



Banking BUZZ UAE

Volume: 5

Industry pulse

Regulators and banks are aiming to strengthen cyber capabilities, improve transparency, foster the fintech ecosystem and optimize back-end operations.

Market performance

The year saw significant declines in net profit and net interest margin, with an increase in loan-to-deposit and NPL ratios. However, customer deposits increased with a decline in loan book proportion to total assets.

KPMG insight

We explore the future of retail banking across emerging business models, highlighting connected banking capabilities and six macro themes that have accelerated due to the pandemic.

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

UAE regulators are focused on building cyber resilience and enhancing transparency

- The Central Bank tested the industry's cyber readiness and the UAE Banks Federation (UBF) emphasized best practices in data privacy and protection
- Further, authorities urged institutions to review compliance functions and their risk appetite framework, and issued guidelines to protect consumers and improve customer confidence in the industry



Industry voice

“ The issuance of the Consumer Protection Regulation comes within the Central Bank's keenness to promote transparency and fairness when Licensed Financial Institutions deal with their consumers. It will enhance competitiveness, integrity and stability of the banking and financial sector. ”

— Abdulhamid M. Saeed Alahmadi,
Governor, UAE Central Bank⁽¹⁾

2

Aligned with the increase in demand for digital financial services, banks and regulators are cultivating the growth of fintech

- UAE regulators are focused on promoting digital payment services by issuing new regulations and partnering with other central banks and institutions
- Further, financial institutions have signed agreements with other regional fintech hubs and established collaborative workspaces to promote transformative banking solutions

“ As an International Financial Centre and regulator in Abu Dhabi, ADGM will continue to work closely with the UAE Central Bank to proactively stimulate and foster innovation that offer positive outcomes for the financial sector, as well as, safeguard the stability and integrity of our economy. ”

— Ali Al Sayegh, Minister of State (UAE) and
Chairman of Abu Dhabi Global Market (ADGM)⁽²⁾

3

Optimizing back-end operations and expanding international presence

- To offset asset quality pressures and the impact of the global pandemic, banks are optimizing operational costs by outsourcing back-end operations
- UAE banks continue to expand regional and global footprint through acquisitions, spin-offs and opening representative offices
- Further, banks are focused on evolving contactless solutions for customers and renewing agreements to offer unique solutions

“ As the payments industry continues to move at a rapid pace, our ambition is to remain at the forefront, creating opportunities to collaborate with the right Fintechs and strategic partners. A fully owned subsidiary will open up the full potential of FAB's payment business and commercialize our processing offering at scale, across a broad range of customers and partners. ”

— André Sayegh,
Former Group Chief Executive Officer, FAB⁽³⁾

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Market wrap-up

Full-year 2020 results snapshot

Earnings



Net profit after tax
decreased by **33.2%** to

✓ AED 24.6 billion

Average net interest margin²
decreased by **22 bps** to

✓ 239 bps

Balance sheet



Total customer deposits
increased by **3.1%** to

↑ AED 1.5 trillion

Total assets increased
by **8.2%** to

↑ AED 2.3 trillion

Credit quality



Liquidity coverage ratio
increased by **8.9% pts** to

↑ 148.5%

Non-performing loan ratio
increased by **1.5% pts** to

↑ 5.5%

- (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) Comparisons are to YE 2019, adjusted for restatements as applicable

