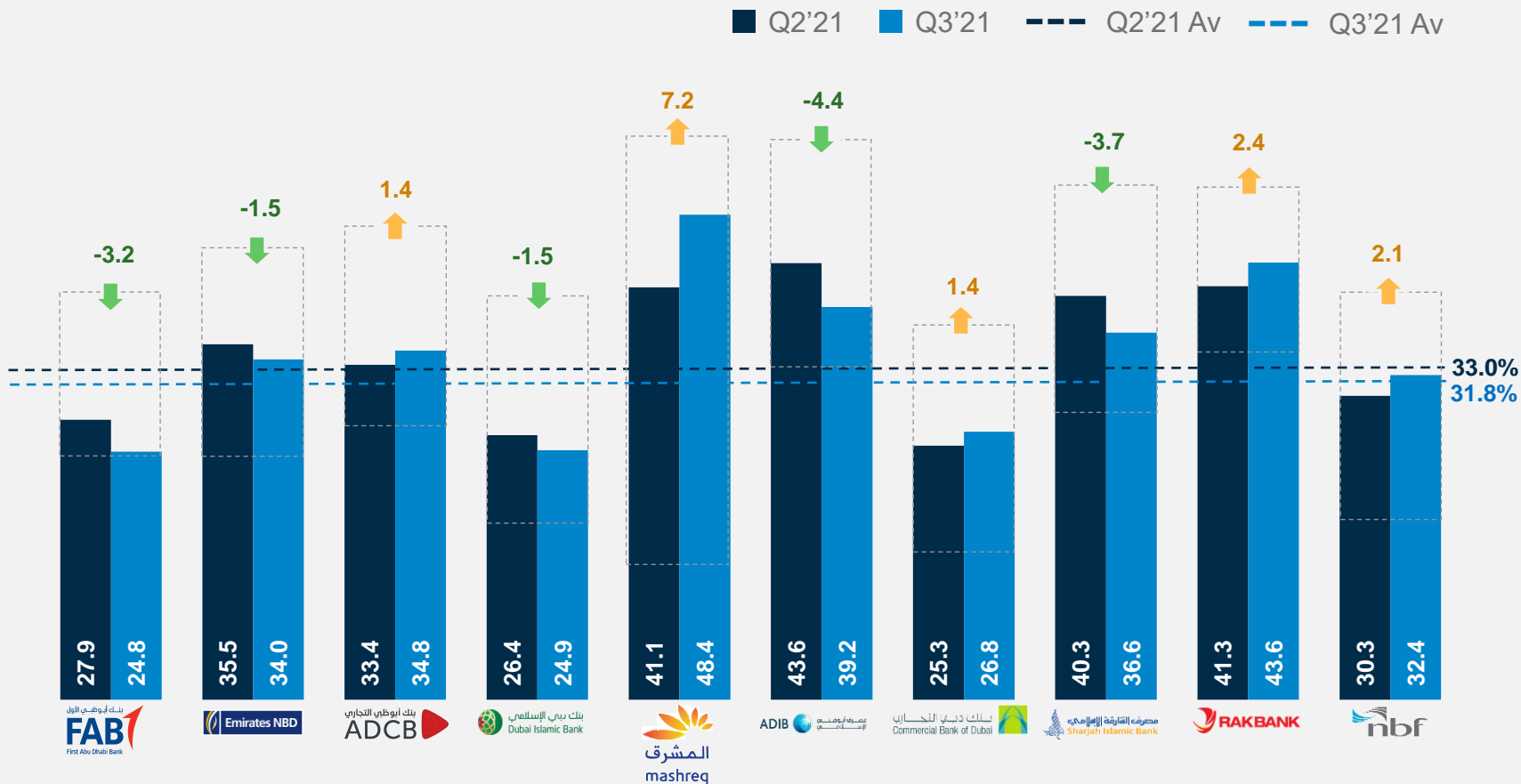
- C/I ratio improved substantially by 117bps QoQ to 31.8% driven by:
 - Slower pace of growth in SG&A expenses (+3.6% QoQ) compared to the operating income (7.4% QoQ)
- Five of the top ten banks witnessed improvement in C/I ratio
- FAB, ENBD, DIB, ADIB and SIB are amongst the top banks that witnessed improved C/I ratio

