Special Report

Revenue Diversification Driving Margin Resilience in UAE Banks

aranca

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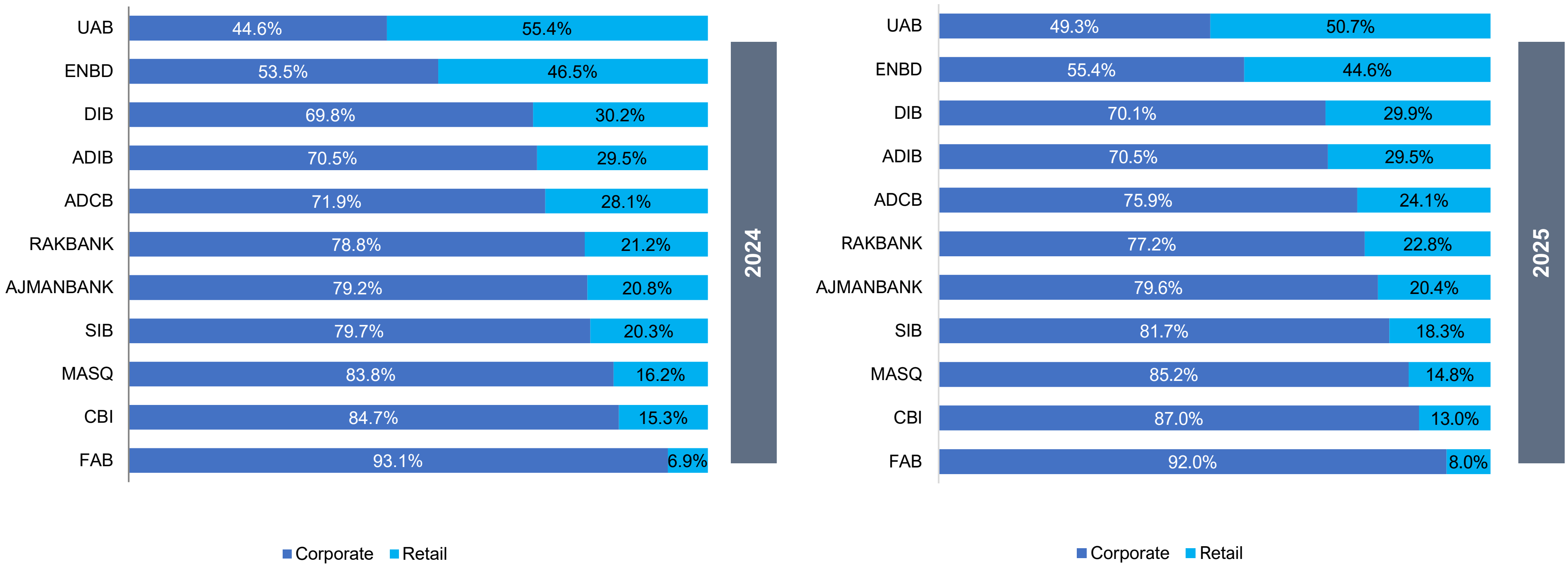
UAE Banks Loan Mix – Retail v/s. Corporate