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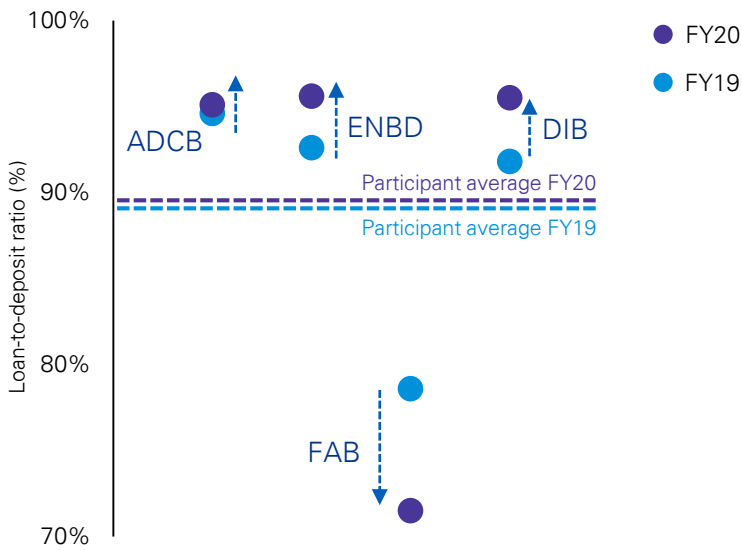
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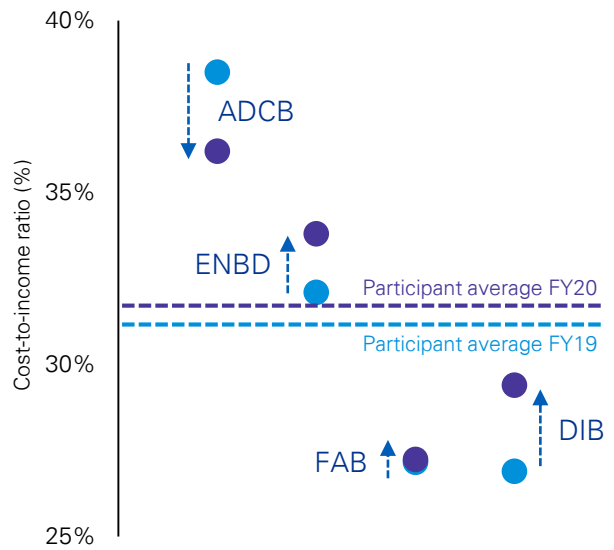