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

Efficiency Ratios of ADIB, SIB and FAB 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

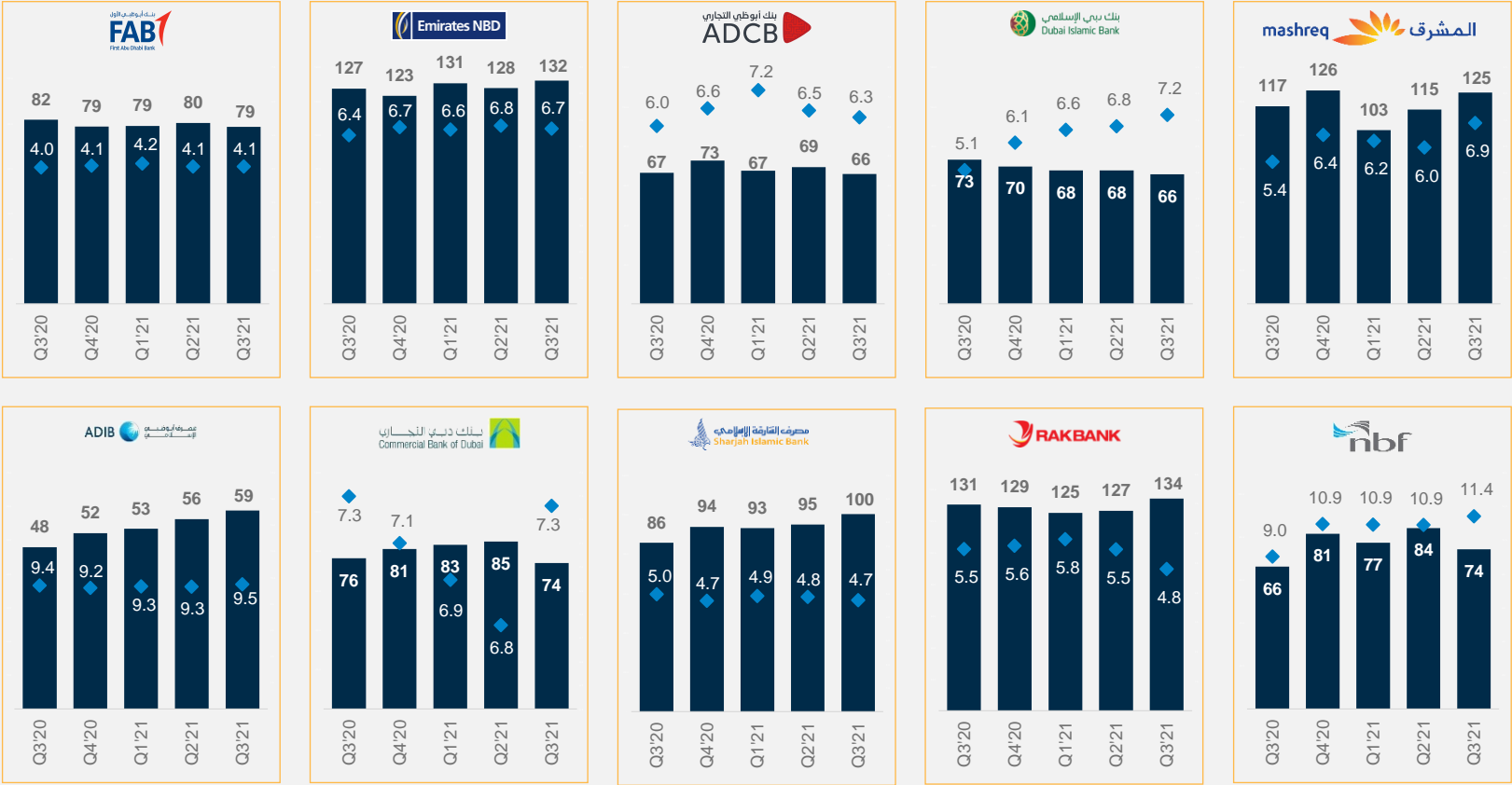
KEY TAKEAWAYS

- Five of the top 10 Banks witnessed the overall improvement in the C/I ratio
- ADIB's C/I ratio improved the most (-4.4% points QoQ), followed by SIB (-3.7% points QoQ)
 - ADIB's opex decreased by 0.5% QoQ with 10.7% rise in operating income
 - SIB witnessed 1.6% QoQ fall in SG&A while its operating income increased by 8.2% QoQ
- MSQ's C/I ratio deteriorated the most by 7.2% points QoQ, primarily due to higher SG&A (+15.0% QoQ) and lower operating income (-2.2% QoQ)

