



United Arab Emirates Banking Sector 2025 Outlook

Balancing Growth And Risks Amid Economic Expansion

S&P Global
Ratings

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Jan. 8, 2025

This report does not constitute a rating action

Key Takeaways

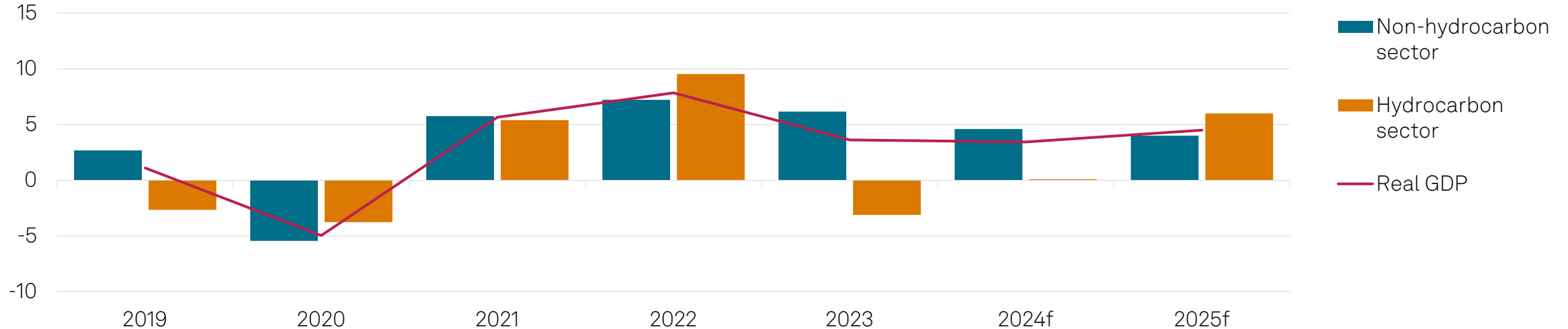
- Banks in the United Arab Emirates (UAE) have benefitted from a strong domestic economy, leading to improved asset quality metrics and lower credit losses, which we anticipate will persist in 2025 and which supports a positive economic risk trend in our Banking Industry Country Risk Assessment (BICRA) for UAE banks.
- After strong performance in the past two years, we expect the sector's robust earnings to dip slightly in 2025 and the lending book to continue expanding as monetary policy eases.
- Although the UAE could be affected by regional geopolitical tensions and oil price volatility, we believe risks will remain in check.
- We expect UAE banks to maintain stable and strong capital buffers, robust funding profiles, and continued government support, which will underpin their resilience.

Steady Economic Growth To Continue

- As hydrocarbon production picks up, we anticipate that real GDP growth will remain strong in 2025-2027, further supported by buoyant non-hydrocarbon activity.
- Business-friendly regulations and a low corporate tax regime, a simplified visa regime, and the success of long-term residency visas will continue to fuel new businesses and increase the population in the country.
- Despite potential vulnerability to sudden increases in regional geopolitical tensions and significant drops in oil prices, we believe that economic risks will remain manageable, supported by demonstrated resiliency during past periods of lower oil prices and heightened geopolitical instability.

Real GDP growth will be driven by both the oil and non-oil economy

Growth (%)