Key ratio movements

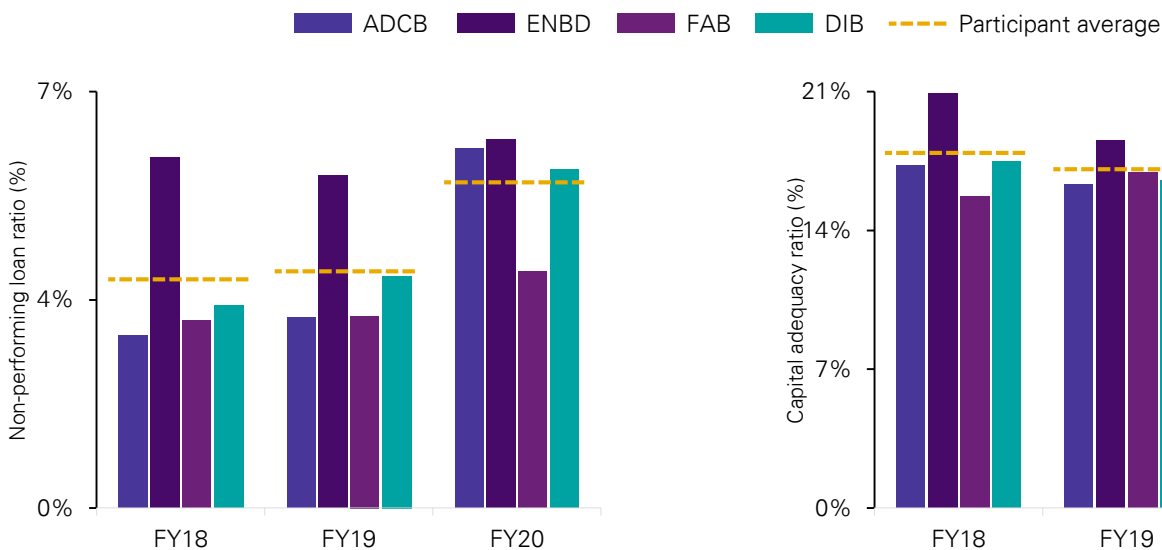
Loan-to-deposit ratio



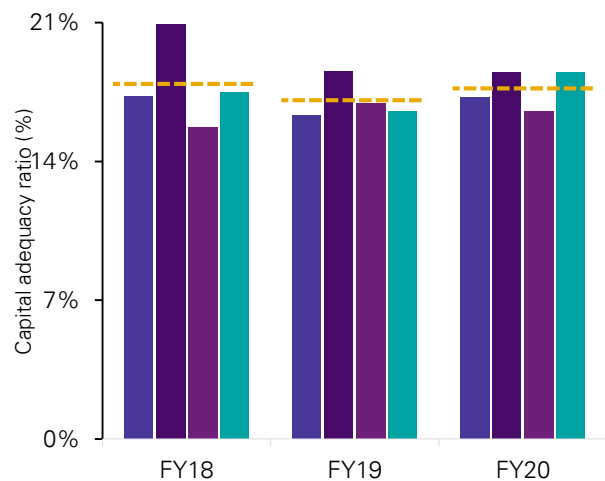
Cost-to-income ratio



Non-performing loan ratio



Capital adequacy ratio



