

## GCC Banking Sector Report - Q3-19

December - 2019

*Higher loan-to-deposit in Saudi Arabia, UAE and Qatar partially offset pressure on GCC bank NIMs...*

**GCC banks continued to strengthen their aggregate balance sheets during Q3-19 as listed banks in all the six GCC countries reported higher total assets during the quarter that increased by 3.1% to USD 2.3 Trillion as compared to USD 2.23 Trillion at the end of Q2-19. Each of the six GCC countries showed an increase in net loans and customer deposits that resulted in a slightly better loan-to-deposit ratio in Saudi Arabia, UAE and Qatar which helped to partly offset the impact of a decline in market rates during the quarter.**

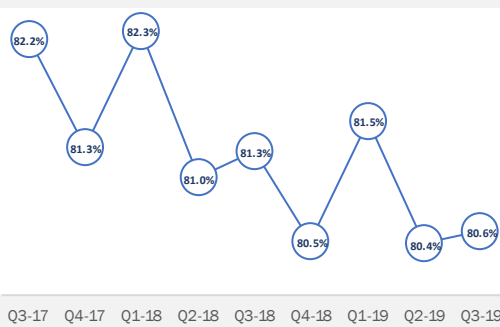
**The asset growth during the quarter was once again led by conventional banks that grew assets at 3.6% q-o-q while Islamic banks increased their balance sheet size at a slightly slower pace of 1.4%. UAE further strengthened its lead in the GCC in terms of size of listed bank balance sheet after reporting the biggest q-o-q increase in total assets at 6.3% to reach USD 755 Bn. Meanwhile, the increase in assets of Saudi-listed banks was relatively marginal at 0.9% reaching USD 628 Bn, the second biggest book in the GCC. Qatari banks, at the third position, also recorded healthy growth in assets that reached USD 431 Bn after increasing by 2.5% q-o-q in Q3-19.**

**The growth in earning assets was slightly higher at 3.6% that reached USD 1.92 Trillion in Q3-19 as compared to USD 1.86 Trillion during Q2-19. This increase came primarily on the back of higher earning investments as net loans growth stood at 3.4% during the quarter to reach USD 1.4 Trillion as compared to USD 1.36 Trillion during the previous quarter.**

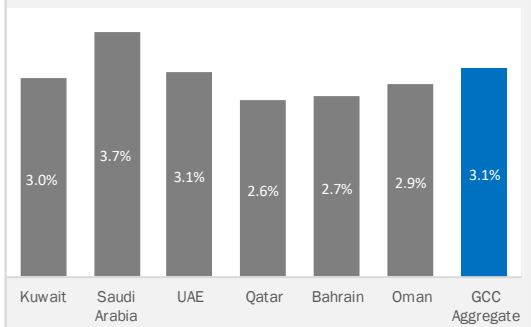
**On the other hand, the quarterly growth in customer deposits was recorded at 3.2%, the highest growth over the past ten quarters. However, with relatively higher lending, the loan-to-deposit ratio was marginally higher at 80.6% for the aggregate GCC banking sector, slightly better than the previous quarter but relatively low as compared to historical levels as well as global averages.**

**KAMCO Research believes that with interest rates down by 75 bps since the start of the year and economic growth expected to pickup in the GCC next year, according to estimates, lending should strengthen in the near term backed by a strong pipeline of projects. In addition, with GCC government spending capacity remaining constrained owing to subdued oil prices, the private sector would play a crucial role in economic growth supported by lower interest rates and GCC banks' lending capacity.**

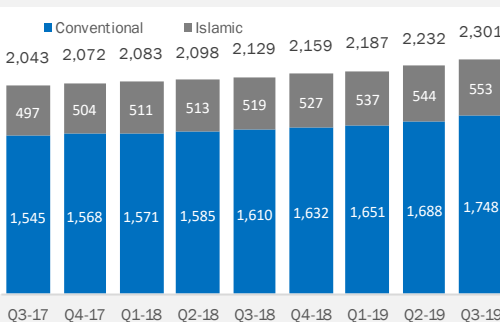
**GCC Banking Sector | Loan-to-Deposit Ratio (%)**



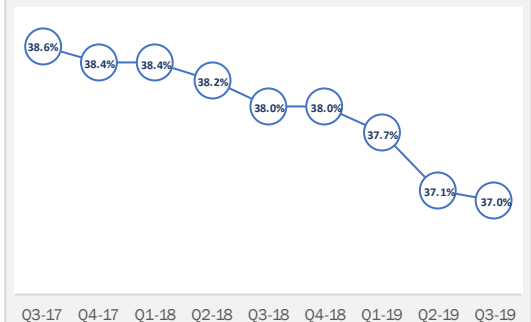
**GCC Banking Sector | Net Interest Margin (%)**



**GCC Banking Sector | Total Assets (USD Bn)**



**GCC Banking Sector | Cost-to-Income Ratio (%)**



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Source : Reuters, Company Financials, KAMCO Research

## Highlights - GCC Banking Sector

This report analyzes financials reported by 62 listed banks in the GCC for Q3-19. The individual banking data has been aggregated to the country level as there are minimal differences in the countries' regulatory and supervisory environment. We believe that the charts and tables adequately capture the nature and structure of the individual countries' financial systems, their supervision and their monetary operations. Some of the key observations from the most recent financial for the GCC Banking Sector includes the following:

### **Total Assets - UAE banks increase their share in Q3-19**

Total asset growth remained positive across the GCC banking sector resulting in one of the highest quarterly growth during Q3-19. GCC-listed banks saw their assets increase by 3.1% during the quarter to reach USD 2.3 Trillion. This growth was primarily on the back of UAE banks reporting a 6.3% growth in assets during the quarter. However, this growth was primarily on the back of inorganic growth, as it came primarily on the back of ENBD's acquisition of Turkey's DenizBank which increased ENBD's total assets by 27%. According to our calculations, assets growth was marginal at 1% for ENBD after excluding the acquired bank's assets. Similarly, asset growth for the UAE listed banks stood at 1.2% excluding the assets of DenizBank, and for the aggregate GCC banks, the growth would be halved at 1.5%.

On the individual country front, UAE continues to boast the biggest share of total listed banking assets in the GCC recorded at USD 755 Bn or 32.8% of the total GCC banking assets. Saudi Arabia followed after UAE with total assets of USD 628 Bn or 27.3% of the GCC at the end of Q3-19 after recording a q-o-q growth of 0.9%. The top ten banks in the region accounted for 55.8% of the total GCC listed banks' assets during Q3-19 as compared to 55.2% during Q2-19.

### **Loan-to-Deposit Ratio remains subdued at 80.6% that limits profitability growth**

The pace of growth in net loans continued for the fifth consecutive month improving by 3.4% in Q3-19 to reach USD 1.4 Trillion. The growth in net loans was broad based as merely 18 banks out of the 62 GCC banks reported a q-o-q decline. Listed banks in the UAE reported the biggest q-o-q increase in net loans of 7.6% with 11 out of the 16 banks reporting higher net loans at the end of Q3-19. Qatari banks followed with the second biggest increase of 2.8% in net loans that reached USD 300 Bn, the third highest in the GCC after UAE and Saudi Arabia. Listed banks in Saudi Arabia posted the third highest growth in net loans at 1.7%, with net loans reaching USD 389 Bn in Q3-19. Customer deposits growth was also positive across the board for the GCC banks. The increase in customer deposits was the fastest in the last ten quarters at 3.2% to reach USD 1.74 Trillion, as compared to a growth of 2.3% in the previous quarter. After UAE's 7.1% growth, Qatari banks reported a customer deposit growth of 2.4% followed by Kuwaiti Banks at 2.2%.

The net effect was a marginally better loan-to-deposit ratio at 80.6% as compared to 80.4% during the previous quarter. The ratio remains the highest in the case of Oman at 96.3% followed by Qatar at 90.7%, whereas Kuwaiti banks reported the lowest ratio of 71.9%. The ratio of UAE banks also remained low as compared to global averages at 79.0%.