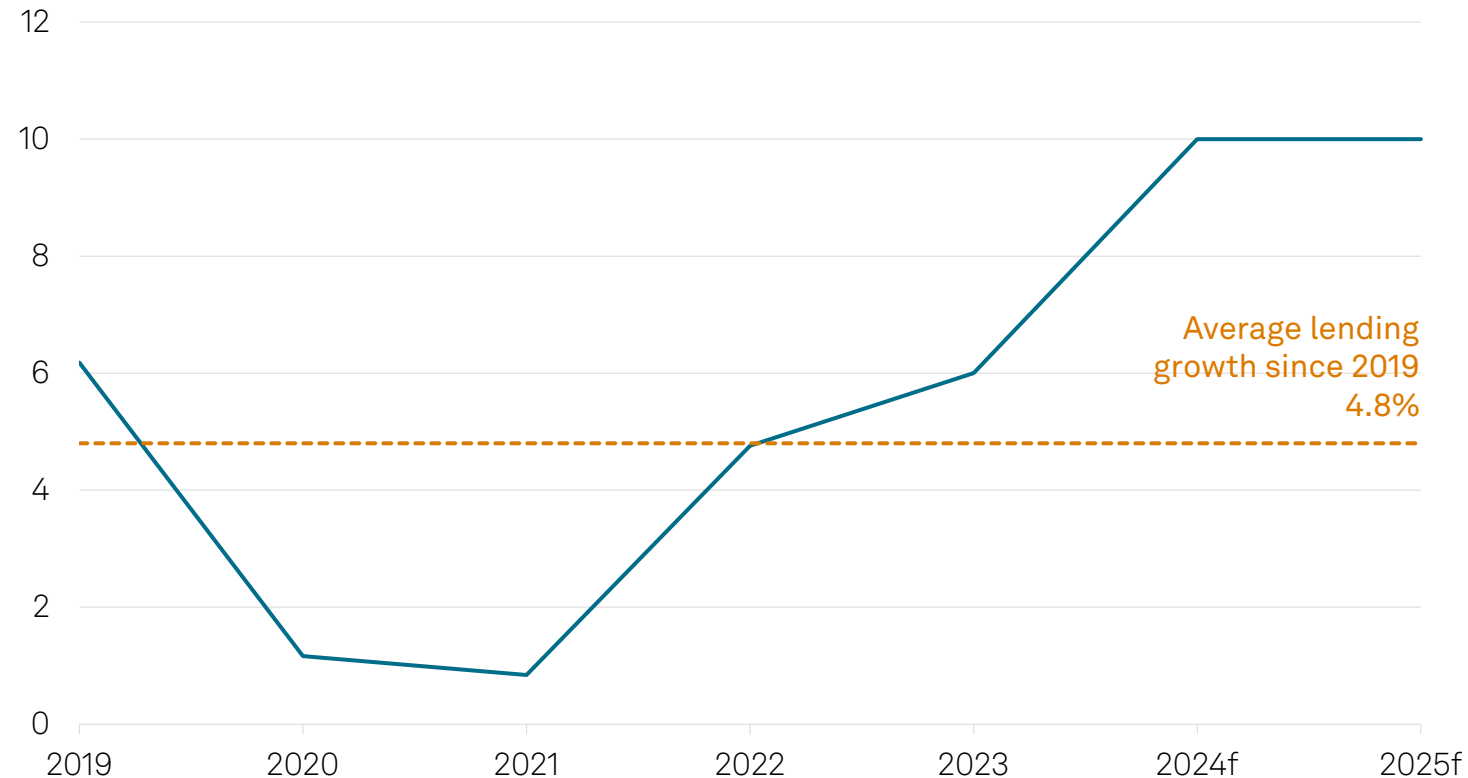


f--Forecast. Source: S&P Global Ratings.

Lending Growth To Remain Strong

Lower interest rates and supportive economic environment will boost lending growth

Lending growth to remain strong (%)