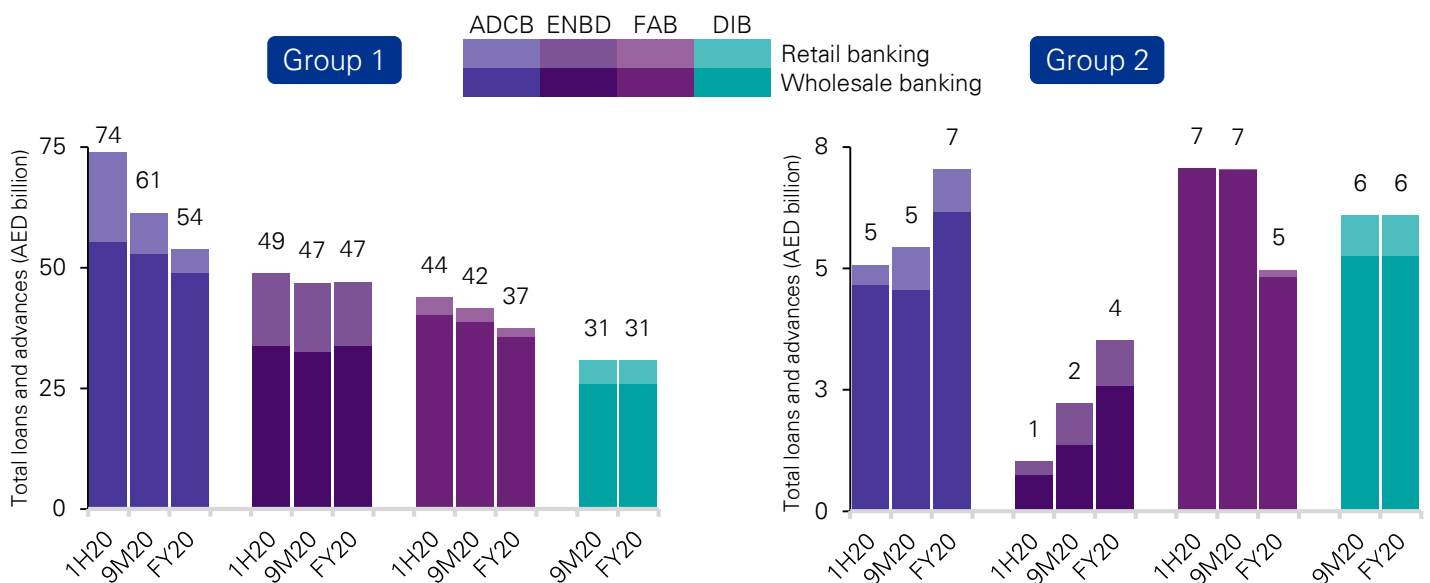
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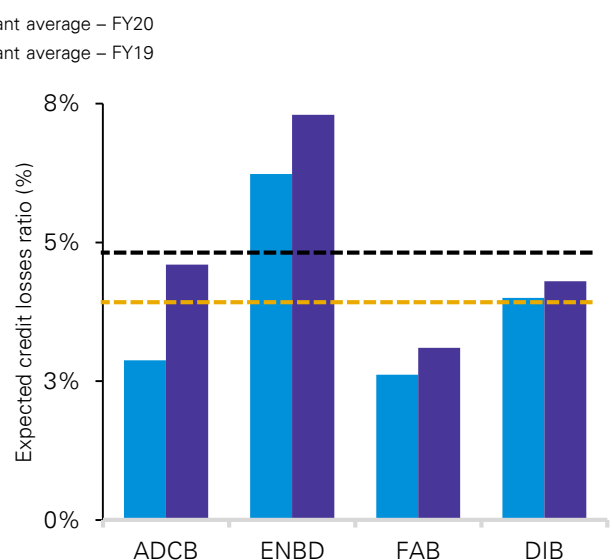
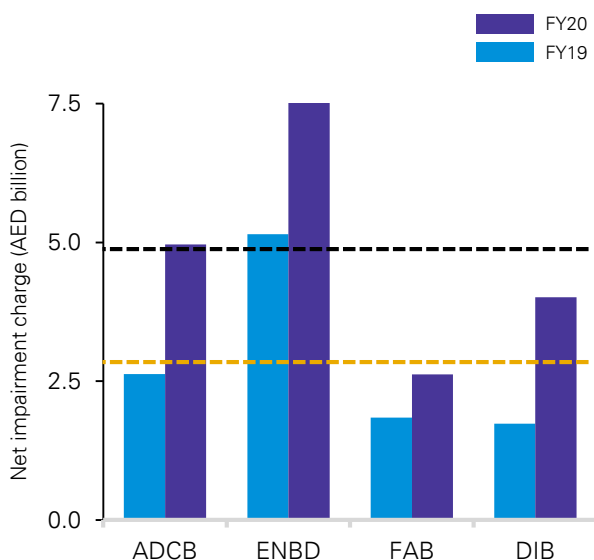
How is the pandemic affecting loan books?