Asset Quality Remained Stable; DIB is an Exception with Rapid Decline in Asset Quality Over Past 12 Months

Coverage Ratio, % ◆ NPL / Net loans, %

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



KEY TAKEAWAYS

- Aggregate NPL/Net Loans ratio increased marginally by 5 bps to 6.2%
- Aggregate coverage ratio decreased marginally by 0.1% points QoQ to 92.2
- Coverage ratio of CBD (-10.9% points QoQ) and NBF (-9.8 points QoQ) decreased the most, primarily due to decrease in impairment allowance along with higher NPL

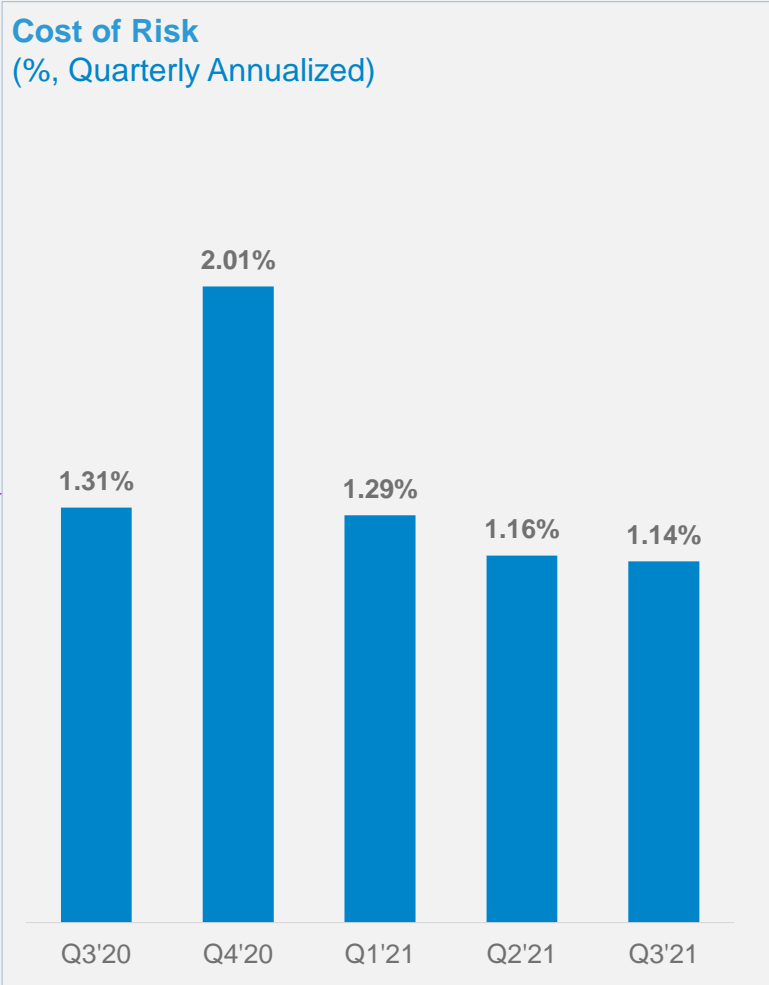
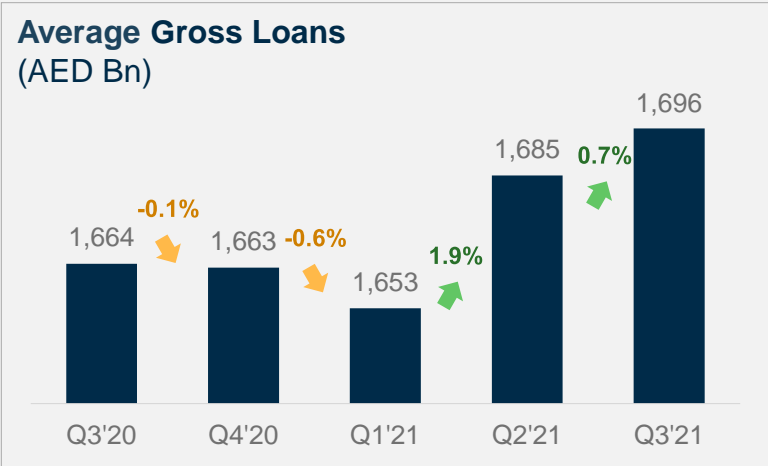
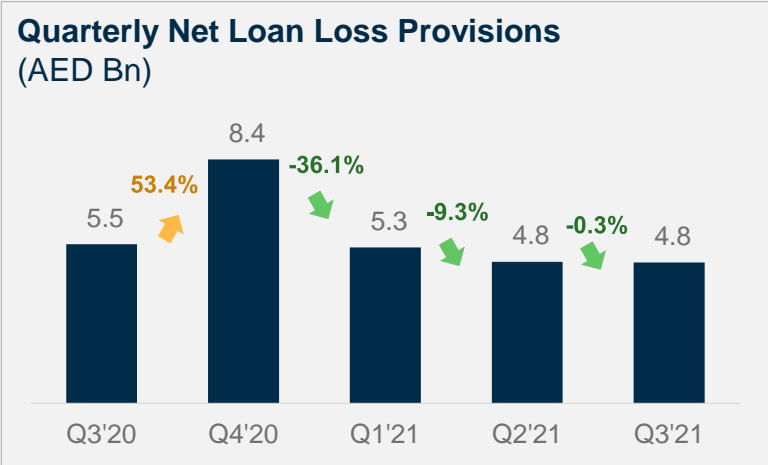
NPL/Net Loans Ratio (Aggregate)



