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Background

We now conclude our 3-part series: "*Mr. Tump. Vs. A Middle Eastern Bank CEO"* where we endeavor to provide a Bank's CEO with a scoop on the Trump Administration's upcoming economic moves, it's impact on the Middle East Banks and a playbook to preserve and enrich shareholders' value.

Part 1 foresaw seven (7) new economic moves likely to be enacted by the Trump Administration, on top of the "*Mass US Public Servants Layoff*" and the "*Import Tariffs Spikes*". In corollary, Part 2 concluded that many of these moves will have a little impact on the Middle East Banking Industry, safe of USD currency devaluation, Fed rate cuts and the spur of a global recession.

We analyzed the impact of the last recession from the four (4) perspectives of- customer deposits, net interest income, fee income and impairment charges of a select group of 9 key Middle East-based banks.

Our analysis depicts the pre and post recession in each perspective using a "**Box & Whisker**" diagram displaying the probability distribution of the 9 Banks in each year. The "Box & Whisker" is read from bottom to top as "Minimum, Lower Quartile, Median, Upper Quartile and Maximum". For simplicity, we only included the median values in the attached diagrams. Last, we highlighted the last recession peak year of 2020 in **pink**.

For more information about our Methodology, refer to the last section of this article.

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Customer Deposits

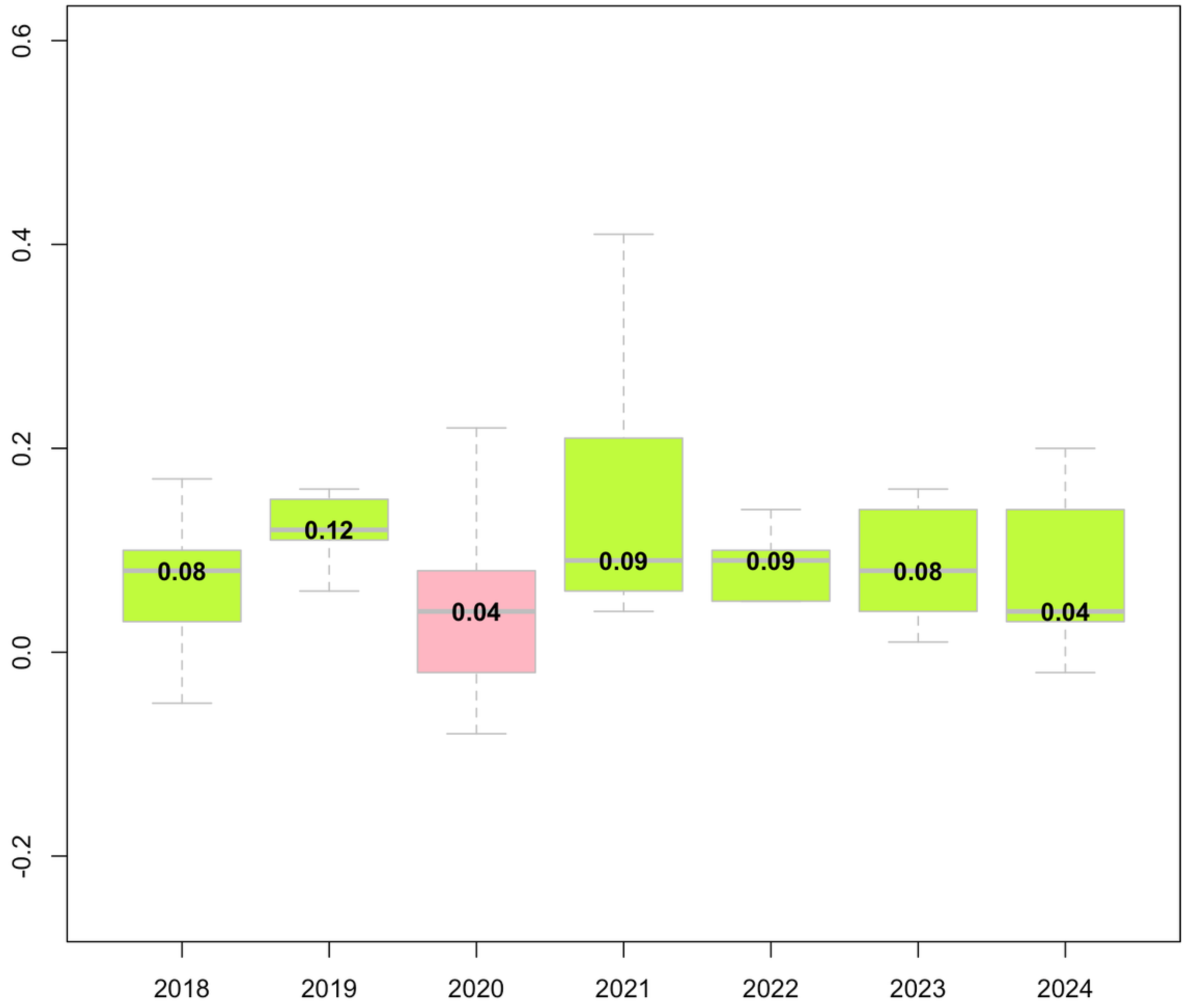

Figure 1 - Year-On-Year Growth Rate in Customer Deposits Of Select Middle East Banks Pre- & Post-Covid-19 Crisis

It's evident that the Covid-19 crisis slashed the growth by nearly 60% ! The average customer deposit growth rate averaged 10% in the years preceding Covid-19, and then crashed into 4% in the year when the crisis peaked. It took 2 years for the growth rates to be restored to near pre-crisis levels.

In today's world (2024), we witnessed a sharp drop in Customer Deposits growth rates, despite the high interest rate environment. Hence, another crisis or a recession is likely to make the future growth nearly halts to zero, or likely creep into the shrinkage zone.

We advise a Middle East Bank CEO to-

1. Shore up its liquid reserves (Tier-1 Capital) by a margin of at least 12% to account for a prolonged drop in Customer Deposits over 3 years.

2. Stress test its customer deposits volatility taking into account the proliferation of the Sukuk / Corporate Notes issuance across the GCC region.

3. Enact client relationships measures (e.g. preferential rates of long term deposits, enhanced savings plans) to curb the volatility.

