



Banking Buzz UAE

Volume 3

Covid-19 and the banking industry

Leveraging government support, enhancing cross-border payment solutions and foreign ownership limits, while building consumer trust.

H1 '20 financial performance

The UAE's banking industry witnessed a decline in net profit and net interest margin, with a considerable increase in customer deposits and total assets, representing DSIBs and on account of certain acquisitions made in the first half of the year.

KPMG insights

Forward-looking perspectives and an overall analysis of deal activity in the financial services sector. Post Covid-19 scenarios around fintech innovation and planning priorities.

About Banking Buzz

Banking Buzz is a quarterly publication, which provides an overview of major developments shaping the UAE's banking industry. We seek to provide you with an engaging compilation of performance metrics and key trends relevant to the industry.

Covid-19 and the banking industry

Local and federal governments, along with the Central Bank of the United Arab Emirates (CBUAE), announced additional economic stimulus and support packages. Initiatives aim to provide relief through banks for the private sector, SMEs and individuals, and provide additional capital and liquidity cushion to banks for effective lending. Further, the industry has also identified opportunities to build resilience during these times.

“ — Leveraging government support — ”

The Central Bank of the UAE (CBUAE) endorses banks' progressive steps to support customers affected by the COVID-19 pandemic. To date (May 2020), 77 percent is already drawn-down from the AED 50 billion liquidity facility within the Targeted Economic Support Scheme (TESS), equivalent to AED 38.5 billion of allocated funds.

Statement by CBUAE⁽¹⁾

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“ — Focusing on enhancing cross-border payment services — ”

We are pleased to launch a campaign offering free international money transfers to enable customers to send money safely to their family and loved ones, during this exceptional situation... Be it for Eid, a special occasion, or a family emergency, customers can transfer the funds without any additional fees, from the safety of their homes

Farid Al Mulla,
Deputy Head of Consumer Banking and
Wealth Management, Emirates Islamic⁽²⁾

”

“ — Building consumer trust — ”

While we are delighted to see such positive results, we accept that there is still room for improvement. Despite banks increasingly offering digital customer service options, for example, there is still a reluctance among some consumers to adopt them. We will continue to leverage these findings to steer the UAE banking industry towards greater resilience and competitiveness for the benefit of the wider country...

H.E. Abdul Aziz Abdullah Al Ghurair,
Chairman, UAE Banks Federation⁽³⁾

”

“ — Increasing foreign ownership to expand liquidity — ”

The bank has received substantial interest from foreign investors, which was the main driver for us setting the FOL at the level announced today. It will allow us to broaden our investor base as well as sustain capital inflows in the UAE...with this announcement, we are confident that we will continue supporting the UAE's vision and goals to be one of the most attractive economies for foreign investment.

Bernd van Linder,
Chief Executive Office, CBD⁽⁴⁾

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“ — Introducing preferential services for healthcare workforce — ”

The commitment shown by UAE healthcare professionals to protect our families and communities in recent months has been truly exceptional. ADIB wants to pay tribute to the many heroes who have been working at the frontline to provide critical care in extremely challenging circumstances.

Philip King,
Global Head of Retail Banking, ADIB⁽⁵⁾

”

“ — Developing capabilities for non-LIBOR rates — ”

Before offering non-LIBOR rates to customers, banks are likely to first develop capabilities to be able to transact and book in the new RFRs. Beyond identifying LIBOR exposures, banks could focus on developing their customer communication strategy, consider how they will amend customer contracts, and identify all internal processes that reference LIBOR. All this needs to be completed before the fast-approaching December 2021 deadline!

Abbas Basrai,
Partner, Head of Financial Services,
KPMG Lower Gulf⁽⁶⁾

”

UAE banks are offering loan repayment holidays for personal loans, mortgages and car loans; interest-free installment plans; reduced charges and fees to customers. Further, major banks have deferred regularly scheduled payments, reduced mandatory minimum balance and credit card limits for retail and SME segments.