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

Cost of Risk Continue to Decline on the Back of Improving Economic Outlook

➔ Improved ➔ Stable ➔ Worsened



KEY TAKEAWAYS

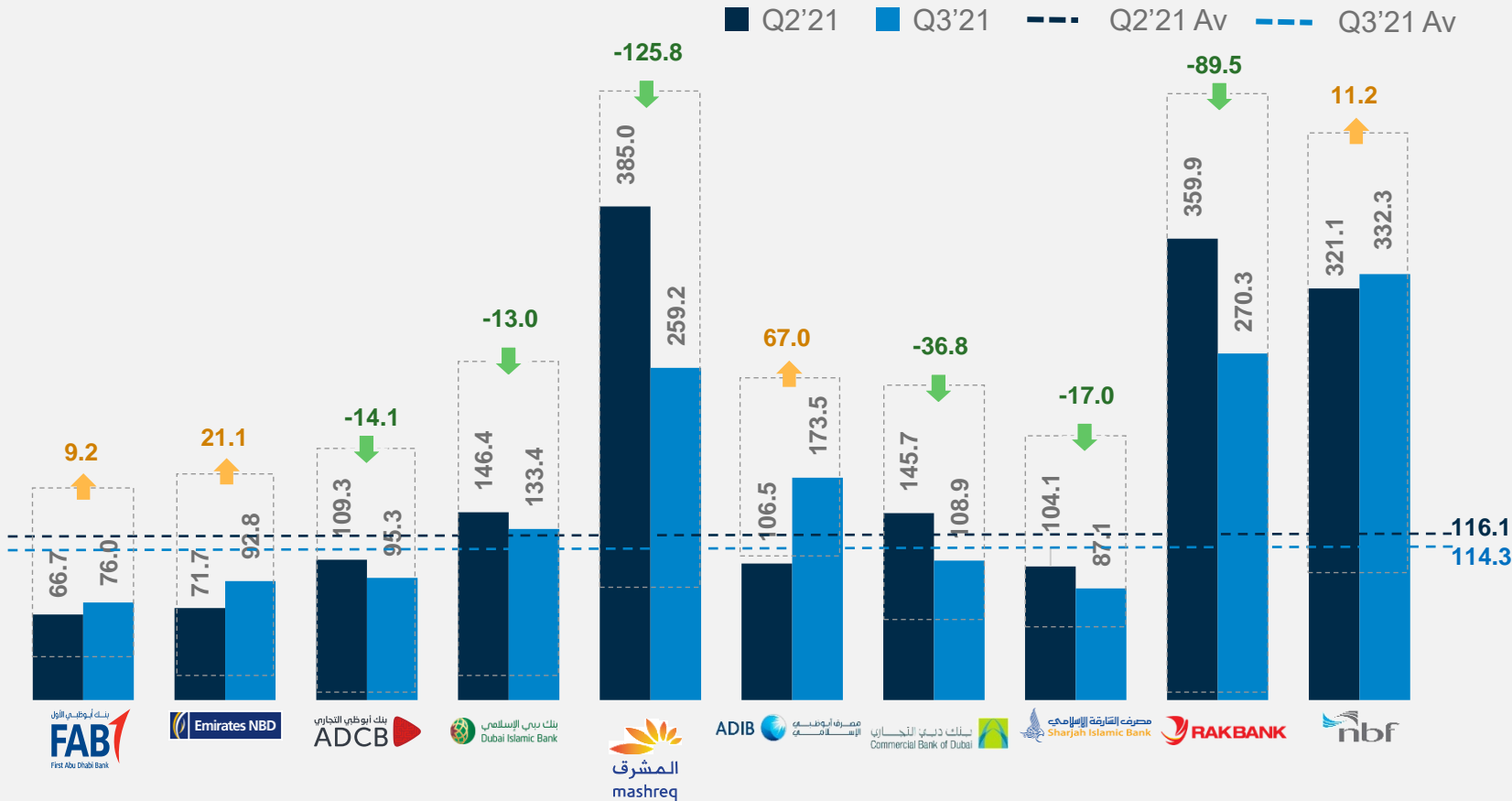
- Aggregate cost of risk fell marginally by -1.8 bps QoQ, driven by:
 - Marginal decrease in total provisioning to AED 4.8bn (-0.3% QoQ)
 - Provisioning reduced on the back of improving economic situation and as UAE customers continue to repay their dues
- Six of the top ten banks reported a fall in cost of risk in Q3'21