Interest Income

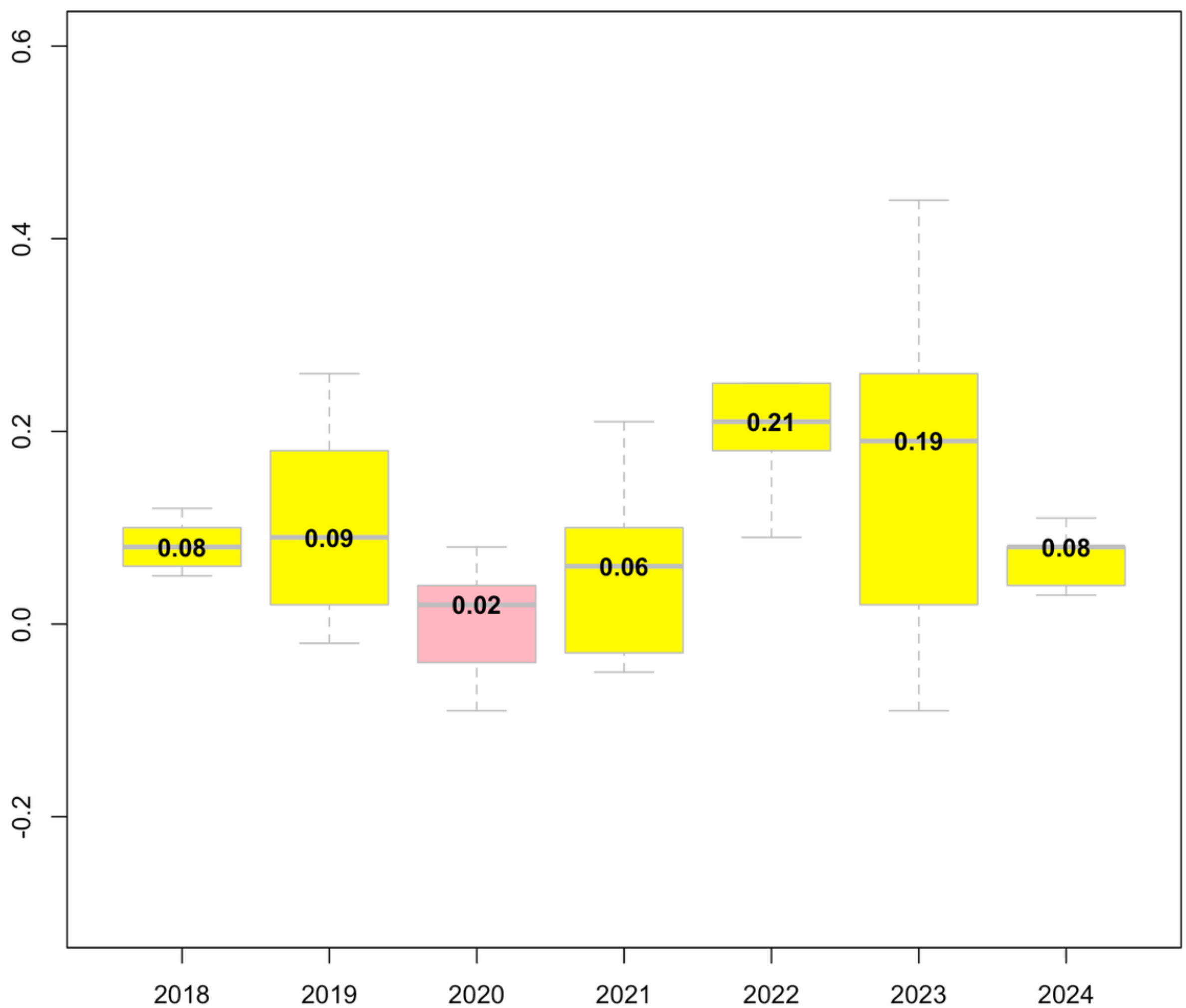

Figure 2 - Year-On-Year Growth Rates In Net Interest Income Of Select Middle East Banks Pre- and Post-Covid-19 Crisis

The Net Interest Income took a massive hit of 80% leveling to the average GDP growth rate of the region. The rebound took 1.5 years and benefited greatly from the Federal Reserves repeated interest rate hikes in 2022 and early 2023. In 2024, the growth rate returned to its norms.

In any upcoming crisis, we expect the Net Interest Income growth rate to plunge to 2% in the region.

We advise a Middle East Bank CEO to:

1. Shore-up its fixed interest rate, medium-term loan portfolio such as- Personal and Auto loans.
2. Execute stress tests on its mortgage and corporate loan portfolios, taking into account the tariffs hard-hit industries.