### **Total Bank Revenue - healthy growth in all GCC countries barring Bahrain**

Total bank revenue for the GCC-listed banks reached USD 21.9 Bn during Q3-19 as compared to USD 20.3 Bn during Q2-19, a q-o-q growth of 7.6%. The aggregate revenue for each of the GCC countries, barring Bahraini banks, increased during the quarter with UAE banks reporting a growth of 18%. Qatari banks were next with a growth of 5.1% followed by Saudi Arabian banks at 3.9%. The decline in Bahrain came after six out of nine listed banks in the country reported a decline in topline during the quarter after net interest income declined for seven banks due to lower loan-to-deposit ratio. This resulted in a 5% decline in net interest income for the aggregate Bahraini banks.

Net interest income growth for the rest of the GCC countries was positive that resulted in the strongest q-o-q growth in nine quarters at 4.4% to reach USD 14.9 Bn during Q3-19 after witnessing marginal growth of 0.6% during Q2-19. Rate cuts during the quarter also supported higher net interest income. UAE topped with a growth of 8.0% followed by Saudi Arabia at 3.9% and Kuwaiti and Omani banks at 3.5%. In terms of non-interest income, the GCC aggregate stood at USD 6.9 Bn with a growth of 4.5%. Qatari banks reported the biggest q-o-q growth of 10.2% followed by UAE and Saudi listed banks with growth rates of 7.9% and 3.8%, respectively. The remaining three markets reported a q-o-q decline in non-interest income that partially offset the overall increase.

### ***Net Interest Margin - GCC NIMs remains flat despite rate cuts***

For the overall GCC region, NIM remained flat q-o-q at 3.1%, despite a decline in rates during the quarter after the US lowered interest rates twice during the quarter. Saudi Arabia continued to report the highest NIM in the GCC at 3.7% as the Kingdom has shown consistent improvement in key banking profitability ratios over the last ten quarters. UAE banks were next with a NIM of 3.1% followed by Kuwaiti banks at 3.0%. The higher NIMs by Kuwaiti banks despite the second-lowest loan-to-deposit ratio of 71.9% shows the relatively higher returns generated by these banks. Amongst the Kuwaiti banks, Al Ahli Bank of Kuwait reported the highest NIM of 3.4% followed by KFH at 3.3%. However, at the GCC level, National Bank of Ras Al Khaimah reported the highest NIM of 6.3% followed by Al Rajhi Bank with an NIM of 4.6%.

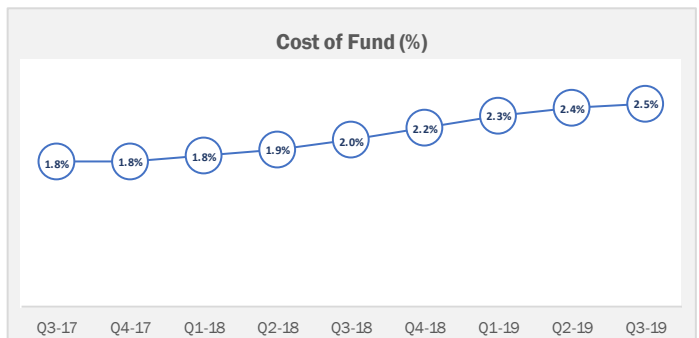
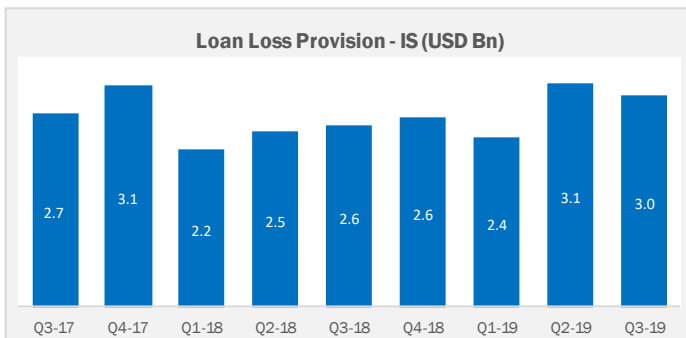
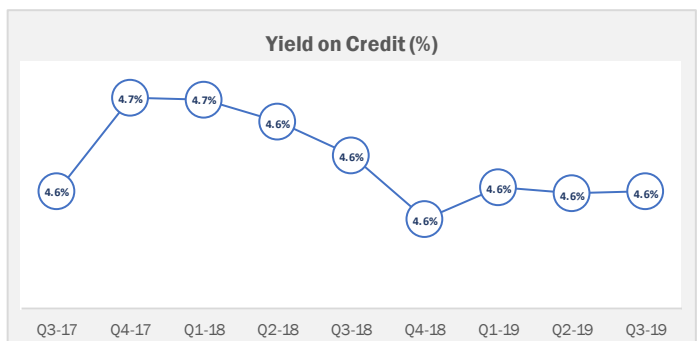
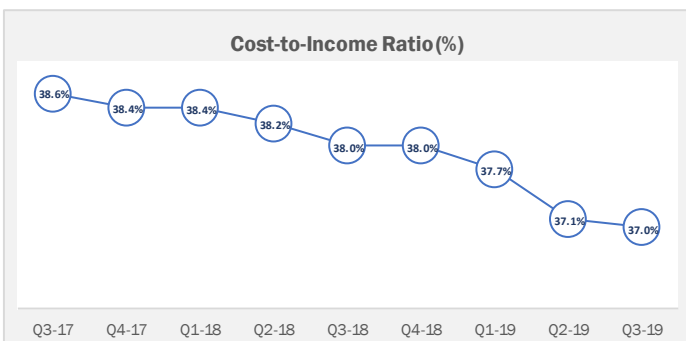
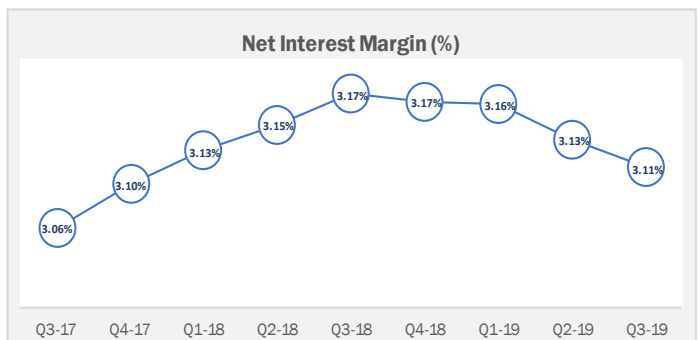
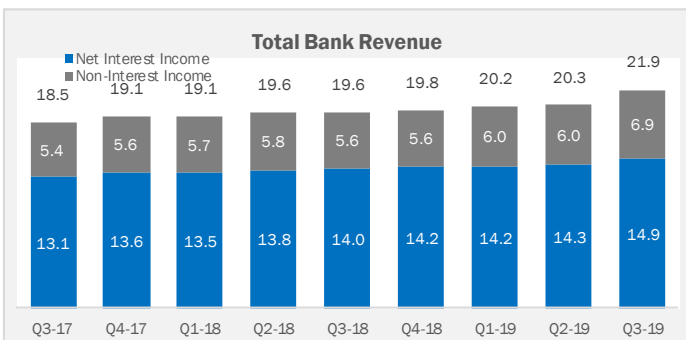
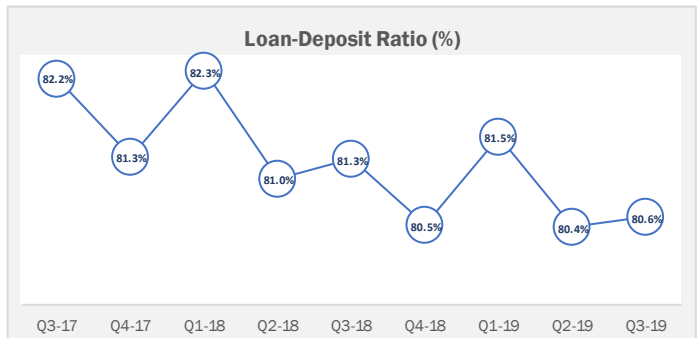
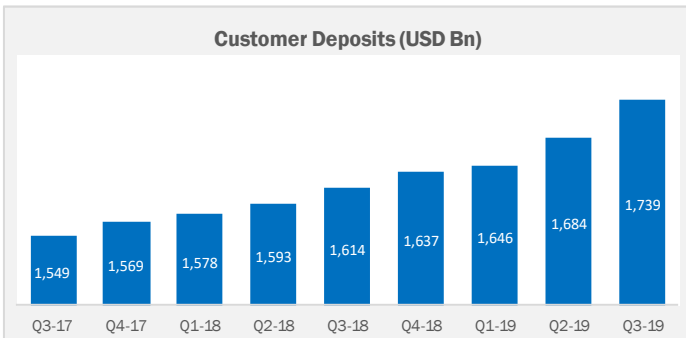
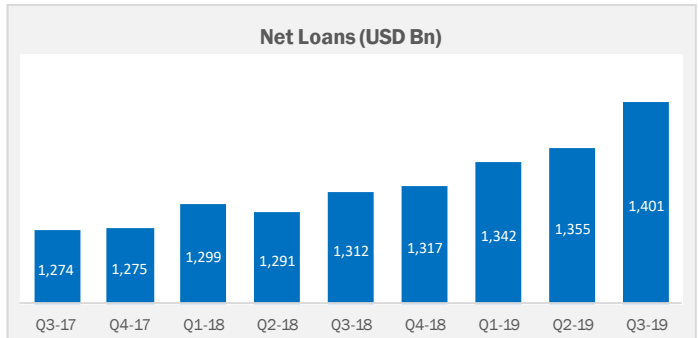
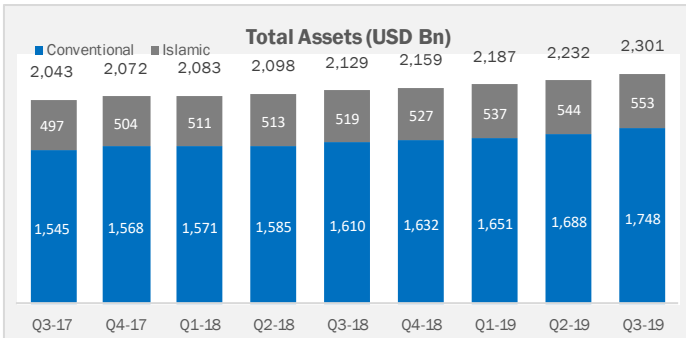
### ***Cost-to-Income Ratio - cost optimization efforts lead to higher ratio***