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

All Banks Except FAB, ENBD, ADIB and NBF Reported Improved Cost of Risk

➔ Improved ➔ Stable ➔ Worsened

Cost of Risk (bps) – Net of Reversals



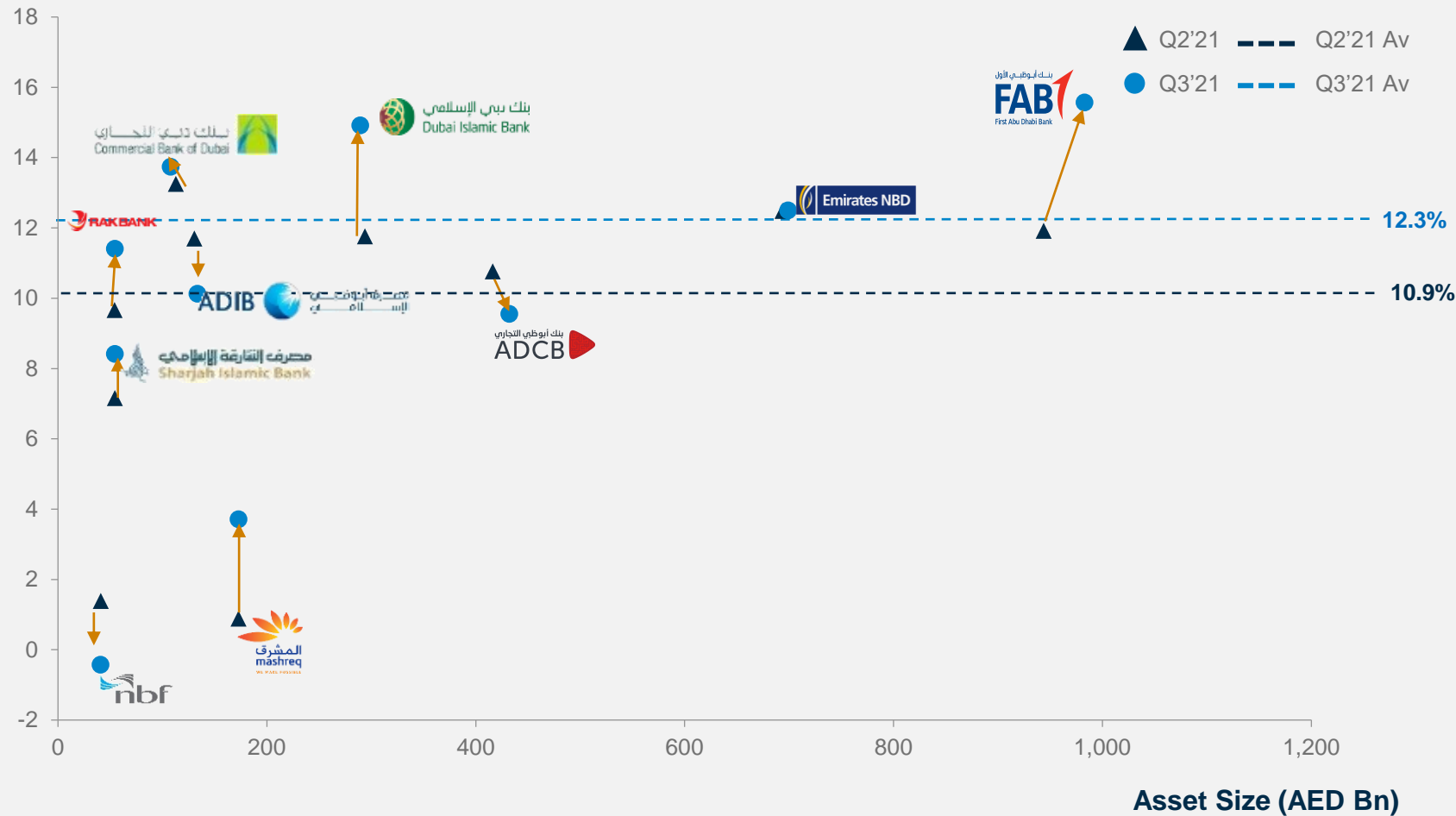
KEY TAKEAWAYS

- Aggregate cost of risk fell marginally by 1.8 bps QoQ
- MSQ (-125.8 bps QoQ) reported major decrease in cost of risk followed by RAK (-89.5 bps QoQ)
 - Cost of risk fell, primarily due to significant decrease net impairment charges – MSQ (-31.5% QoQ) and RAK (-24.0% QoQ)
- ADIB (67.0 bps QoQ) reported the highest increase in cost of risk due to 64.7% QoQ increase in net impairment charges
 - The higher impairment charge was due to single name provision taken by the bank on NMC Health Group and its associated companies

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

UAE Banking Sector Profitability has Recovered to Pre-Pandemic Levels

Return on Equity (%)