Majority of UAE Banks Maintain Corporate-Heavy Loan Mix

UAE Banks Loan Mix



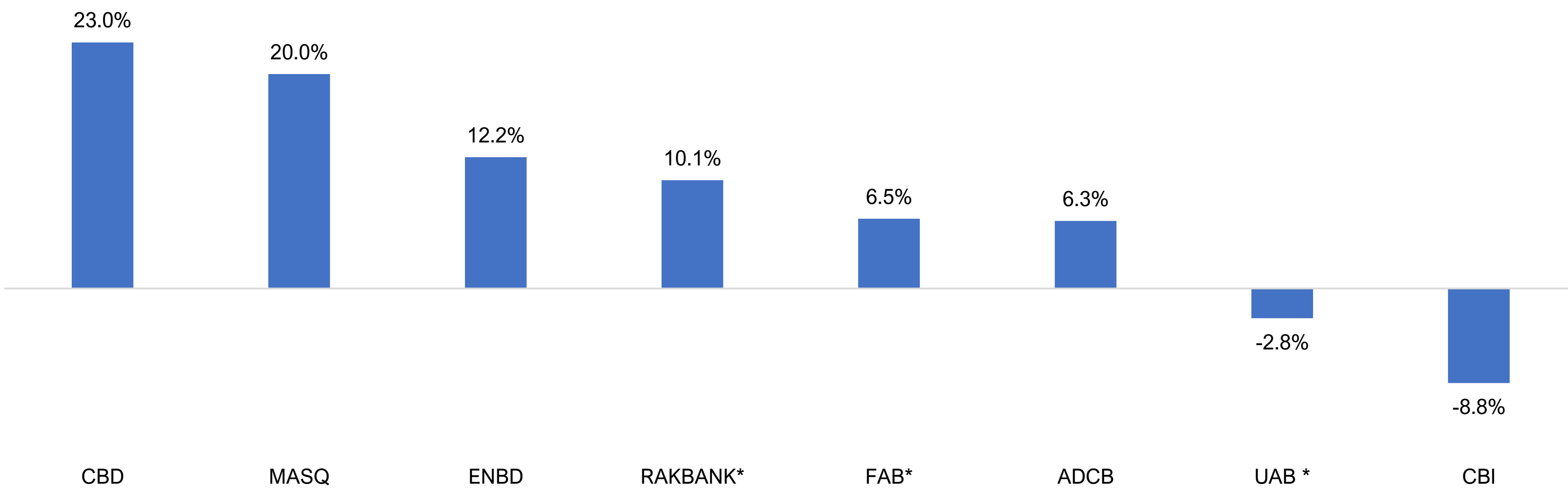
- Loan mix is a key driver of banks' interest income; therefore, we analyze the loan composition of UAE banks.
- Majority of UAE banks maintain a corporate-heavy loan mix, positioning them to benefit from a higher-for-longer interest rate environment through faster asset repricing, while retail-focused banks are relatively better placed to support NIMs in the event of a Fed rate-cut cycle.

Source: *Aranca Research, Company Data*

Interest Rate Sensitivity Gap

Most UAE Banks Carry a Positive Sensitivity Gap

Sensitivity Gap 6-12 months as % of total Assets



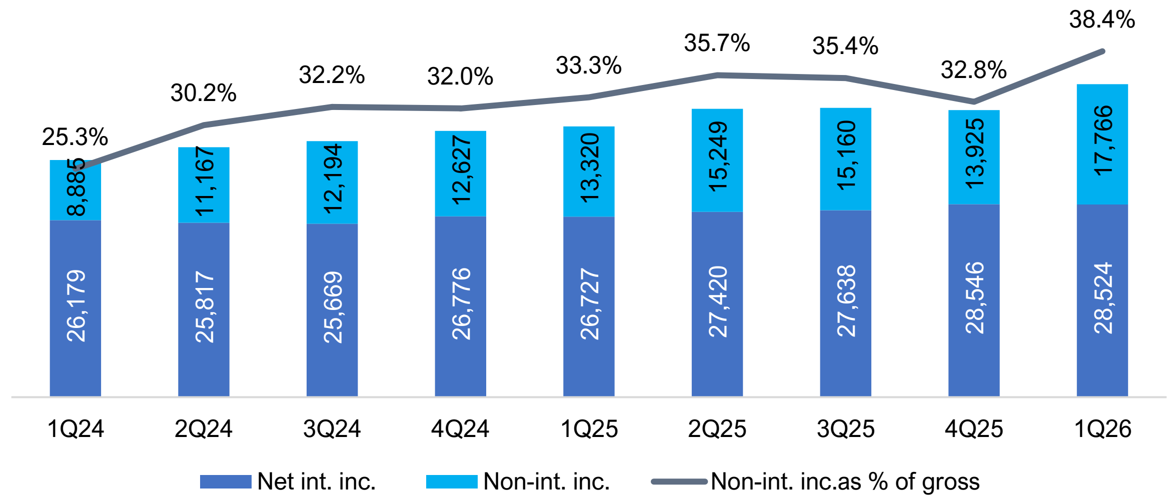
- Interest rate gap is a key gauge of rate sensitivity, capturing the mismatch between assets and liabilities that reprice over a given period.
- A positive gap typically supports NIMs in a rising-rate environment, while a negative gap benefits more from rate cuts. Banks, however, actively reposition their asset–liability mix as the rate cycle evolves.
- Most UAE banks remain positively positioned for higher rates, supported by faster asset repricing. CBD and MASQ appear best placed for rate hikes, while CBI and UAB stand to gain the most from easing rates..