Cost optimization efforts by regional banks continues to clearly reflect in the cost-to-income ratio that has consistently declined over several quarters and reached 37.0% in Q3-19. Qatar has consistently reported the most cost efficient model with a cost-to-income ratio of 31.7% during Q3-19 vs. 31.4% in Q2-19 and 33.2% in Q3-18. The impact of scale was clearly visible with smaller banks in Bahrain and Oman reporting a significantly higher cost-to-income ratio of 50.0% and 47.7%, respectively.

### ***Loan Loss Provision - a reversal from the previous quarter as Saudi banks halve LLP***

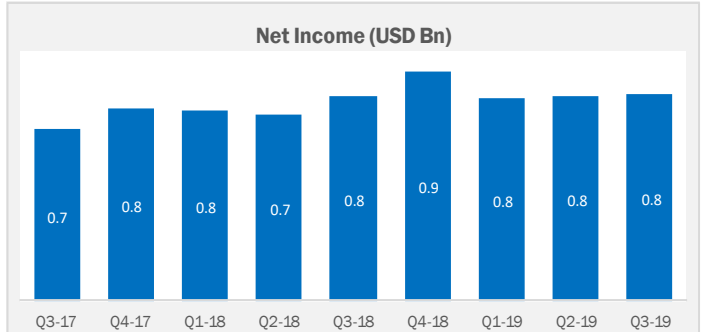
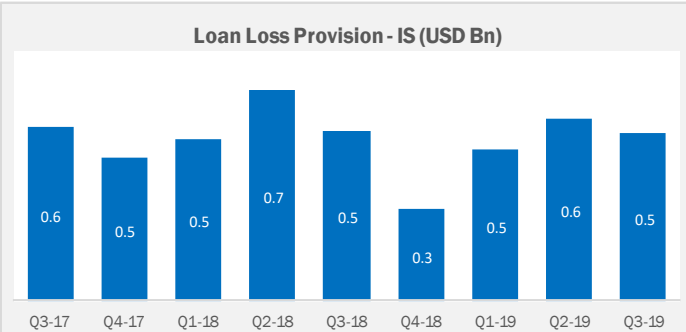
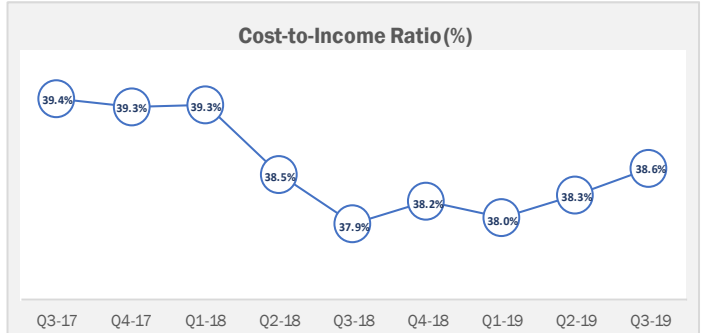
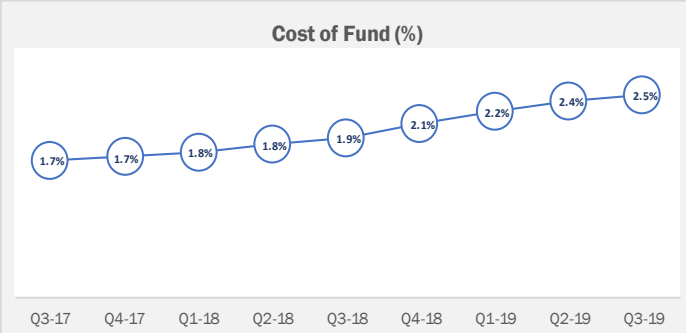
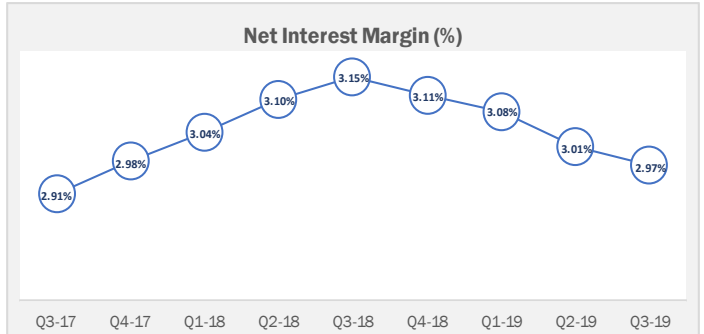
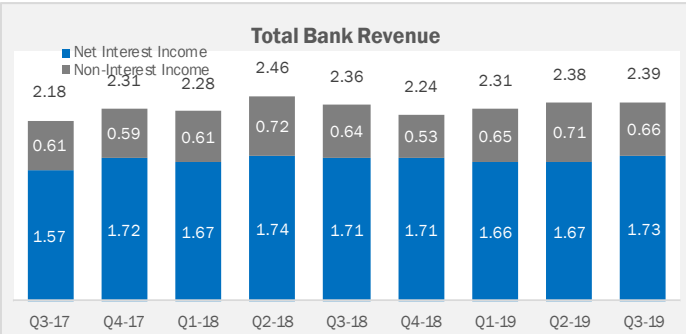
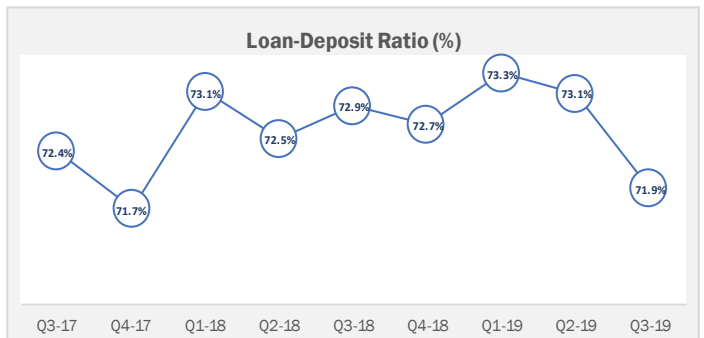
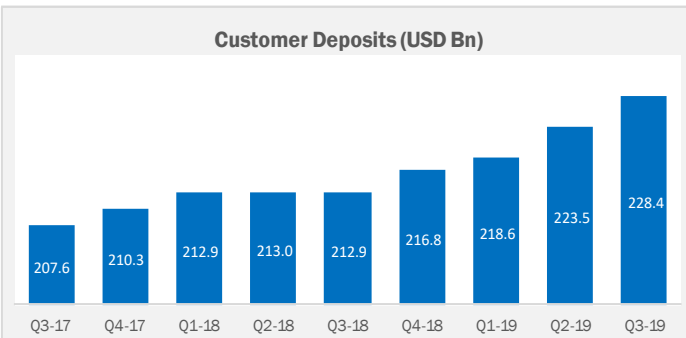
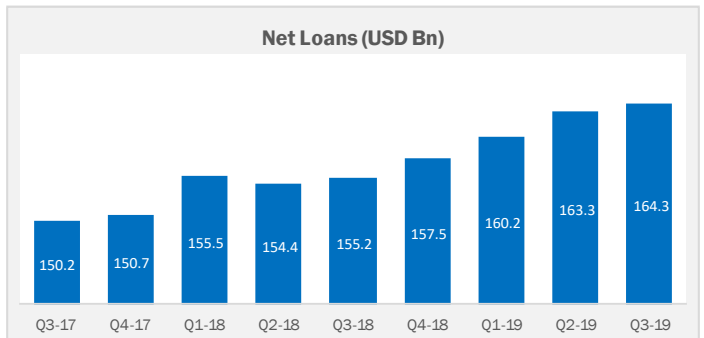
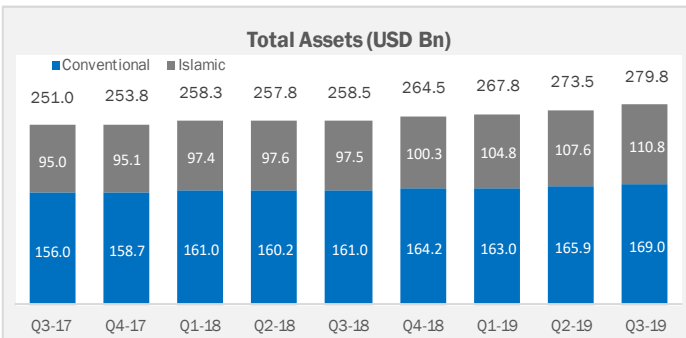
Quarterly loan loss provision (LLP) declined marginally for the aggregate GCC banking sector reaching USD 3.0 Bn during Q3-19 as compared to USD 3.1 Bn during Q2-19. LLP increased and witnessed a steep q-o-q increase in UAE, Bahrain and Oman while it declined in the case of Saudi Arabia and Kuwaiti banks. In Saudi Arabia, total banking sector provisions almost halved to USD 616.1 Bn in Q3-19 after seeing a steep increase during the previous quarter. Kuwaiti banks also reported a decline after 8 out of the 10 listed Kuwaiti banks reported a q-o-q decline in LLP.