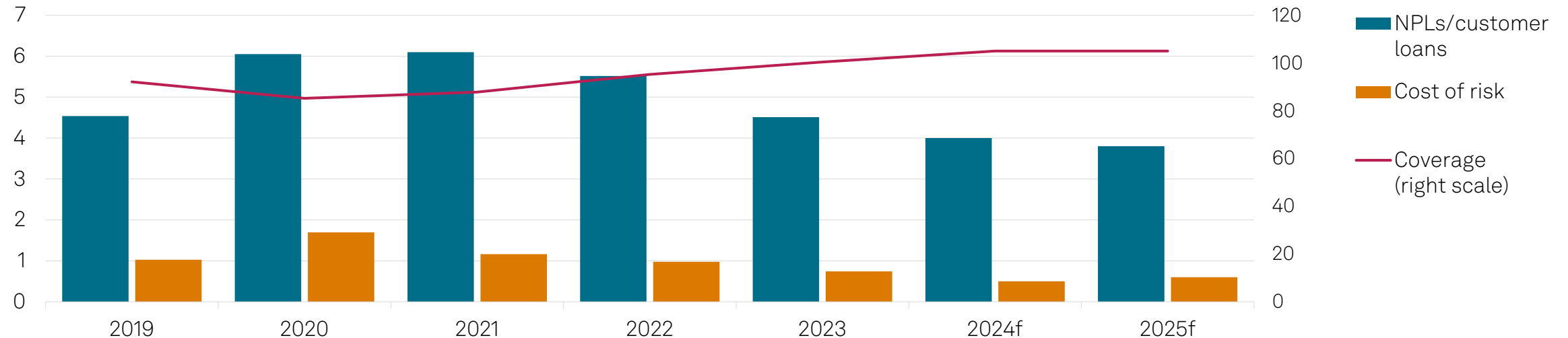
f--Forecast. Source: S&P Global Ratings.

- We expect strong lending growth to persist in 2025, driven by the ongoing monetary policy easing and supportive economic environment.
- Banks have seen a notable increase in deposits over the past three years, which will support their strong growth momentum.
- However, some deposits are external and may be susceptible to volatility due to economic vulnerabilities.

Asset Quality Will Continue Improving

- We anticipate UAE banks' nonperforming loans and credit losses will remain low because the solid performance of the non-oil sectors and expected rate cuts will help improve underlying asset quality.
- Over the past two years, banks used their high profitability to set aside provisions for legacy loans and have written them off, resulting in stage 3 loans for the 10 top banks (accounting for 85% of banking system) dropping to 4% of gross loans as of Sept. 30, 2024, down from the peak of 6.1% in 2021.
- In addition, the improved economic environment has meant higher recoveries of written-off loans, contributing to lower net credit losses.

UAE banks' average asset quality is improving (%)