Post Covid-19

The industry is expected to benefit from the opening of key economic sectors, such as tourism and retail, supported by changes in foreign ownership limits. However, there are several prominent trends expected to emerge from the pandemic:

- Re-assessment of **digital transformation plans** and **crisis management frameworks**
- **Growth in demand for contactless payment solutions**, as customers become accustomed to the security and accessibility offered
- **Diversification of products and services by banks**, leveraging the rise in adoption of fintech and digital payments during this pandemic
- **Upgrading of ATM machines and introduction of new customer engagement channels**; reducing customer visits to the branch
- **Announcement of lay-offs in the industry** due to cost optimization and acceleration in digitization
- **Banks being vigilant in providing personal financing solutions** due to asset quality concerns



“Banking will not be the same again, after COVID-19, banking will be much different than it was pre-pandemic. The change in the way people bank, the future of work and the use of modern technology will reshape banking. We are all focused on finding the best solution to the problems today. We need to start focusing on the possibility that the needs / problem could be very different by the time the solution comes. A look into the future will provide a good foundation for what needs to be done today.”



Abbas Basrai
Head of Financial Services
KPMG Lower Gulf

How can KPMG help in building the capabilities for the new reality?

- Cash and liquidity management
- Operational risk
- Financial risk review
- Cyber and security controls
- Staff augmentation
- Digital transformation
- Business continuity planning
- Tax and regulatory compliance
- Debt advisory/restructuring
- Deal advisory

Details of the services offered by our banking experts can be found on our website: www.home.kpmg/ae