Customers' outstanding balances



Net impairment allowances

Average ECL



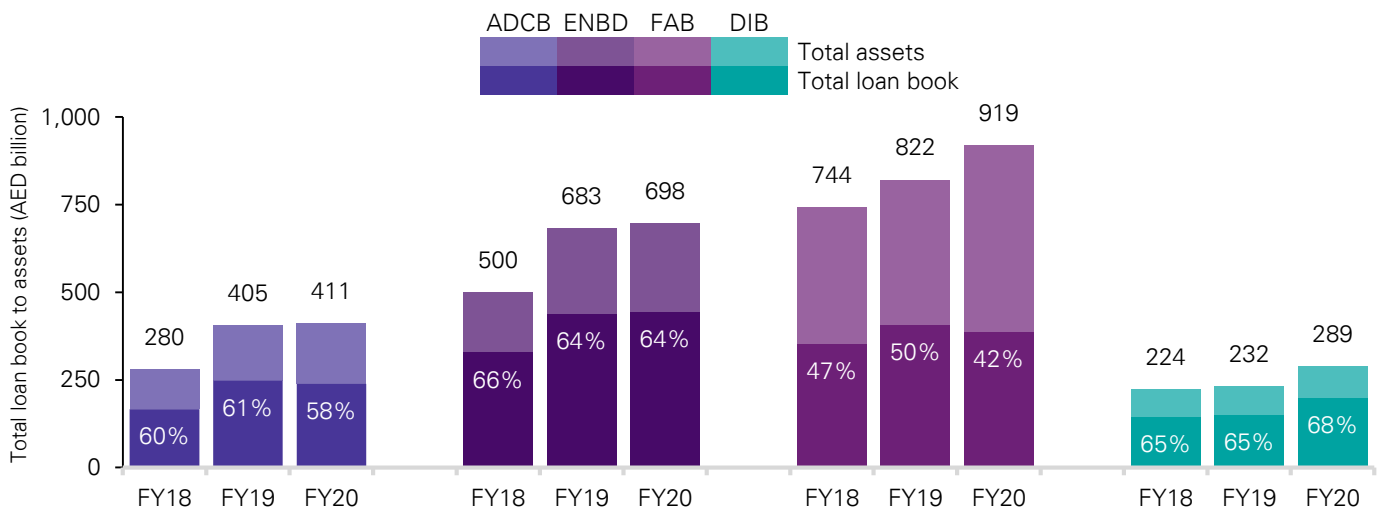
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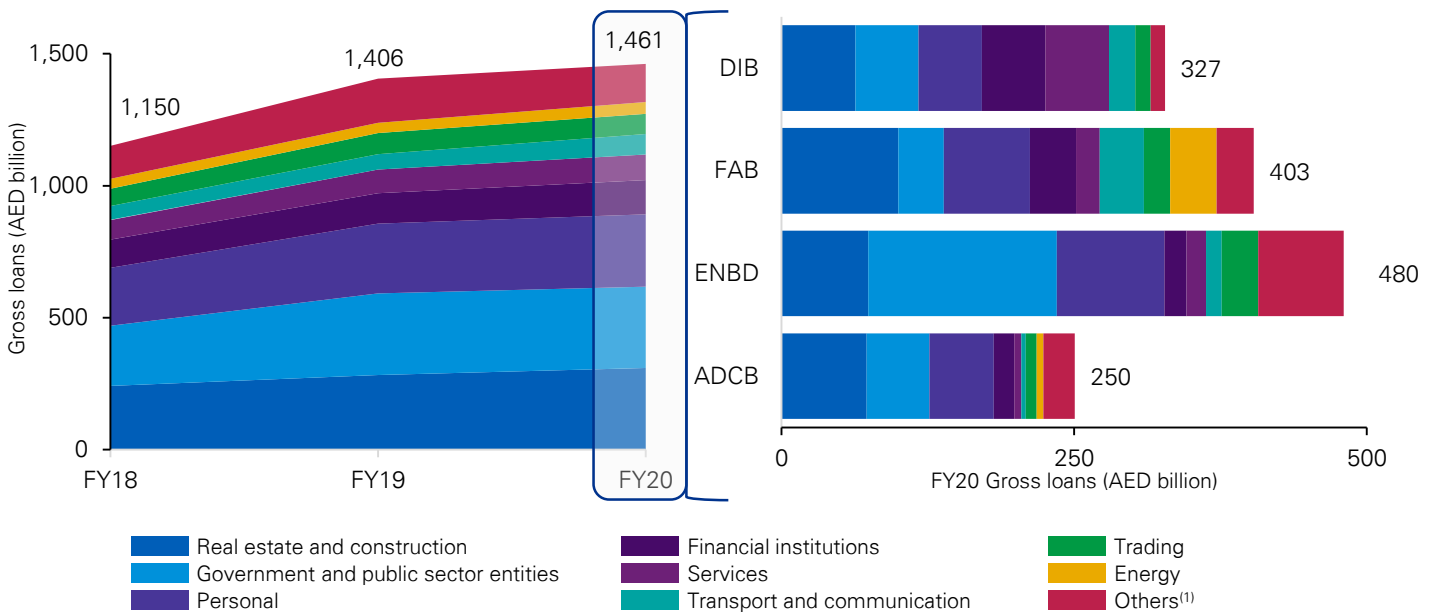
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Asset and loan mix

Total loan book proportional to total assets



Gross loans by sector



(1) Others include management of companies and enterprises, banks, contracting, investment securities and investments

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From our global desk

In this edition, we explore the future of retail banking across three dominant banking models in the new reality, along with six macro themes that have accelerated due to the pandemic and are now pivotal to banks' future success. We also provide a summary of the new data protection regulations issued by the Abu Dhabi Global Market (ADGM).

Making the right connections



The future of retail banking

[Read more](#)

Banking in the new reality



Six trends shaping the industry

[Read more](#)

ADGM – New Data Protection Regulations 2021



Summary of the new data protection regulations

[Read more](#)

Banking Buzz series



Volume 1
Full Year 2019



Volume 2
First Quarter 2020



Volume 3
Half Year 2020



Volume 4
Third Quarter 2020



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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

CBUAE – Central Bank of the United Arab Emirates

UBF – UAE Banks Federation

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) [UAE: New banking guidelines to protect consumers](#), 1 February 2021, Khaleej Times
- (2) [Central Bank of UAE to play a proactive role in promoting fintech](#), 25 November 2020, Gulf News
- (3) [First Abu Dhabi Bank to Expand Payments Business Alongside Visa Partnership](#), 8 November 2020, The Fintech Times

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