# Key Banking Sector Metrics : GCC



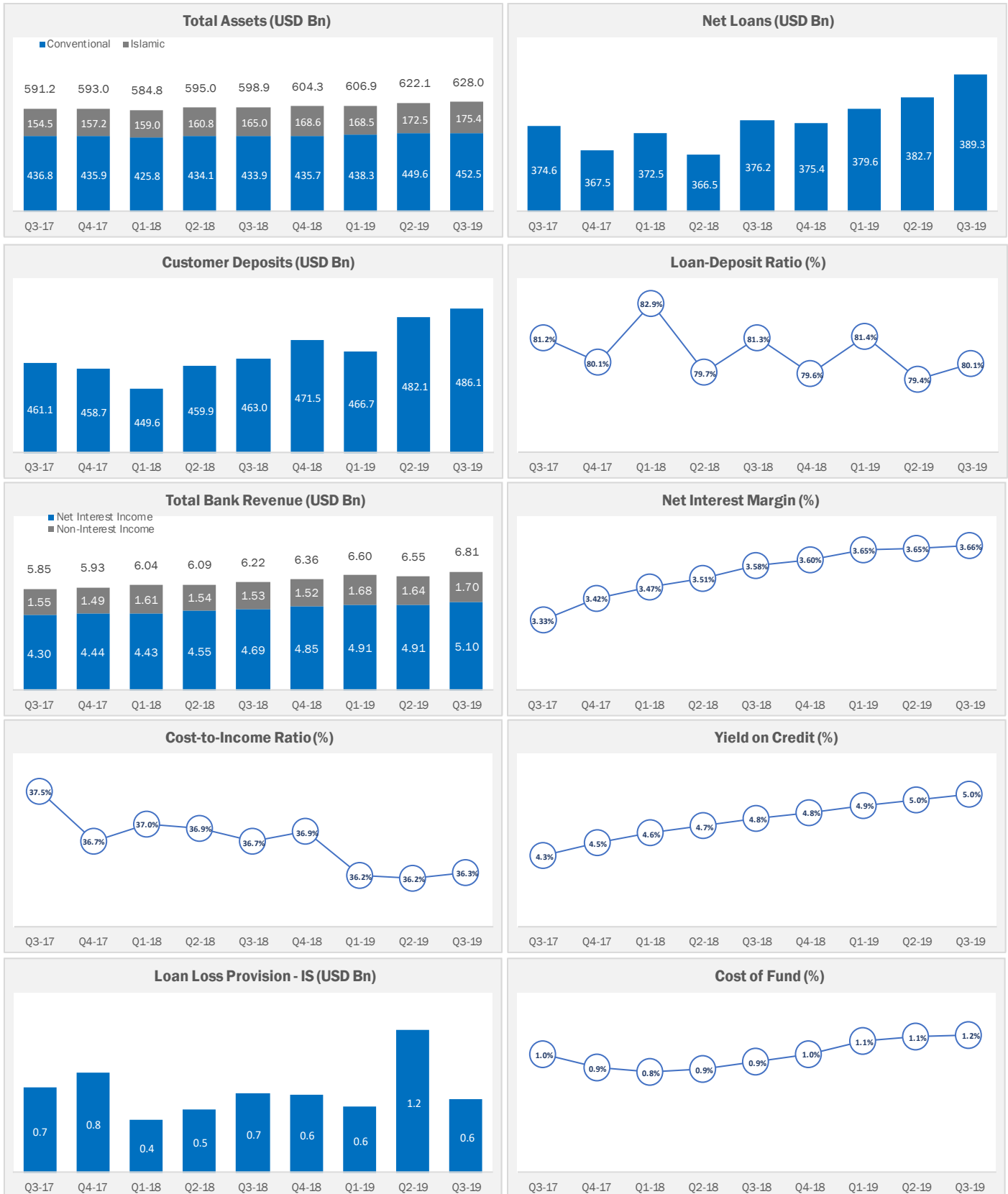
Source : Reuters, Company Financials, KAMCO Research