Market wrap-up

Half year 2020 results snapshot¹EARNINGS²

Net profit after tax decreased by 33.9% to

✓ AED 12.5 billion

Average net interest margin³ decreased by 3 bps to

✓ 255 bps

BALANCE SHEET⁴

Total customer deposits increased by 1.3% to

⬆ AED 1,436.3 billion

Total assets increased by 5.6% to

⬆ AED 2,261.3 billion

CREDIT QUALITY²

Liquidity coverage ratio decreased by 25.6% pts to

✓ 124.9%

Non-performing loan ratio increased by 1.1% pts to

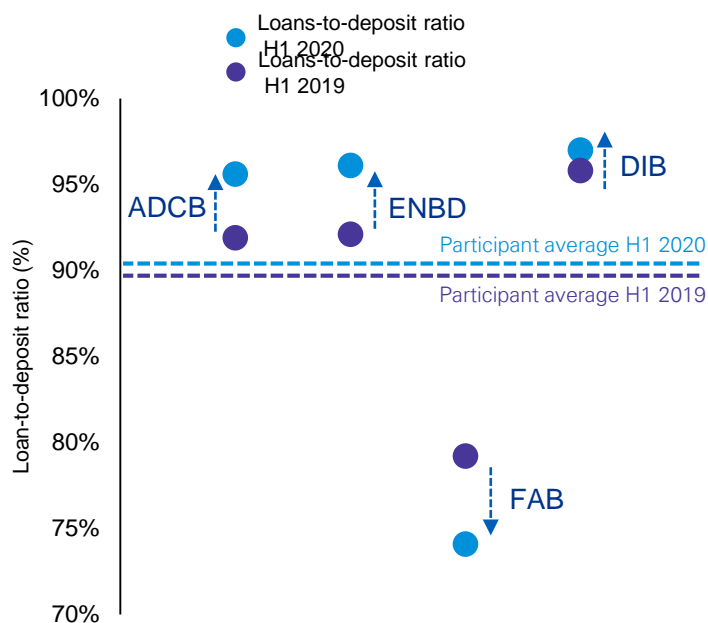
⬆ 4.8%



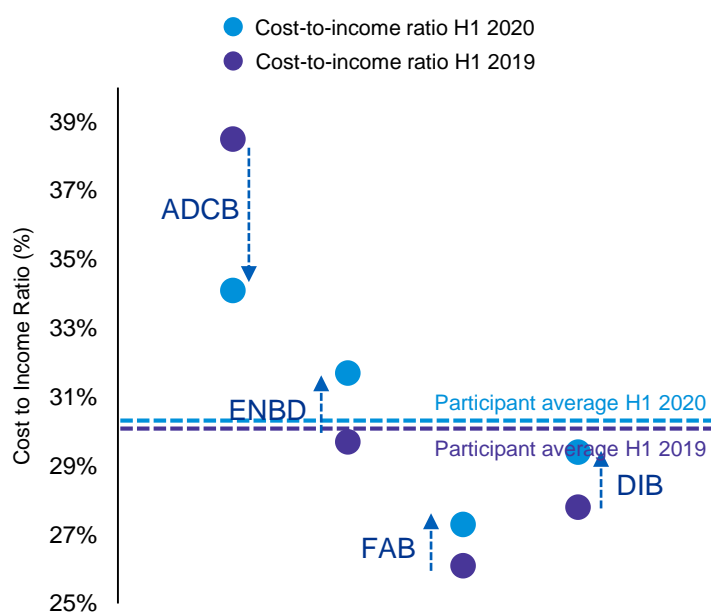
- (1) Representation includes domestically systemic banks in the UAE: ADCB, ENBD, FAB and DIB
 (2) Earnings and credit quality comparisons are to H1 2019
 (3) Average Net Interest margin covers ADCB, ENBD and FAB
 (4) Balance sheet comparisons are to YE 2019, adjusted for restatements as applicable