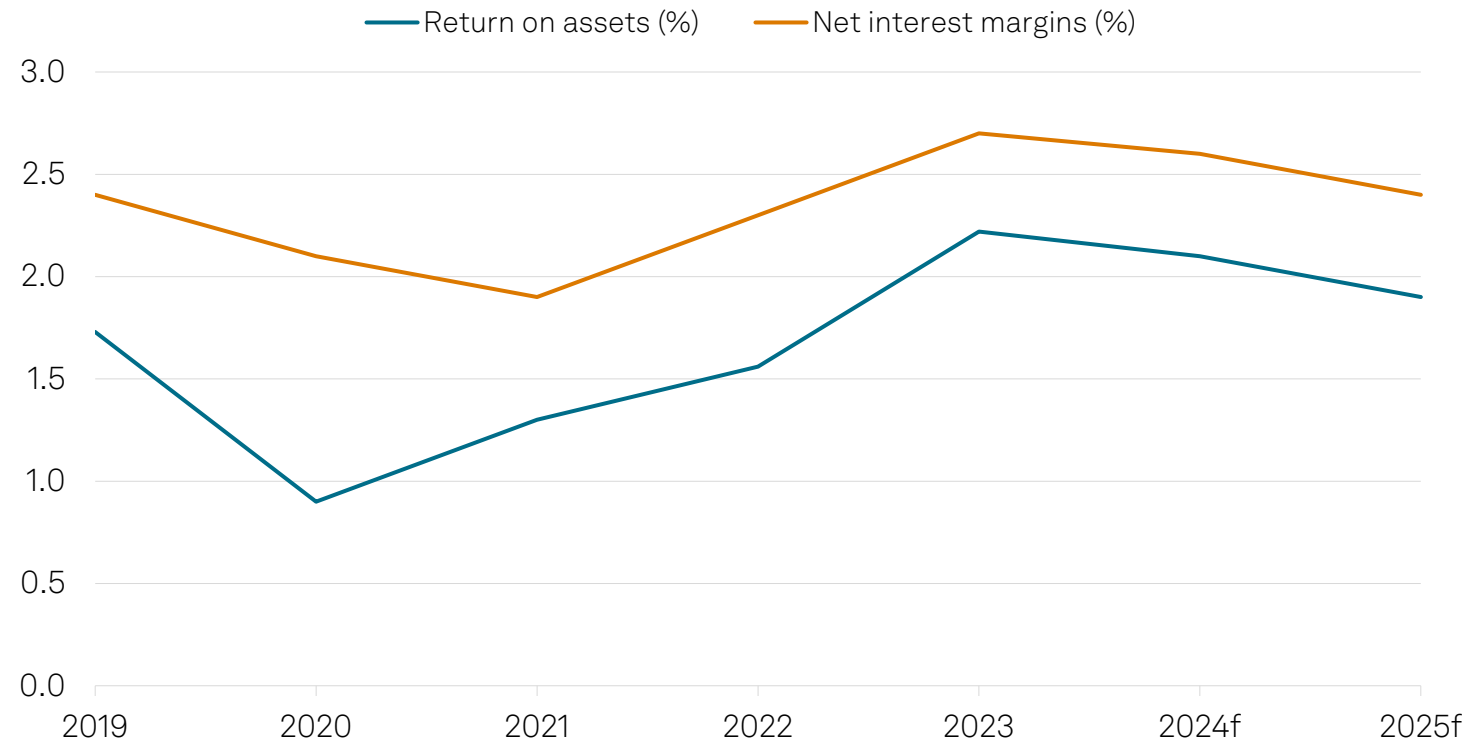


Data for 10 largest banks. f--Forecast. NPLs--Nonperforming loans. Source: S&P Global Ratings.

Profitability Will Reduce Slightly As Margins Ease

UAE banks' profitability will reduce slightly as interest rates decline

Profitability will decline slightly



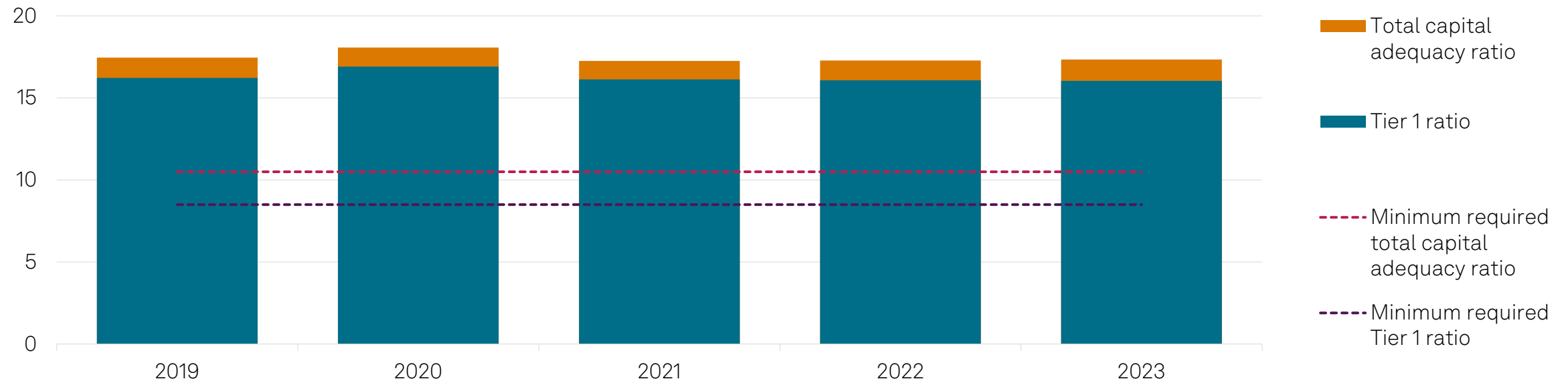
Data for 10 largest banks. f--Forecast. Source: S&P Global Ratings.