# Key Banking Sector Metrics : Kuwait



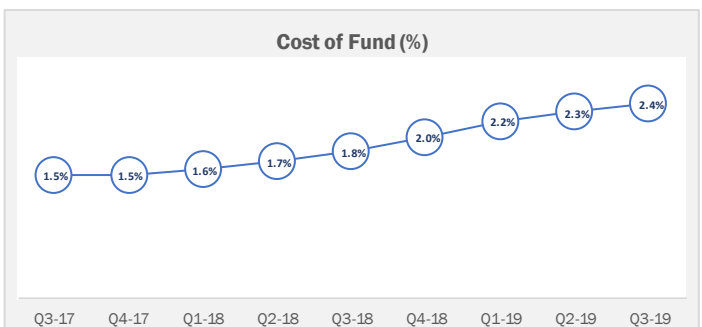
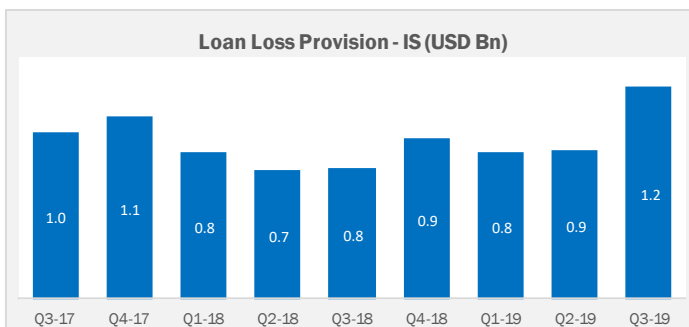
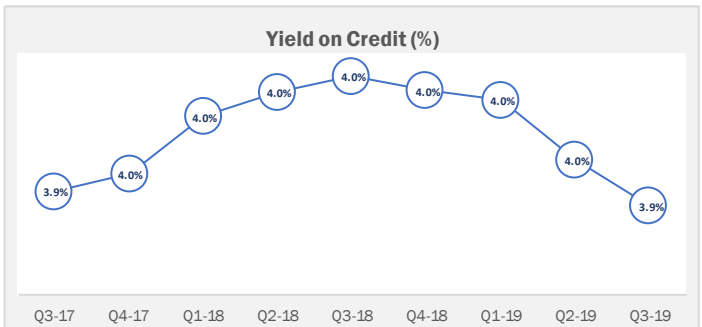
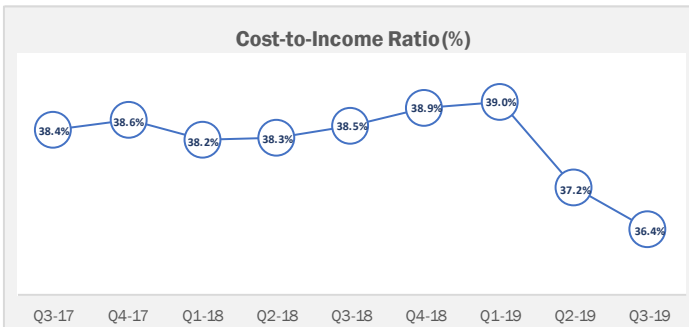
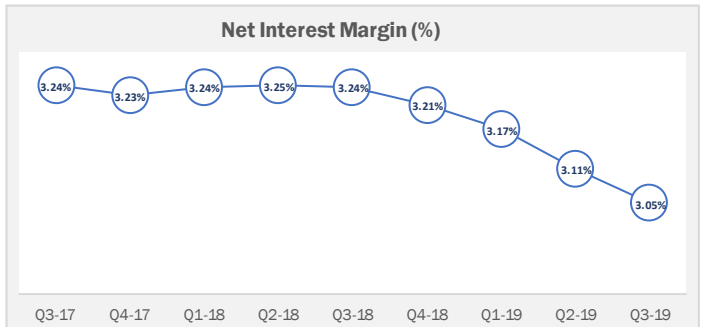
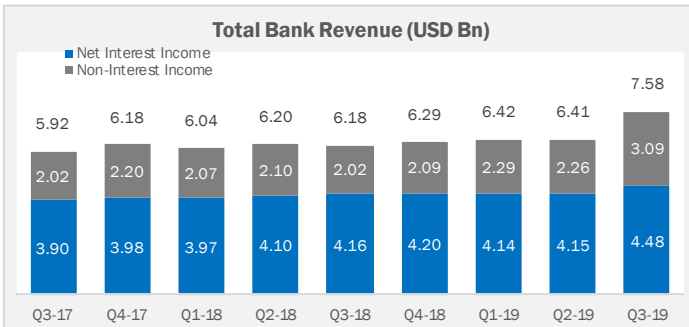
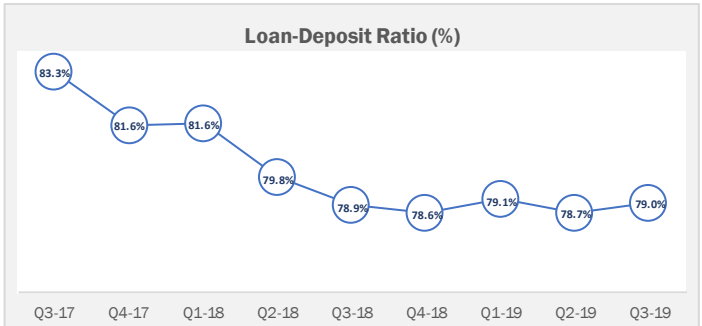
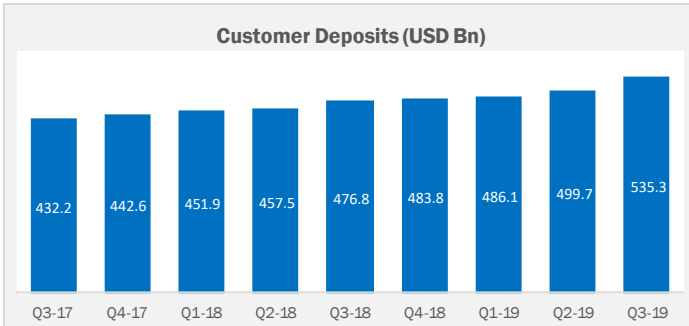
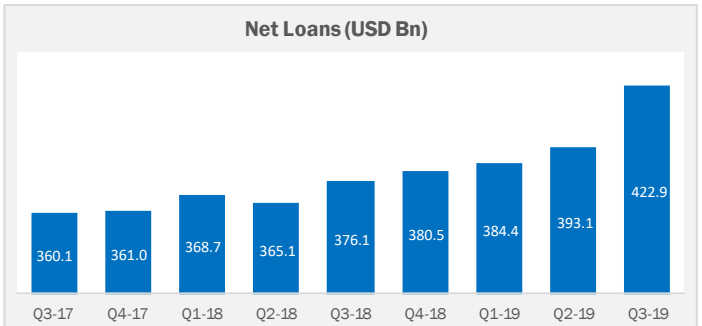
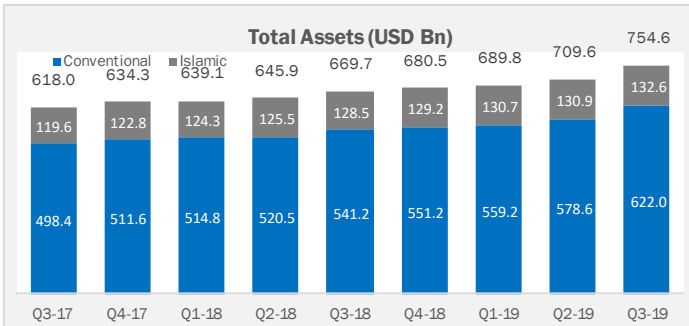
Source : Reuters, Company Financials, KAMCO Research

