



Banking BUZZ UAE

Volume: 4

Industry pulse

A focus on developing digital products, evolving the relationship between the UAE and Israel, and implementing strategies for expanding footprints

Market performance

There has been a significant decline in net profit and net interest margin, with a considerable increase in customer deposits and total assets due to the mergers and acquisitions, as well as an increase in NPL ratio

KPMG insight

We explore the risks and challenges associated with digital currency, and challenges and considerations for banks to avoid losses from project failures. We also highlight findings from the latest edition of Pulse of Fintech and CEO Outlook

About Banking Buzz

Banking Buzz is a quarterly publication which provides an overview of major developments shaping the banking industry in UAE. It is a compilation of performance metrics and key trends in the sector.



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Business pulse

1

Banks continue to develop customer centric digital products and services

- Major banks have partnered to launch integrated digital solutions including digital signatures and contactless processing, among others
- Further, some banks have introduced digital engagement channels, refurbished branches and remote booking service to provide improved customer touch-points



Industry voice

“

Consumers are demanding digital options across a multitude of industries and that includes banking, payments and purchases... FAB is always committed to providing futuristic and interoperable solutions that drive the digital payments journey and improve customer experience.

”

— Hana Al Rostamani,
Deputy Group CEO and Head of Personal Banking,
FAB⁽¹⁾

2

Contributing to the evolving relation between the UAE and Israel

- UAE banks have signed MoUs with two of the largest Israel banks, Bank Hapoalim and Bank Leumi, with the aim of providing direct services including clearance, credit lines and foreign currency trade between both the countries

“

We are pleased to sign this agreement, which will support the two countries' (*UAE and Israel*) shared objective of enhancing economic and commercial engagement. The MoU will open new business and trade opportunities for our clients and further enhance our leading position as a trusted banking partner to businesses across the MENAT region.

”

— Shayne Nelson,
Group CEO, Emirates NBD⁽²⁾

3

Commencement of consolidation and footprint expansion across the Middle East region

- The recent decrease in oil prices and the pandemic is expected to create cost pressure, resulting in banks focusing on consolidation
- Major UAE banks are aiming to expand their international presence by acquiring foreign banks' units in Egypt, and signing MoUs to enhance customer services in the country

“

...However, in our view, Saudi isn't the primary Gulf market for further bank M&A – that's the UAE, which is fragmented and overbanked. With Covid-19 and its negative impact on banking sector profitability, we might see a second wave of mergers that won't be driven by common shareholders re-organising their assets, but instead based on a purely economic rationale..

”

— Dr. Mohamed Damak,
Senior Director, Financial Sector lead,
Middle East and Africa, S&P Global Ratings⁽³⁾

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GCC listed banks results H1 2020 - snapshot

GCC listed banks results - Six months ended 30 June 2020

The report highlights that during **Covid-19, H1 2020** profits of the **top 10 listed UAE banks declined** on an average by **38.9 percent**. The quality of **credit exposures has also deteriorated**, resulting in an increase in the non-performing loan ratio **from 3.8 percent on 31 December 2019, to 4.1 percent on 30 June 2020**, for the UAE's top banks.



“KPMG’s analysis shows that the UAE banking sector has remained resilient, despite a challenging operating environment and a drop in net profits from the top 10 listed banks. Stakeholders’ focus is shifting towards stability, solvency, and liquidity. It remains to be seen whether this will trigger another wave of mergers and acquisitions in the region’s banking sector.”

Abbas Basrai
Head of Financial Services
KPMG Lower Gulf

This trend continues in Q3 2020, as we see a significant decline in net profit with an increase in expected credit loss

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Market Wrap-up

Nine months ending 2020 results snapshot¹



AED18.9 billion

(as of 30 September 2020)
Major banks have witnessed a significant decline in net profit, with **overall net profits** decreasing by **36.2 percent** y-o-y



Total assets valued at **AED2.4 trillion**, an **increase of 10.0 percent**, as compared to YE 2019, primarily driven by acquisitions that took place during the last year end



Average **Loans to Deposit ratio** reduced by **1.4 pts to 88.2 percent**, with deposits **increasing by 7.1 percent**, as compared to YE 2019



CAR at 17.5 percent and **LCR at 138.5 percent** are well above minimum regulatory requirements across the UAE as of 30 September 2020



Overall **average NPL ratio** **increased** from 3.5 percent in Q3 2019 to **5.1 percent in Q3 2020**, which demonstrates that the quality of credit exposures has deteriorated in the UAE banking industry



Average **net interest margin**² **decreased** by **20 bps y-o-y** to **239 bps** as of 30 September 2020

(1) Representation includes domestically systemic banks in the UAE: ADCB, ENBD, FAB and DIB

(2) Average Net Interest margin covers ADCB, ENBD and FAB

(3) Balance sheet comparisons are to YE 2019, adjusted for restatements as applicable