- UAE banks' profitability improved with monetary tightening, as higher interest rates helped expand margins and we now expect profitability to follow amid declining interest rates. We expect the cost of risk to remain low, and therefore UAE banks' profitability should remain high, albeit lower than the peak of 2023.
- Banks should maintain strong efficiency due to optimized real estate, staff relocation to cost-effective offshore locations, and increased digitalization, all of which will enhance profitability.

Capitalization Remains A Supportive Factor

- Strong capital buffers have supported the banking sector over the past several years.
- We anticipate that banks will bolster their capital buffers with robust internal capital generation, driven by high profitability and supportive shareholders and dividend payouts that are generally below 50%.
- The quality of capital remains strong, with a modest share of hybrid instruments. As of year-end 2023, additional Tier 1 instruments accounted for 12.2% of total adjusted capital. The decline in interest rates offers banks the chance to boost hybrid issuance and replace existing instruments at a lower cost when they reach their call dates.

UAE banks have strong capital positions (%)

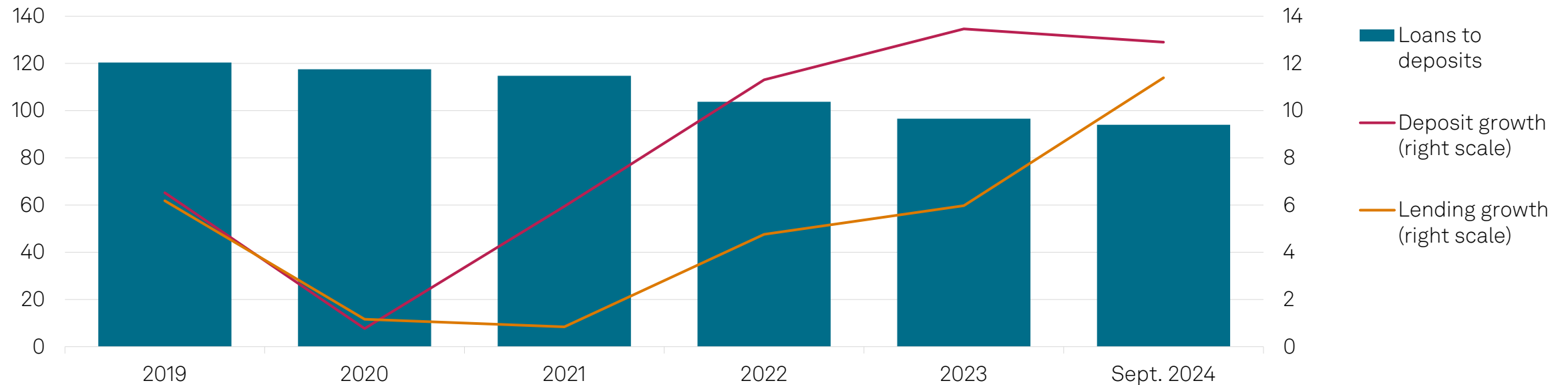


Data for 10 largest banks. Source: S&P Global Ratings.

Strong Local Deposit Supports Funding

- UAE banks' funding structures benefit from strong core customer deposit bases and limited reliance on external funding.
- Deposit growth has improved in recent years as private corporations and retail depositors prioritized saving over spending, and higher interest rates provided better yields on deposits.
- We expect strong deposit growth to continue through 2025, given the non-oil economy remains supportive, leading to stronger cash flow generation from corporations.