Fee Income

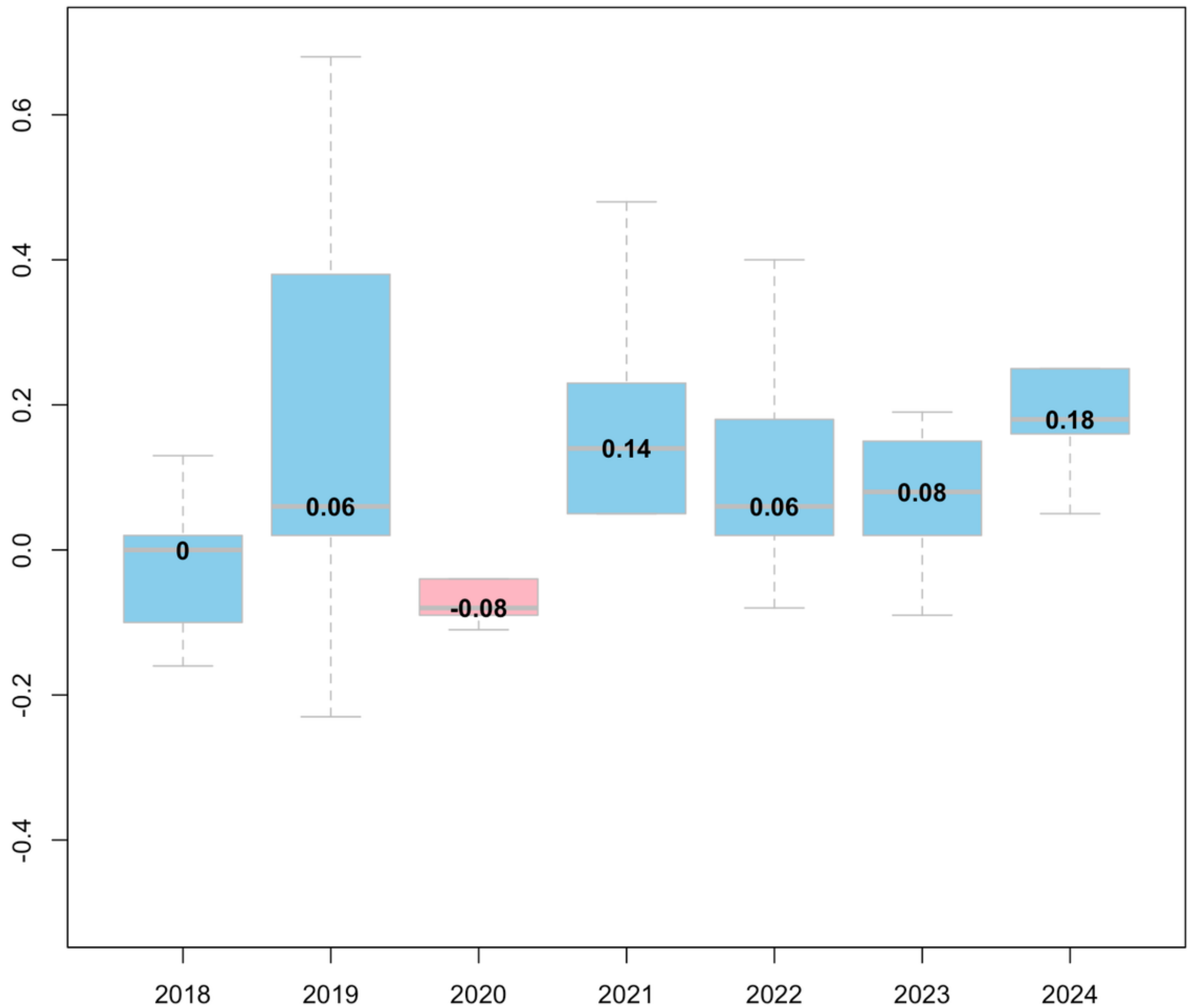

Figure 3 - Year-On-Year Fee Income Growth Rates For Select Middle East Banks Pre- and Post- Covid-19 Crisis

As evidenced in the above diagram, the growth rate fell into the negative -8% and recovered back in 1 year. This quick rebound is attributed mainly to a surge in eCommerce transactions to avoid physical contacts, financed by corporate and governments pandemic aids. It's unlikely that the same tail winds be present in the upcoming crisis. This proves true as we examine the growth rates of Years 2022 and 2023 dropping by 50% following the immediate rebound of 2021.

We foresee the upcoming crisis to bring the Fee Income growth rate to 3-4% at best.

We advise a Middle East Bank CEO to:

1. Diversify its bank's digital payment ecosystem to cover a larger swathe of consumer and merchants.
2. Lock-in SME and Corporate clients with long-term cash management mandates, in exchange of flexible "*Receivables Discounting*" and "*Working Capital*" credit facilities.