# Key Banking Sector Metrics : Saudi Arabia



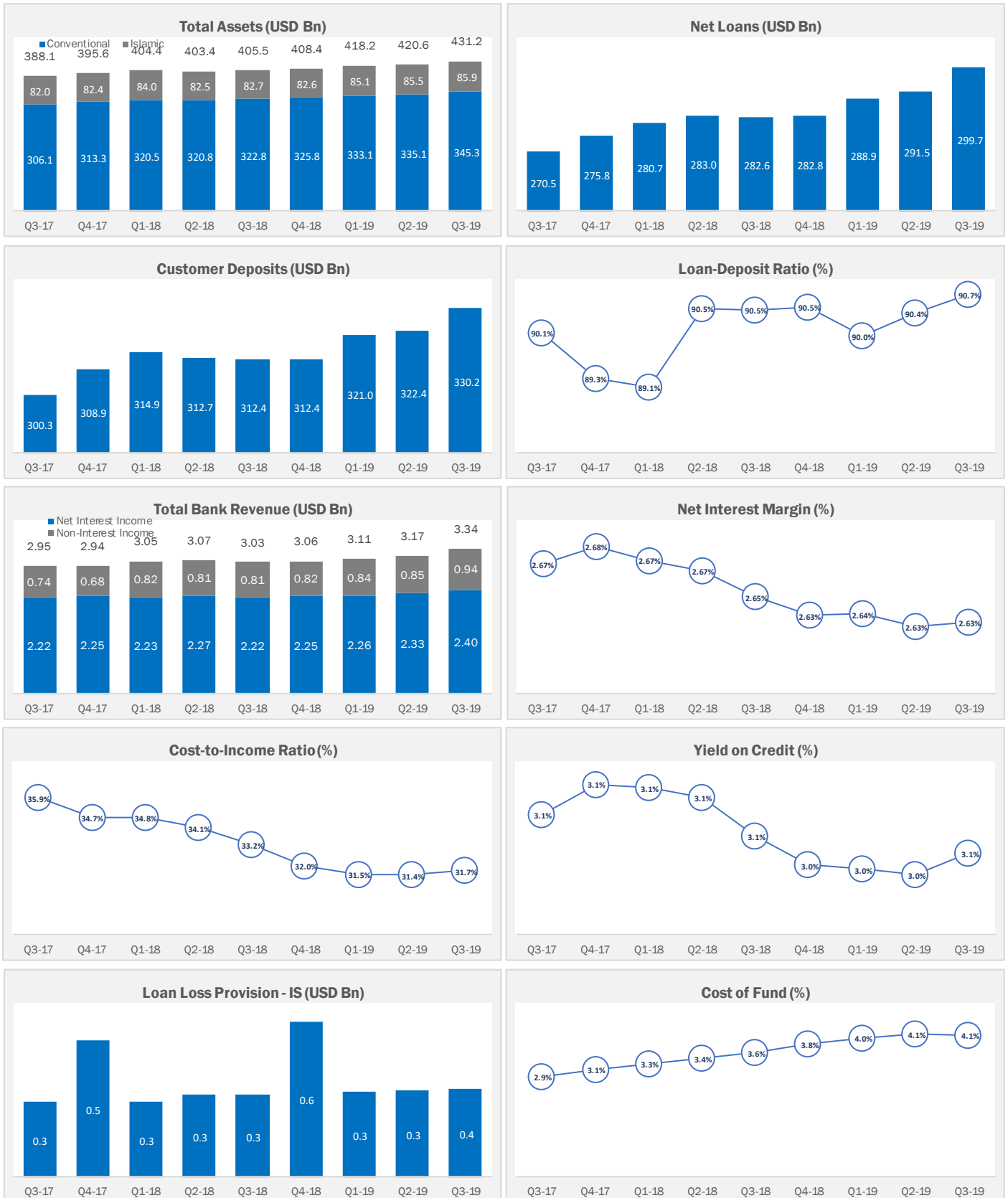
Source : Reuters, Company Financials, KAMCO Research

# Key Banking Sector Metrics : UAE



Source : Reuters, Company Financials, KAMCO Research

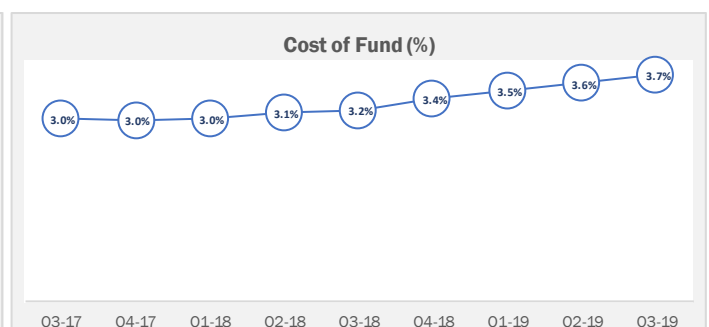
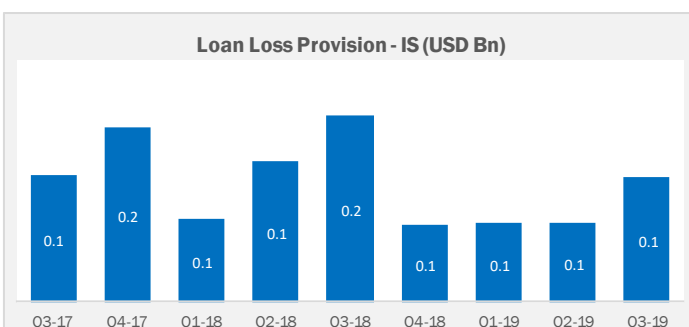
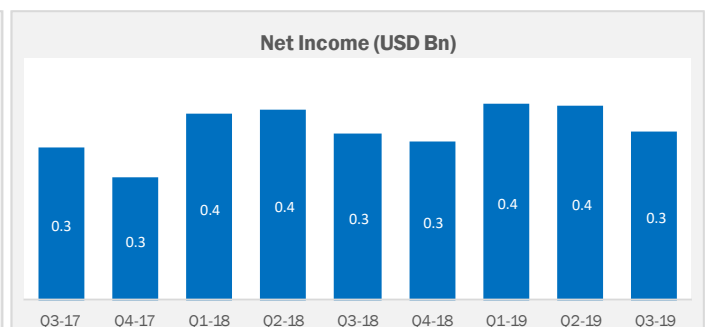
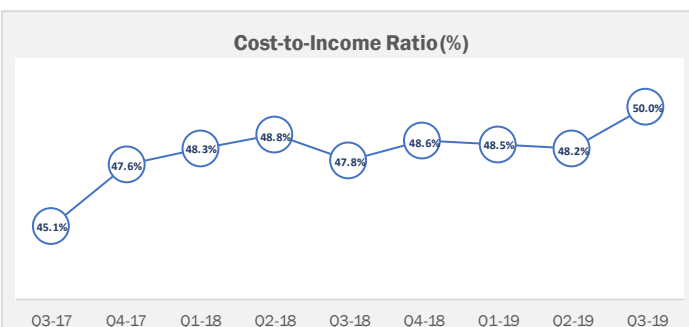
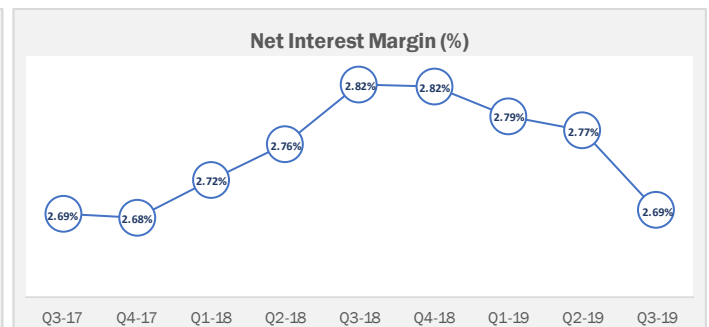
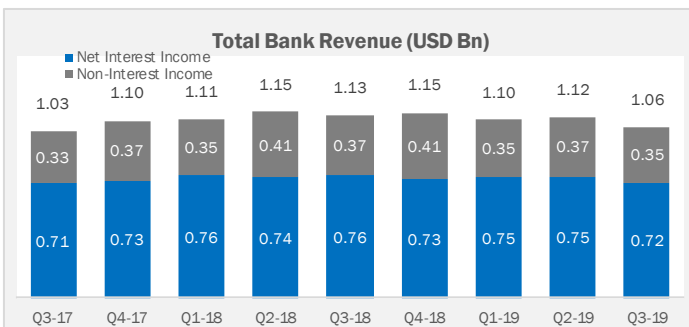
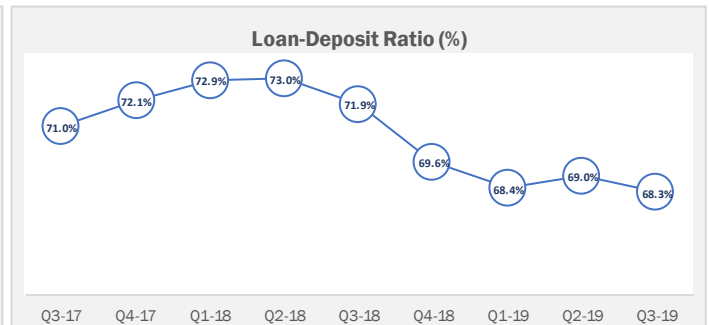
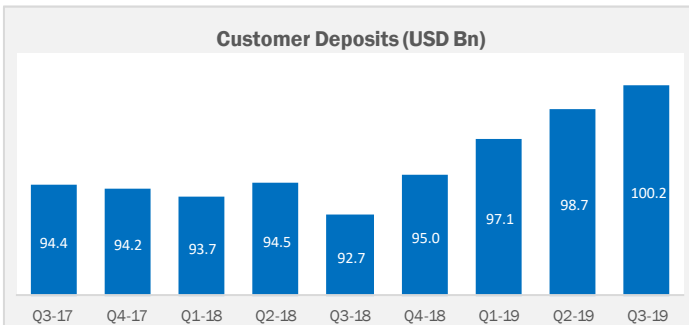
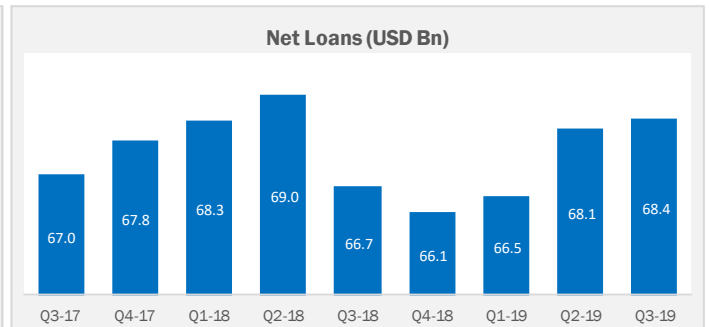
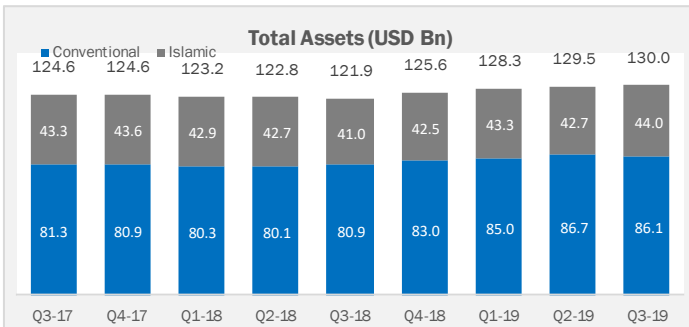
# Key Banking Sector Metrics : Qatar