Banking on key players

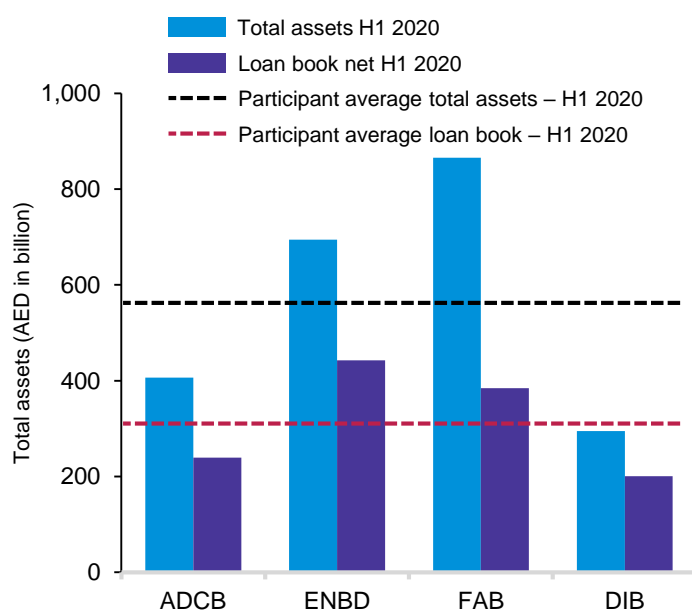
Loans-to-deposit ratio



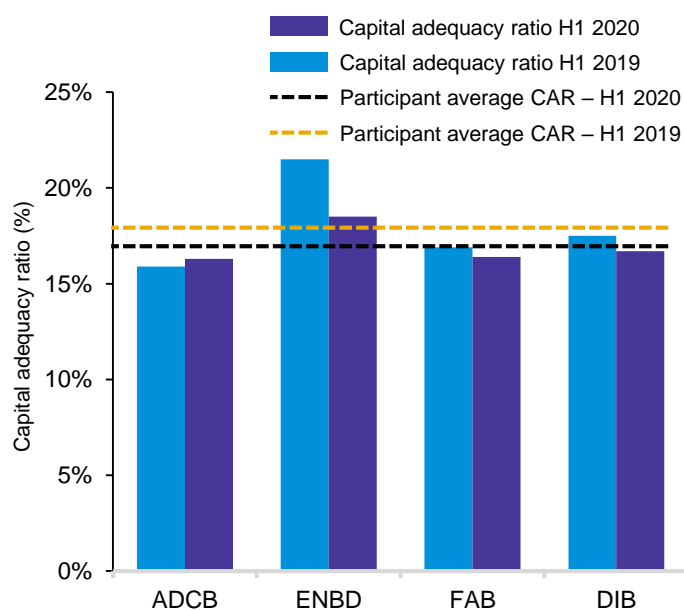
Cost-to-income ratio



Total assets and total loan book



Capital adequacy ratio

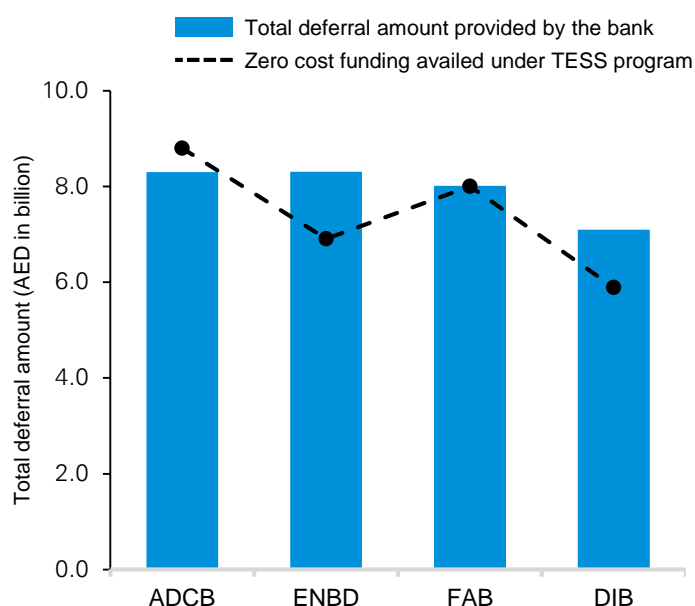


Glossary

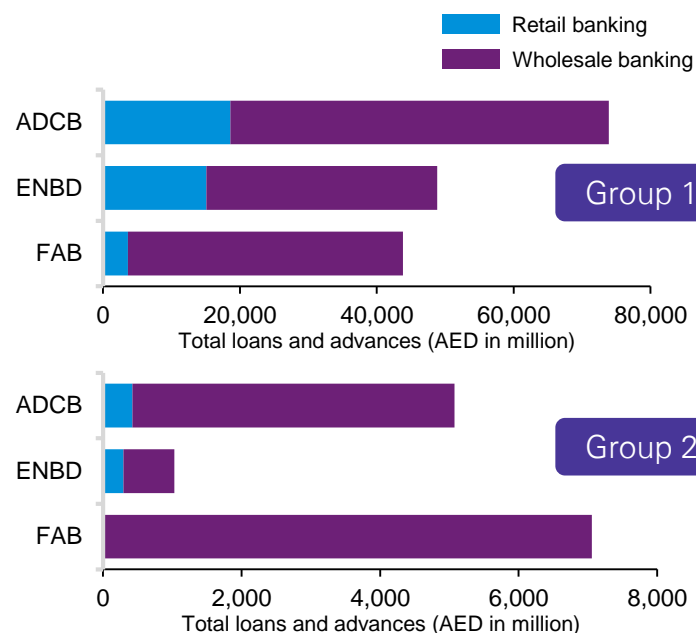
Loan to deposit ratio is the ratio of total loans and advances to total deposits. **Cost to income ratio** is total operating expenses (excluding integration costs as applicable) to total operating income. **Coverage ratio** is the ratio of total ECL for loans and advances to total NPL. **Total loan book** is net loan (including loans & receivable and Islamic financing receivables). **Capital adequacy ratio** is total regulatory capital to total risk weighted assets.

How is the pandemic affecting loan books?