Deposit growth has outpaced lending growth (%)

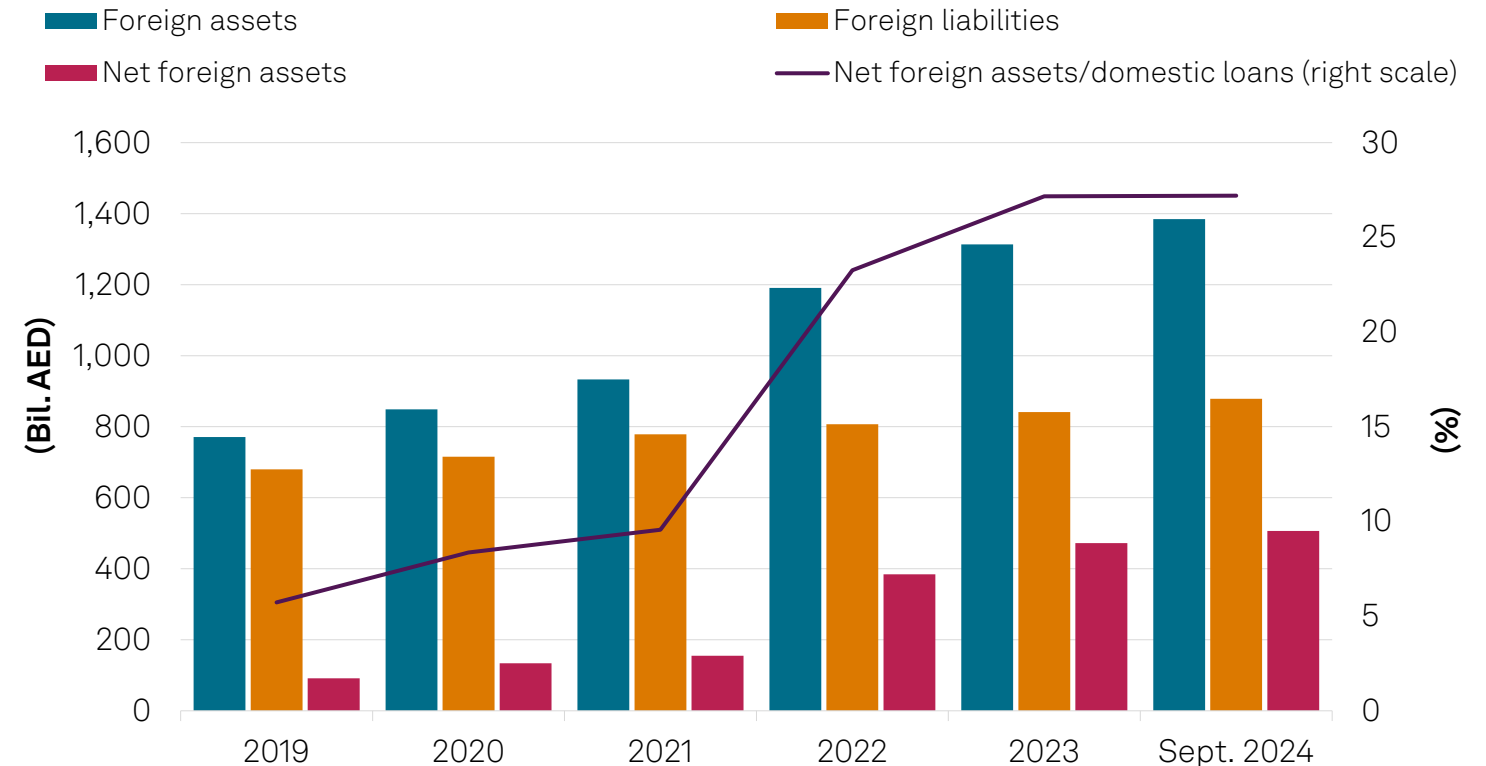


Source: S&P Global Ratings.