Source : Reuters, Company Financials, KAMCO Research

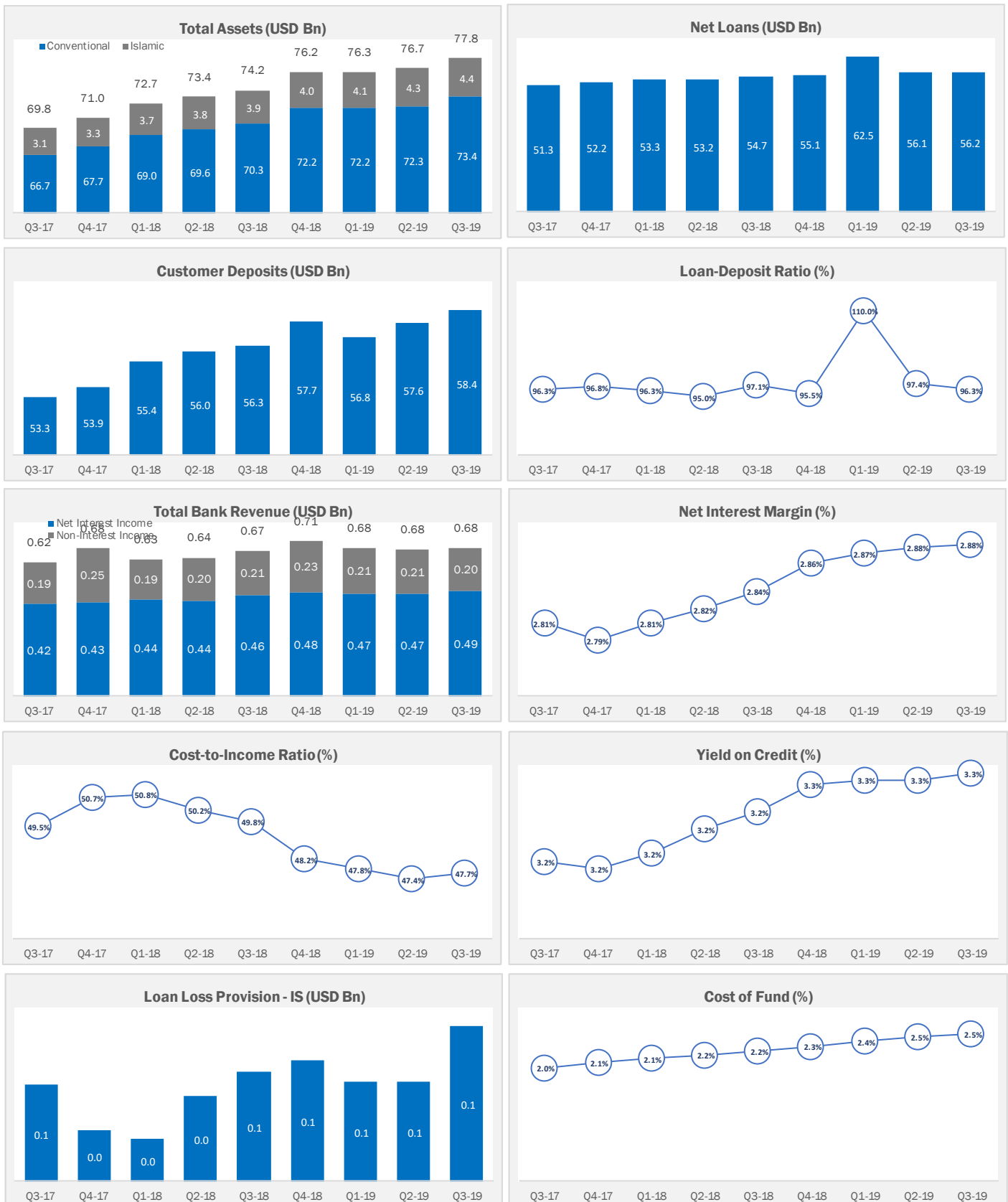


# Key Banking Sector Metrics : Bahrain



Source : Reuters, Company Financials, KAMCO Research

# Key Banking Sector Metrics : Oman



Source : Reuters, Company Financials, KAMCO Research

## GCC Banking Sector : Market Data

Name	Country	M-CAP (USD Bn)	Price (LCL)	P/E (x)	P/BV (x)	Div Ind Yield (%)	YTD-19 Returns	3-Yr Avg Tot Return	5-Yr Avg Tot Return	10-Yr Avg Tot Return
AHLI UNITED BANK B.S.C	Bahrain	8.3	0.947	11.9	2.0	4.8	60.7%	31.0%	17.7%	17.7%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.9	0.705	13.3	2.2	3.2	31.8%	13.0%	10.4%	12.2%
ARAB BANKING CORP	Bahrain	1.5	0.470	6.4	0.4	6.4	21.1%	20.6%	-1.3%	0.5%
BBK BSC	Bahrain	1.9	0.561	10.1	1.5	1.8	36.2%	26.0%	12.9%	12.4%
AL-SALAM BANK	Bahrain	0.6	0.095	9.7	0.7	3.6	2.1%	2.9%	-0.6%	3.9%
ALBARAKA BANKING GROUP	Bahrain	0.4	0.305	4.5	0.3	9.8	11.5%	-4.0%	-12.3%	-2.6%
BAHRAIN ISLAMIC BANK	Bahrain	0.3	0.119	12.9	1.0	NA	-8.5%	NA	NA	-5.2%
ITHMAAR HOLDING BSC	Bahrain	0.2	0.060	NA	1.7	NA	-29.4%	NA	NA	-10.1%
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.048	NA	0.5	NA	-42.9%	NA	NA	-9.8%
NATIONAL BANK OF KUWAIT	Kuwait	21.9	1.031	17.3	2.0	3.2	34.6%	26.6%	11.6%	10.3%
KUWAIT FINANCE HOUSE	Kuwait	18.0	0.791	20.3	2.8	2.3	46.4%	30.1%	15.9%	8.3%
BOUBYAN BANK K.S.C	Kuwait	5.7	0.602	28.8	3.1	1.2	21.4%	24.5%	15.7%	8.6%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.3	0.513	15.6	1.4	3.5	16.4%	21.1%	6.8%	-0.1%
GULF BANK	Kuwait	2.8	0.289	16.2	1.3	3.5	18.4%	10.7%	2.5%	2.4%
BURGAN BANK	Kuwait	2.7	0.312	13.3	1.1	3.7	21.6%	9.0%	-1.8%	5.7%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	2.0	0.333	12.4	1.4	4.3	22.9%	3.9%	-2.7%	5.5%
AL AHLI BANK OF KUWAIT	Kuwait	1.4	0.260	18.5	0.7	5.4	-8.2%	-1.0%	-5.7%	-1.1%
WARBA BANK KSCP	Kuwait	1.4	0.287	37.7	2.0	NA	36.7%	12.8%	7.3%	NA
KUWAIT INTERNATIONAL BANK	Kuwait	0.9	0.277	15.0	1.0	3.8	12.9%	16.4%	5.9%	6.8%
BANKMUSCAT SAOG	Oman	3.5	0.438	7.2	0.7	7.6	21.5%	12.6%	6.9%	6.6%
BANK DHOFAR SAOG	Oman	0.9	0.117	10.6	0.7	8.0	-19.7%	-8.6%	-3.9%	-2.3%
NATIONAL BANK OF OMAN SAOG	Oman	0.8	0.184	3.8	0.7	8.7	10.3%	2.6%	3.2%	4.6%
HSBC BANK OMAN	Oman	0.6	0.125	7.7	0.7	7.4	12.9%	9.0%	4.7%	-3.3%
SOHAR INTERNATIONAL BANK	Oman	0.7	0.108	10.3	0.8	5.5	2.9%	-3.2%	-2.4%	-1.0%
AHLI BANK	Oman	0.5	0.126	12.0	0.8	7.6	-2.4%	-4.7%	0.1%	5.7%
BANK NIZWA	Oman	0.4	0.095	15.9	1.0	NA	4.4%	5.0%	3.0%	NA
AL IZZ ISLAMIC BANK	Oman	0.2	0.063	NA	0.8	NA	-30.0%	-3.9%	-7.9%	NA
QATAR NATIONAL BANK	Qatar	49.2	19.5	14.0	2.5	3.1	3.5%	16.1%	8.7%	16.1%