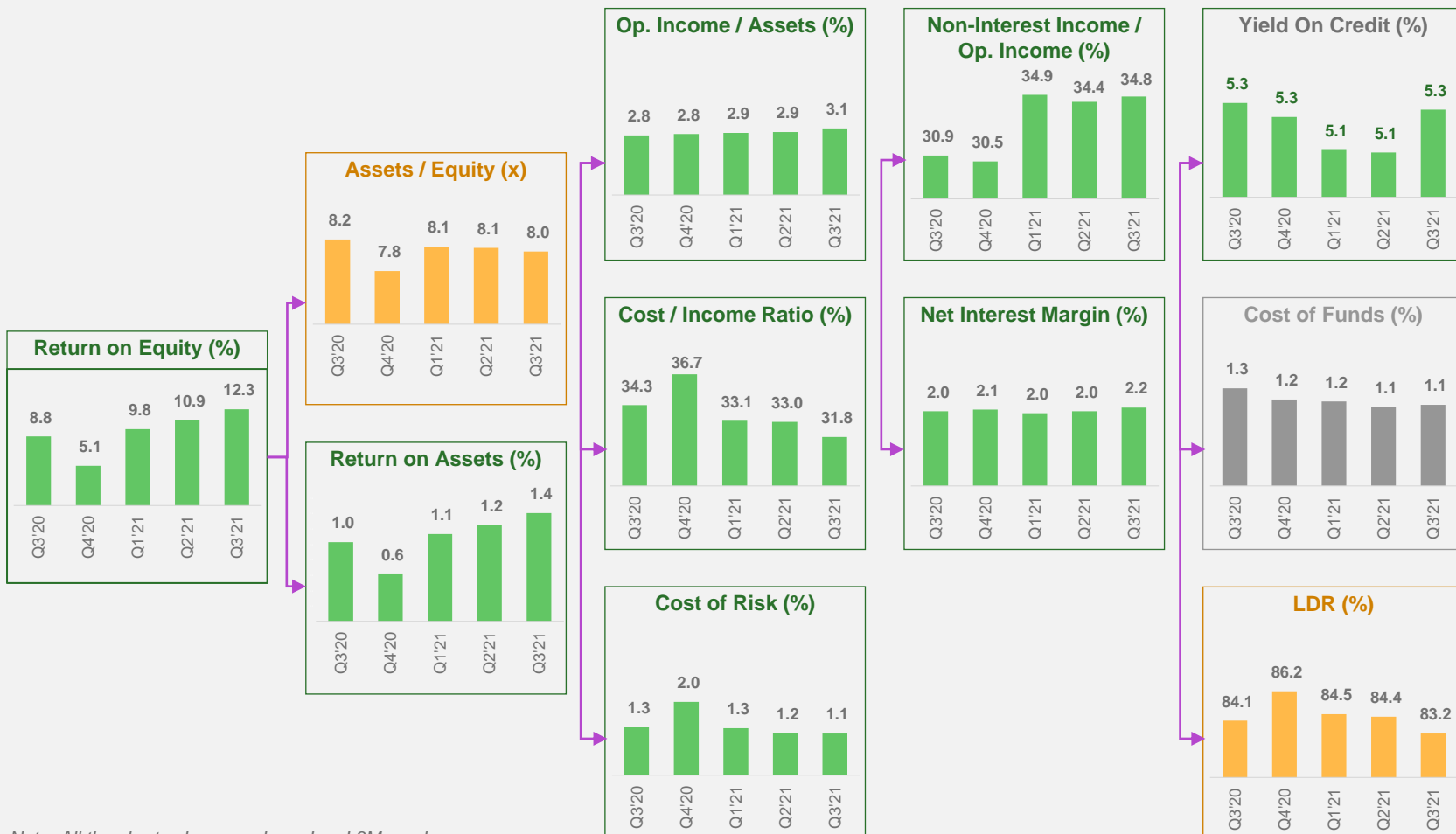


KEY TAKEAWAYS

- Aggregate RoE increased from 10.9% in Q2'21 to 12.3% in Q3'21, as the aggregate net income increased by 14.4% QoQ
- FAB (+3.6% points), followed by DIB (+3.2% points) and MSQ (+2.8% points) reported substantial increase in RoEs in Q3'21
- FAB bank reported 34.0% increase in net profit supported by higher NII (+12.1% QoQ) along with higher forex and investment related income
- NBF (-1.8% points QoQ), ADIB (-1.6% points QoQ) and ADCB (-1.2% points QoQ) and were the only banks that reported a decline in RoE

UAE Banking Sector Showing Green Shoots Amid an Improving Economic Outlook as Economy Opens Up

■ 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

- The Q3'21 results for most of the bank pointed towards increasing profitability as shown by higher return ratios along with improved credit outlook
- Q3'21 witnessed uptick in the mortgages with 9M'21 registration for mortgages surpassing registration for 2020
- UAE's banking assets are expected to grow between 8% to 10% in 2022 supported by boost due to Expo along with economic recovery as the economy opens up
- There could be a possible increase in NPL in the upcoming 12-24 months as the forbearance measures are slowly withdrawn

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

Glossary





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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	982.8	FAB	
Emirates NBD	699.1	ENBD	
Abu Dhabi Commercial Bank	432.1	ADCB	
Dubai Islamic Bank	289.4	DIB	
Mashreq Bank	169.6	MSQ	
Abu Dhabi Islamic Bank	133.4	ADIB	
Commercial Bank of Dubai	107.8	CBD	
Sharjah Islamic Bank	54.5	SIB	
National Bank of Ras Al-Khaimah	54.5	RAK	
National Bank of Fujairah	40.7	NBF	

Note: Banks are sorted by assets size
*As on 30th September 2021