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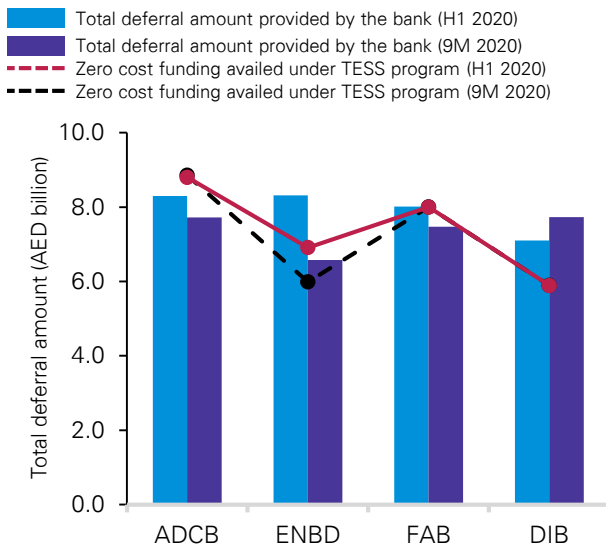
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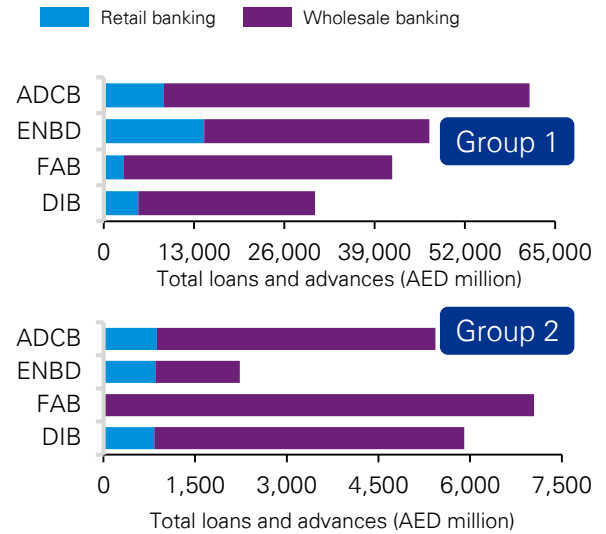


Banking on key players

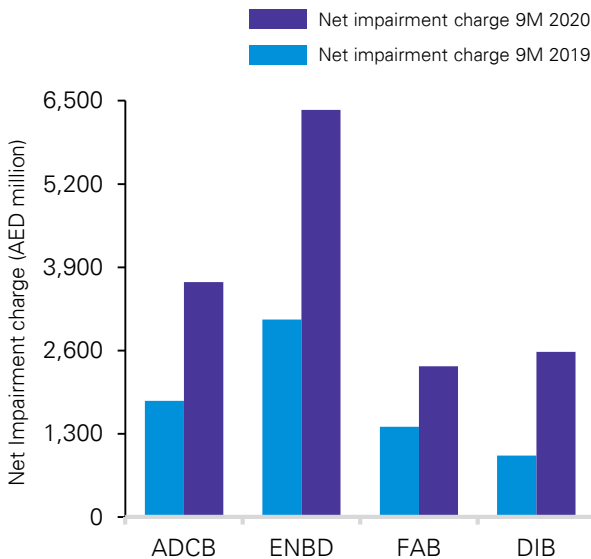
Zero cost funding to own funding %



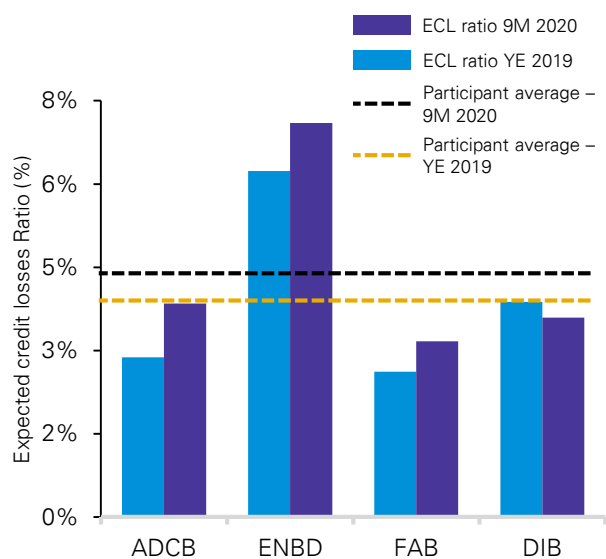
Customers' outstanding balances



Net impairment allowances



Average ECL



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From our Global Desk

Spotlight on cryptoassets and
central bank digital currencies



Highlighting risks and
challenges presented by digital
currencies

[Read more](#)

Why infrastructure projects fail,
resulting in losses for banks



Identified ten guiding principles for
banks aimed at avoiding losses due
to infrastructure project failure

[Read more](#)

Pulse of Fintech H1'20 – EMEA



H1'2020 analysis of EMEA
fintech investments

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KPMG 2020 CEO outlook



Covid-19 special edition

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Glossary

ADCB – Abu Dhabi Commercial Bank

ENBD – Emirates NBD

FAB – First Abu Dhabi Bank

DIB – Dubai Islamic Bank

NPL – Non Performing Loans

CAR – Capital Adequacy Ratio

LCR – Liquidity Coverage Ratio

Zero Cost Funding under the CBUAE TESS program was 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 the case of DIB, ECL ratio is calculated using total Islamic financing and investing assets.

Citations

- (1) [klip digital cash now live with First Abu Dhabi Bank, Mashreq and National Bank of Fujairah](#), 10 September 2020, Gulf News
- (2) [UAE's Emirates NBD signs 'historic' MoU with Israel's Bank Hapoalim](#), 15 September 2020, Khaleej Times
- (3) [The role of GCC banks in promoting regional economic growth](#), 19 September 2020, Gulf Business

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