Source: Aranca Research, Company Data, Note: * Sensitivity gap for 3-12 Months

UAE's Banks revenue mix and Guidance

Steady Growth Witnessed in Non-Interest Income

UAE Banks Revenue Mix



	Loan Growth		Net Interest Margin	
Bank	**2025a**	**2026 guidance**	**2025a**	**2026 guidance**
FAB	17%	Low- to mid- teens	1.8%	NA
Emirates NBD	24%	Mid-teens	3.5%	3.1-3.3%
DIB	20%	10%	2.6%	2.3%
ADIB	26%	18-20%	4.1%	3.7-3.8%
CBD	9%	Mid to high single-digit	3.0%	2.7% - 2.8%
Ajman Bank	39%	>15%	2.8%	NA

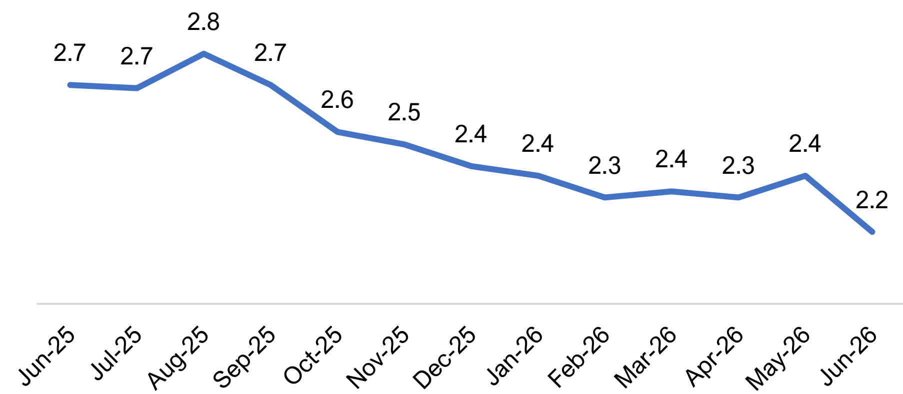
Source: *Aranca Research, CBUAE, Company Data, Guidance as of 2Q26 Presentation*

- UAE banks have meaningfully diversified their revenue mix, reducing reliance on interest income.
- Non-interest income rose 25.3% of gross income in 1Q24 vs. 38.4% in 1Q26, driven by broader product offerings and fee-based revenues.
- This stronger income mix provides an important earnings cushion, helping protect margins as interest rates decline.
- UAE banks are likely to see loan growth moderate in 2026, as balance-sheet expansion becomes more selective.
- NIMs are expected to remain under pressure amid the prevailing rate environment.
- The focus is shifting from volume growth to margin preservation, with banks prioritizing pricing discipline and asset mix.

