ALVAREZ & MARSAL REPORTS SLOWER LOAN GROWTH AND INCREASED DEPOSITS FOR UAE BANKS IN Q3 2024

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- Aggregate net income decreased by 5.5 percent QoQ to AED 20.3 bn in Q3'24
- Lending momentum continues despite lower benchmark interest rates and increased impairment charges
- Overall cost efficiency deteriorated as banks increase spending on digitalization initiatives.

Dubai – November 25, 2024 – Leading global professional services firm Alvarez & Marsal (A&M) has released its latest United Arab Emirates (UAE) Banking Pulse for the third quarter of 2024 . The report notes that the UAE's top banks experienced slower loan growth compared to deposit growth, leading to a decrease in the loan-to-deposit ratio (LDR) and a decline in profitability due to higher impairment charges.

Loans and advances (L&A) grew moderately, up by 3.5 percent quarter on quarter (QoQ), and retail lending contributed the most to this growth with an increase of 4.9 percent QoQ. Deposits increased at a faster pace (+3.9 percent QoQ) mainly driven by higher time deposits (+5.6 percent QoQ). Consequently, LDR decreased by 0.3 percent QoQ.

Profitability was undermined by high impairment charges (+124.9 percent QoQ) resulting lower net income which declined 5.5 percent QoQ, as a result, return on equity (RoE) and return on assets (RoA) contracted by 223 bps and 16 bps respectively.

While interest rates were cut by 50 bps, net-interest income increased marginally by 1.5 percent QoQ. Higher Non-interest income (+7.4 percent QoQ) supported an increase in total operating income (+3.5 percent QoQ).

The prevailing trends identified for Q3 2024 are as follows:

1. Aggregate L&A grew by 3.5 percent QoQ for the top 10 UAE banks, which was slower than the deposits growth of 3.9 percent QoQ. Consequently, the LDR decreased by 0.3 percentage points QoQ to 75.5 percent.
2. Growth in total operating income was 3.5 percent QoQ in Q3'24, compared to a growth of 0.4 percent QoQ in the previous quarter. This increase was supported by non-interest income growth of 7.4 percent QoQ, with other operating income increasing by 11.8 percent QoQ. However, net interest income (NII) grew at a slower pace of 1.5 percent QoQ.
3. Aggregate NIM remained largely flat (-1bp QoQ) despite a 50bps cut in benchmark interest rates in Q3'24. The margins were unaffected by lower spreads (-12bps QoQ) and the lower LDR (0.3 percentage points QoQ) during the quarter.
4. Six out of the top ten banks reported a deterioration in the cost efficiencies. The cost-to-income (C/I) ratio increased by 99bps QoQ to 29.0 percent in Q3'24 as total operating expenses rose by 7.1 percent QoQ, outpacing the 3.5 percent QoQ increase in total operating income.
5. Cost of risk (CoR) continued to improve for the UAE banks reaching a multi-year low. CoR improved by 16bps QoQ to settle at 0.3 percent for Q2'24. Total impairments declined by 35.4 percent QoQ in Q2'24 to AED 1.3 bn. Six out of the top ten banks reported an improvement in CoR. CoR worsened by 30bps QoQ to 0.6 percent in Q3'24. Total impairments increased

by 124.9 percent QoQ to AED 2.9bn.

6. Profitability was undermined by high impairment charges (+124.9 percent QoQ) resulting lower net income which declined 5.5 percent QoQ, leading to a contraction in return on equity (RoE) by 223bps and return on assets (RoA) by 16bps QoQ in Q3'24. UAE banks remain well-capitalized with aggregate capital adequacy ratio (CAR) levels at 17.9 percent (+0.37 percentage points QoQ).

OVERVIEW

The table below sets out the key metrics:

CATEGORY	METRIC	Q2' 24	Q3'24
Size	Loans and Advances Growth (QoQ)	3.2%	3.7%
	Deposits Growth (QoQ)	2.3%	1.4%
Liquidity	Loan-to-Deposit Ratio (LDR)	97.8%	100.1%
Income & Operating Efficiency	Operating Income Growth (QoQ)	1.9%	6.0%
	Operating Income / Assets	3.6%	3.7%
	Non-Interest Income / Operating Income	21.4%	23.2%
	Yield on Credit (YoC)	8.4%	8.6%
	Cost of Funds (CoF)	3.4%	3.5%
	Net Interest Margin (NIM)	2.9%	2.9%
	Cost-to-Income Ratio (C/I)	31.3%	31.0%
Risk	Coverage Ratio	164.0%	167.2%
	Cost of Risk (CoR)	0.3%	0.4%
Profitability	Return on Equity (RoE)	16.8%	17.4%
	Return on Assets (RoA)	2.0%	2.0%
	Return on Risk-Weighted Assets (RoRWA)	2.6%	2.7%
Capital	Capital Adequacy Ratio (CAR)	19.4%	19.2%

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

Mr. Asad Ahmed, A&M Managing Director, Financial Services commented: “The UAE banks’ performance reflects a cautious approach amid changing monetary policies and economic conditions. While lending growth continues, the sector faces challenges with higher impairment charges and cost efficiencies. The focus on digitalization and strategic cost management will be crucial for sustaining profitability and capital strength in the coming quarters.

“As anticipated, the Central Bank of the UAE(CBUAE) cut its benchmark interest rate by 50bps in Q3’24 to 4.90%, in line with the US Fed. Despite some headwinds, cues from management guidance indicate optimism on lending growth momentum to continue while impairments take a cautious outlook.”

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Notes to editors:

Methodology:

A&M’s UAE Banking Pulse examines data from the 10 largest listed banks in the UAE, comparing the Q3’24 results against Q2’24 results. Using independently sourced published market data and 16 different metrics, the report assesses banks’ key performance areas, including size, liquidity, income, operating efficiency, risk, profitability, and capital.

The report also offers an overview of the key developments affecting the banking sector in the UAE and further analysis with a segment view of loans & assets, deposit mix and a stage–wise breakdown of the lending book.

The country’s 10 largest listed banks analyzed in A&M’s UAE Banking Pulse are First Abu Dhabi Bank (FAB), Emirates NBD (ENBD), Abu Dhabi Commercial Bank (ADCB), Dubai Islamic Bank (DIB), Mashreq Bank (Mashreq), Abu Dhabi Islamic Bank (ADIB), Commercial Bank of Dubai (CBD), National Bank of Fujairah (NBF), National Bank of Ras Al-Khaimah (RAK) and Sharjah Islamic Bank (SIB).

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CONTACT:

Seán Lawless
+971 52 122 7503
Hanover Middle East

Sandra Sokoloff, Senior Director of Global Public Relations
+1 212-763-9853
Alvarez & Marsal

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Authors:
Asad Ahmed