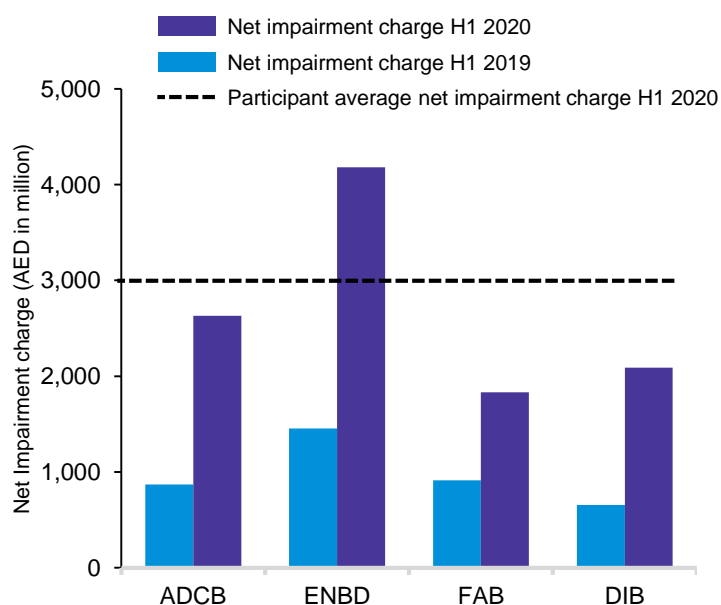
Zero cost funding to own funding %



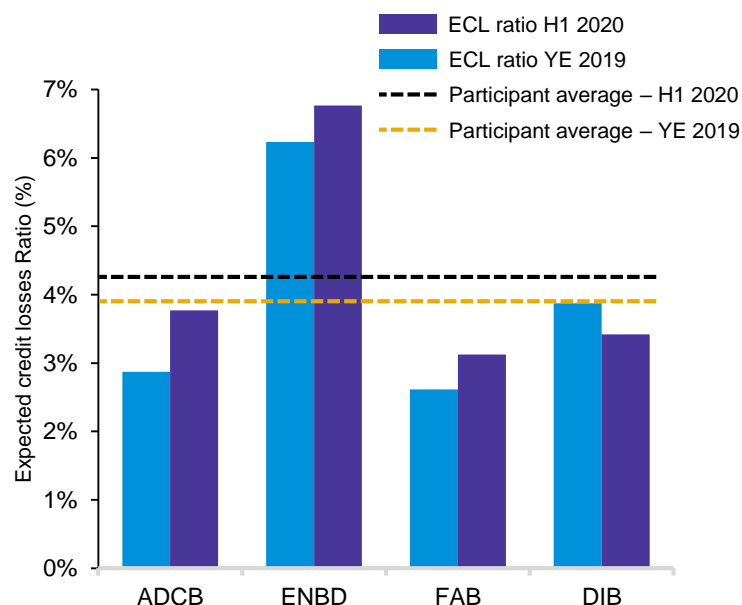
Customers' outstanding balances



Net impairment allowances



Average ECL



Glossary

Zero Cost Funding under the CBUAE TESS program availed by the banks. According to CBUAE guidelines, **Group 1** includes those customers who are temporarily and mildly impacted by Covid-19, and **Group 2** includes those customers those who are significantly impacted by Covid-19 in the long term. **Average expected credit losses (ECL)** is ECL as a percentage of the total loans and receivable and Islamic financing receivables. In case of DIB, ECL ratio is calculated using total Islamic financing and investing assets.



From our global desk

In this edition, we explore forward-looking perspectives and an overall analysis of deal activity in the financial services sector. We also cover post Covid-19 scenarios around fintech innovation and planning priorities.

Frontiers in Finance



Market insights and forward-looking perspectives for financial services leaders and professionals

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Asset Atlas: The 2019 financial services landscape



Broad-ranging picture of deal activity and future opportunities across the financial services sector

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KPMG blogs

Banks balance surge in SME business loans



Four key risks banks face in balancing the speed of loan processing with compliance checks

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Can fintech lead innovation post COVID-19?



With digital solutions set to be in even greater demand, fintechs will play a leading role

[Read more](#)

Financial services: five priorities post Covid-19



Five planning priorities to anticipate tomorrow but deliver today

[Read more](#)



Glossary

CBUAE – Central Bank of UAE

ENBD – Emirates NBD

CBD – Central Bank of Dubai

FAB – First Abu Dhabi Bank

ADIB – Abu Dhabi Islamic Bank

DIB – Dubai Islamic Bank

ADCB – Abu Dhabi Commercial Bank

Citations

- (1) CBUAE publishes Bank's names that availed more than 50% of the allocated TESS liquidity facility, published on 16 May 2020, CBUAE
- (2) Emirates Islamic launches free international money transfers campaign during ongoing COVID-19 situation, published on 21 May 2020, Emirates Islamic
- (3) 2019 UBF Trust Index reveals consumer trust in UAE banks remains high, published on 20 July 2020, UAE Banks Federation
- (4) Commercial Bank of Dubai allows foreign ownership of its shares, published on 11 June 2020, The National
- (5) ADIB Continues its Support to Customers Impacted by COVID-19 by providing special offers to medical workers, ADIB, published on 12 July 2020
- (6) UAE Banking perspectives 2020, published on 8 April 2020, KPMG Lower Gulf

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