Credit Impairment

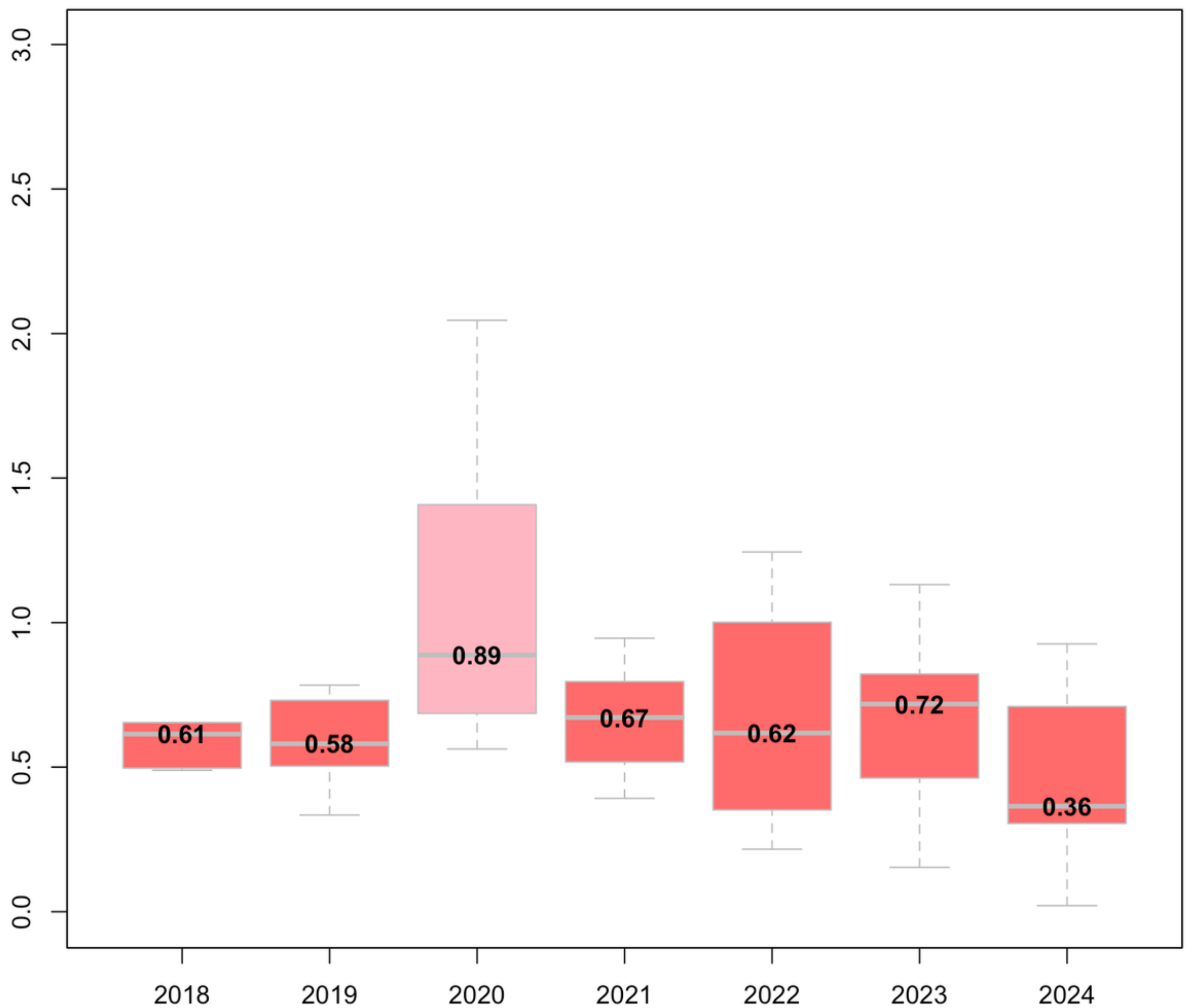

Figure 4 - Credit Impairment In US Cents Per USD 1 Of Loans For Select Middle East Banks Pre- And Post- Covid-19 Crisis

We can witness first hand a spike by 50% during the Covid-19 peak year. Specifically, banks used to incur 6 cents of impariment charges per USD 1 of loans and advances, while it climbed up to 9 cents. Unfortunately, it took the examined banks 3 years to recover! This is despite the many state-sponsored moratoriums and guarantees rendered directly by governments or indirectly via affordable liquidity through central banks.

While companies in the Middle East are far less leveraged than their counterparts in the US and Europe, exceptions do arise. Some Middle East's companies in the Travel, Logistics and Manufacturing have "Debt To Equity" ratios north of 3x.

Finally, any seasoned banker knows too well that a big part of "Cost Of Risk – CoR" of its loan portfolio is due to future expected loss provisions, not just the credit impairment charges.

We advise a Middle East Bank CEO to:

1. Revisit its exposures to the Cement, Aluminum and Real estate industries.
2. Prop-up its credit provisions and related liquidity sources for at least 3 years to come.

Methodology

Our research methodology conjures many of the lessons learned during the last Covid-19 recession. Surprisingly, the last recession bears surprising **similarities** with the impending recession in terms of-

1. Expansive global impact on multiple industries, geographies and consumers, causing the S&P 500 and NASDAQ 100 to decline by as much as 34% and 31% respectively in 2020.

2. Prolonged influence over 2 years extending from Q4 2019 to Q1 2020.

3. Decline in Oil prices due to stagnation in logistics, travel and manufacturing sectors.