QATAR ISLAMIC BANK	Qatar	9.8	15.3	13.1	2.2	3.3	3.8%	19.3%	14.6%	11.5%
MASRAF AL RAYAN	Qatar	8.0	3.9	13.6	2.2	5.1	-1.2%	8.5%	2.7%	15.3%
COMMERCIAL BANK PQSC	Qatar	4.9	4.4	10.9	1.0	3.4	16.6%	15.3%	-0.5%	5.1%
QATAR INTERNATIONAL ISLAMIC	Qatar	4.0	9.6	16.6	2.4	4.2	53.6%	23.3%	10.3%	14.0%
AL AHLI BANK	Qatar	2.1	3.4	11.7	1.3	2.7	38.2%	2.3%	1.3%	12.7%
DOHA BANK QSC	Qatar	2.2	2.6	11.2	0.8	3.9	20.7%	-1.3%	-6.7%	2.7%
AL KHALIJ COMMERCIAL BANK	Qatar	1.2	1.2	7.6	0.8	6.0	15.0%	-5.1%	-6.0%	3.6%
AL RAJHI BANK	Saudi Arabia	42.5	63.7	14.4	3.2	4.7	16.7%	21.2%	16.9%	7.3%
NATIONAL COMMERCIAL BANK	Saudi Arabia	38.6	48.3	13.5	2.4	4.6	4.8%	24.6%	8.8%	NA
RIYAD BANK	Saudi Arabia	18.9	23.6	11.8	1.8	4.4	23.4%	34.1%	12.3%	10.2%
SAMBA FINANCIAL GROUP	Saudi Arabia	17.1	32.1	13.3	1.4	4.5	7.3%	17.5%	11.5%	5.7%
SAUDI BRITISH BANK	Saudi Arabia	19.0	34.6	17.0	1.3	3.5	10.4%	17.8%	4.0%	5.5%
BANQUE SAUDI FRANSI	Saudi Arabia	11.1	34.6	13.5	1.3	5.8	14.9%	14.2%	6.3%	5.6%
ALINMA BANK	Saudi Arabia	9.7	24.1	13.0	1.7	4.1	9.4%	22.4%	6.4%	7.3%
ARAB NATIONAL BANK	Saudi Arabia	10.9	27.2	12.2	1.5	3.7	33.3%	29.0%	11.4%	6.2%
BANK ALBILAD	Saudi Arabia	5.4	27.1	16.3	2.2	1.5	26.0%	21.9%	6.2%	13.3%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	3.3	16.7	16.7	1.0	NA	-2.3%	9.4%	-1.6%	5.9%
BANK AL-JAZIRA	Saudi Arabia	3.1	14.2	11.5	1.0	2.1	4.5%	17.7%	-4.7%	3.6%
FIRST ABU DHABI BANK PJSC	UAE	45.2	15.2	13.9	1.8	4.9	13.4%	20.9%	11.8%	14.3%
EMIRATES NBD PJSC	UAE	21.2	12.3	5.0	1.1	3.1	50.0%	21.4%	15.7%	15.9%
EMIRATES ISLAMIC BANK	UAE	14.8	10.0	45.0	6.6	NA	0.0%	93.6%	48.3%	NA
ABU DHABI COMMERCIAL BANK	UAE	14.3	7.5	9.1	1.1	6.1	-3.1%	8.8%	8.4%	18.0%
DUBAI ISLAMIC BANK	UAE	9.6	5.4	7.3	1.4	6.5	15.4%	10.0%	9.2%	16.8%
ABU DHABI ISLAMIC BANK	UAE	5.1	5.2	8.7	1.4	5.3	40.2%	23.1%	7.1%	16.3%
MASHREQBANK	UAE	3.5	72.0	6.2	0.6	5.6	-3.1%	8.6%	-4.7%	NA
COMMERCIAL BANK OF DUBAI	UAE	3.0	3.9	7.8	1.1	5.3	2.0%	-5.1%	-1.8%	10.2%
NATIONAL BANK OF FUJAIRAH	UAE	2.5	5.0	15.0	1.8	1.3	18.8%	13.0%	14.1%	5.8%
INVEST BANK	UAE	1.1	1.2	NA	2.6	NA	-51.0%	-16.9%	-10.5%	5.5%
NATIONAL BANK OF RAS AL-KHAI	UAE	2.1	4.7	7.3	1.0	6.4	20.1%	4.7%	-5.2%	13.0%
NATIONAL BANK OF UMM AL QAIW	UAE	1.1	2.1	9.1	0.8	5.2	-26.1%	-7.9%	-5.0%	2.9%
SHARJAH ISLAMIC BANK	UAE	1.0	1.2	6.8	0.6	6.6	13.6%	1.1%	-0.5%	9.1%
UNITED ARAB BANK PJSC	UAE	0.6	1.0	56.8	0.8	NA	-17.5%	-11.6%	-27.2%	NA
BANK OF SHARJAH	UAE	0.4	0.8	3,552.0	0.4	NA	-23.0%	-14.4%	-12.3%	-3.9%
AJMAN BANK PJSC	UAE	0.5	0.9	11.6	0.7	3.9	3.9%	-9.7%	-11.3%	1.8%
COMMERCIAL BANK INTERNATIONA	UAE	0.3	0.6	5.7	0.5	NA	-31.0%	-32.9%	-18.5%	-6.9%

Source : Bloomberg

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