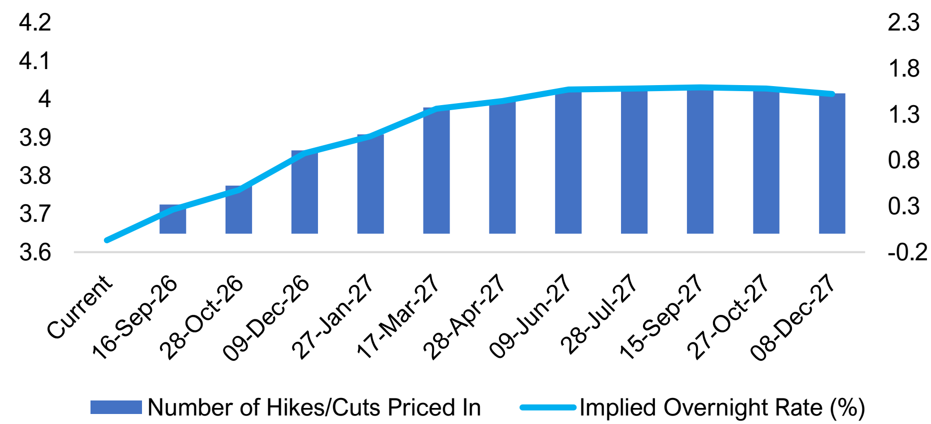
US Inflation and Interest Rate Prediction

US Inflation Rises Amid Middle East Conflict

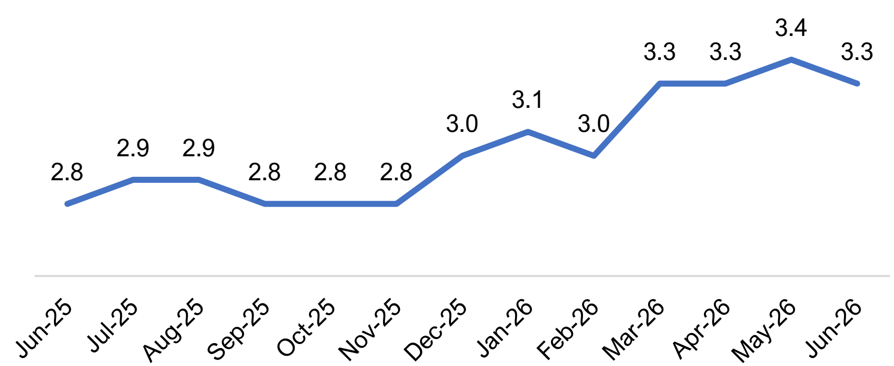
US Trimmed Mean PCE Inflation Rate



World Interest Rate Probabilities



US Annual Core PCE Inflation Rate



- US inflation remains sticky, with Core PCE at 3.3% and Trimmed Mean PCE rebounding to 2.2% in June 2026.
- Markets now price in a 25bps Fed hike by end-2026, followed by ~15bps of further tightening in 2027.
- The implied policy rate reaches ~4.0% by 2H27, with no rate cuts priced through end-2027.

Source: *Aranca Research, Federal Reserve, Bloomberg, Trading Economics*

Market Pricing for a Higher-for-Longer Rate Environment

Rates extend the earnings runway; balance sheets decide the winners

OUR TAKE

Markets now price in a 25bps Fed hike by 2026 year-end, with easing expected only after 2027, while we expect rates to remain unchanged throughout 2026 amid early signs of moderating inflation. Rates alone, however, no longer separate the winners.

NO CUTS
priced through 2027

POLICY PATH NOW PRICED BY MARKETS

NOW
Higher-for-longer regime fully priced across the curve

THROUGH 2026
A 25bps Fed rate hike is expected by end-2026

2027
15bps tightening expected while further action stays data-dependent

POST-2027
Easing cycle now expected to begin

WHERE WE WOULD BE POSITIONED?

BETTER POSITIONED
Corporate-tilted, diversified franchises

- Larger corporate exposure with positive repricing gaps
- Diversified and growing non-interest income
- Earnings sustained despite softer loan growth and NIM pressure

WARRANTS CAUTION
Retail-led balance sheets

- Extended elevated rates could weigh on credit demand
- NIM compression without corporate repricing offsets
- Thinner fee-income buffer to defend returns

THE NEW DIFFERENTIATORS
What matters beyond the rate cycle

- Balance-sheet repricing, not the policy path
- Revenue diversification and fee-income growth
- Watch: Trimmed Mean PCE and the inflation trajectory

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