4. Emergency infringement on basic civil liberties such as- freedom of mobility, choice of medicine and freedom of speech (e.g. suppression of anti-vaccine and herd immunity advocate groups).

In congruence, we acknowledge the **differences** in today's economic scene, compared to Covid-19 recession in terms of-

1. Today's interest rates (i.e. 4%-4.25%) are 17x higher than Covid-19's (i.e. 0-0.25%).

2. Sprawling and severe Tarrif wars between US and top industrial nations.

3. Erosion of USA social welfare, medicare and other related programs.

Nevertheless, we argue that the Trump Administration will revert to devaluing the USD, reducing interest rates and subsidizing select industries (e.g. Electronic Chips, Automotive, Space & Aviation) to counteract the European and Asian lead in target export markets. Consequently, bridging the gap – *considerably* - between Covid-19 crisis and the impending one.

Perhaps, the thorny issues facing the Trump Administration in taking on the aforementioned bold moves are-

1. Why would foreign investors and classical allies (i.e. UK, Canada , Germany) cling to a **USD long currency position** if the interest rates are declining, the USD trade deficit is growing and the USA-Rest Of The Industrial World political and tariffs rifts are deepening?

2. How big and fast will the **US Information Technology-related exports** (i.e. Oracle, Google, IBM, Facebook, Intel, etc.) be taxed, banned or supplanted; bearing in mind that the NASDAQ-100 companies already have a high leverage (Debt To Equity) ratio of 1.2x?

3. What **wars** will the USA instigate to revive its economic dominance and Defense exports?

Thanks!

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