International Financing/Refinancing Needs Are Limited

- UAE banks are in a strong net external asset position, although they have recently been issuing debt instruments in international markets, which we believe is mostly to diversify their funding base rather than out of necessity.
- Net external assets strengthened to 27.2% of systemwide domestic loans as of Sept. 30, 2024, which makes them less vulnerable to ongoing uncertainties in the international capital markets.
- Foreign deposits accounted for 29% of the banking sector's foreign liabilities, while interbank borrowing and capital market funding were about 20% at the end of September 2024.
- Although unexpected geopolitical risks could lead to external funding outflows, we believe that UAE banks are more than capable of withstanding substantial stress.

The banking sector is strengthening its external position



AED--UAE dirham. Sources: Central Bank of UAE, S&P Global Ratings.

Industry Trends And Their Impact On The Banking System

Over the past few years, we have seen an emergence of neobanks and fintechs, and an increase in traditional banks' digital offerings in the UAE.

- Recent approval for the stablecoin registration framework plan has paved the way for UAE-dirham-backed stablecoin issuance in the country.
- Nevertheless, we expect neobanks and fintechs to complement, not replace, traditional banks as the UAE's central bank continues to maintain the stability of the traditional banking system and encourage banks to strengthen their digitalization efforts.

Energy transition risk has limited impact on banks' creditworthiness.

- We estimate that local banks' direct lending to sectors exposed to energy transition is manageable--about 11% of total lending on average at year-end 2023--despite high concentration in hydrocarbons (about 25% of the UAE's nominal GDP).
- In addition, ongoing economic diversification, high economic wealth, sizable external liquid assets, and increasing investment in renewable capacity should also help to mitigate carbon transition risks for the economy and the banking system.

Industry Trends And Their Impact On The Banking System

Real estate prices have been increasing in the UAE for past four years, and the sector plays an important role for domestic economic growth.

- A large supply of presold properties is set to be delivered over the next 12-24 months, which could create some risk of oversupply.
- Nevertheless, we believe the risk for banks is contained, since most off-plan property transactions are in cash--and only about 30%-40% of secondary sales are funded using a mortgage.
- Moreover, the banking sector's exposure to real estate and construction sectors reduced to 15% of the total lending book as of June 30, 2024, from 20% in 2021.
- In addition, developers have shown solid growth over the past three years with record revenue backlogs and accelerated cash collections that strengthened their cash flow generation.

Our UAE BICRA And Bank Ratings

- We see a positive trend in the UAE's economic risk because the robust performance of the non-oil economy in the country has improved the banking system's asset quality indicators and reduced credit losses.
- Our bank ratings and outlook distribution shows that UAE banks are on a stable path heading into 2025, reflecting banks' strong performance deriving from improved asset quality, strong lending growth, and still high profitability, but balanced by the potential downside risks related to the regional geopolitical tensions and oil price volatility .
- The positive outlook on Abu Dhabi Commercial Bank is supported by the bank's derisking strategy, which involves reducing exposure to high-risk sectors and counterparties, and is also driven by our expectation of continued strong and timely government support if necessary.

	Issuer credit rating
First Abu Dhabi Bank	AA-/Stable/A-1+
Abu Dhabi Commercial Bank	A/Positive/A-1
Mashreqbank	A/Stable/A-1
Sharjah Islamic Bank	A-/Stable/A-2
National Bank of Fujairah	BBB+/Stable/A-2

Ratings as of Jan. 7, 2025. Source: S&P Global Ratings.

Related Research

- [Banking Industry Country Risk Assessment: United Arab Emirates](#), Dec. 15, 2024
- [Improving Asset Quality Supports Positive Economic Risk Trend In The UAE: BICRA Group Remains '5'](#), Nov. 27, 2024
- [GCC Banking Sector Outlook 2025: Profitability And Asset Quality Boost Resilience](#), Nov. 13, 2024
- [What Would An Escalation Of The War In The Middle East Mean For GCC Banks?](#), Oct. 21, 2024
- [Your Three Minutes In Banking: GCC Banks Are Well Positioned To Continue Their Strong Run](#), Sept. 4, 2024

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