

GCC Banking Sector Report - Q4-2020

March - 2021

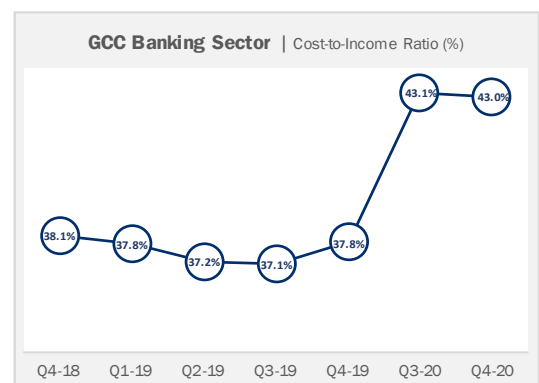
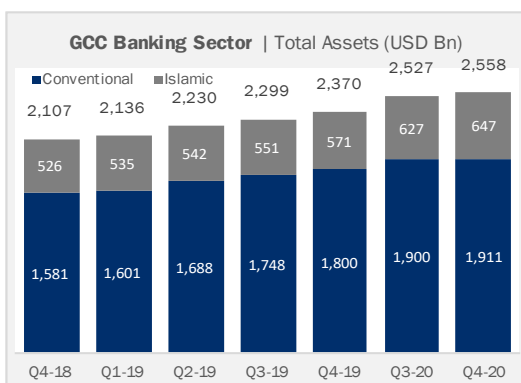
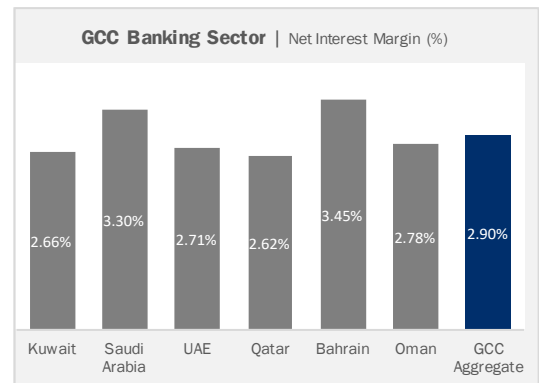
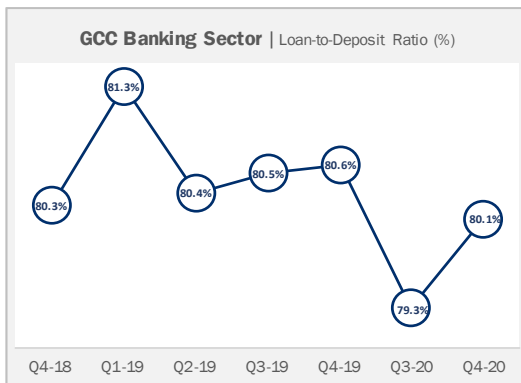
GCC banking provisions reached record highs while LDR regains 80% mark...

The Covid-19 pandemic inflicted a deep impact on the GCC banking sector, in line with most other countries, resulting in the highest provisions booked on record during FY-2020. **The 62 listed banks in the GCC reported loan loss provisions (LLP) of USD 20.3 Bn during 2020 with increase seen across the board in all the six countries. Banks in the UAE booked the biggest spike in LLP during the year with an increase of USD 3.4 Bn or 71.6% to reach USD 8.2 Bn. On the other hand, Saudi Arabian banks booked the lowest percentage increase in LLP at 37.6% or USD 1.3 Bn to reach USD 4.6 Bn during the year. Banks in the region set aside USD 6.4 Bn for doubtful credit during Q4-2020, the highest for a quarter ever recorded in the region.**

Nevertheless, lending growth continued unabated in the region backed by economic recovery with gross loans (excluding Kuwaiti banks) reaching USD 1.4 Trillion with a q-o-q growth of 1.1% during Q4-2020. Except for UAE, which reported a decline of 1.2%, the rest of the countries in the GCC reported growth ranging from 1.0% to 2.5% in gross lending during Q4-2020. The trend in net loans was similar witnessing a growth of 1.4% with only UAE showing a marginal decline of 0.3%. As a result, earning assets reached a record high of USD 2.1 Trillion with a q-o-q growth of 1.6%. This pushed total assets for the banking sector in the region to a new record high of USD 2.6 Trillion.

The increase in customer deposits was relatively marginal during the quarter with a growth of 0.4% to reach USD 1.9 Trillion. The trend on this metric was uneven with growth seen in Saudi Arabia, Qatar and Bahrain, whereas UAE, Oman and Kuwaiti banks reported a decline. UAE banks reported the first drop in customer deposits in 16 quarters at -3.7% q-o-q. According to FAB, the spike in deposits in Q3-2020 was due to a one-off government issuance that was expected to decline during Q4-2020. The net impact of a faster growth in lending vs. deposits during Q4-2020 was a growth in aggregate GCC bank loan-to-deposit ratio to above the 80% mark for the first time in three quarters at 80.1%.

In terms of profitability, the decline in interest rates were reflected in lower Net Interest Margins (NIM) for almost all the regional banks. The aggregate NIM for the region went below the 3.0% mark at 2.9% as a result of a decline seen in all the individual countries, barring Bahraini banks that reported the highest NIMs in the region at 3.45%. Saudi Arabian banks were next with aggregate NIM at 3.3%, posting a q-o-q decline of 13 bps.



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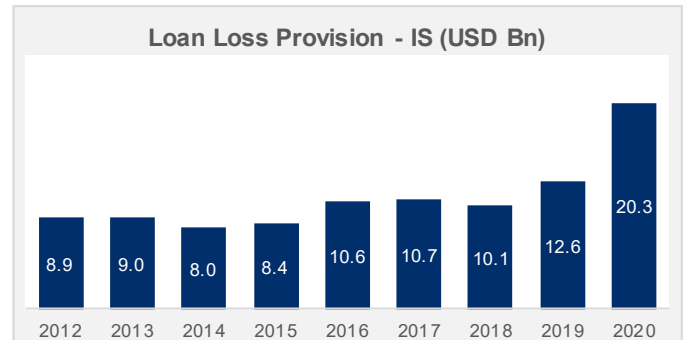
Source : Reuters, Company Financials, Kamco Invest Research

Highlights - GCC Banking Sector

This report analyzes financials reported by 62 listed banks in the GCC for the quarter ended Q4-2020. We have excluded Q1-2020 and Q2-2020 data from aggregate charts for the GCC region due to lack of data on Bahraini banks. Data for individual banks have been aggregated to the country level. Some of the key observations from the most recent financial quarter for the GCC Banking Sector includes the following:

Provisions peak as forbearance measures are set to be rolled back gradually...

Loan loss provisions (LLP) peaked during Q4-2020 to a new record high of USD 6.4 Bn as compared to USD 4.5 Bn during Q3-2020. This resulted in record high provision for the year at USD 20.3 Bn, up 61.3% or USD 7.7 Bn reported during FY-2019. UAE banks reported the biggest absolute growth during the year increasing LLP by USD 3.4 Bn or 71.6% to USD 8.2 Bn. On the other hand, Saudi Arabia reported the smallest percentage increase in provisions during the year with a growth of 37.6% or USD 1.3 Bn to reach USD 4.6 Bn. Kuwaiti banks reported the third biggest provisions during the year at USD 3.3 Bn registering an increase of 55.6%.



Source : Reuters, Bank Financials, Kamco Invest Research

Topline improves led by both net interest and non-interest income...

Total bank revenue for the GCC banks increased by a healthy 4.0% q-o-q during Q4-2020 after seeing a 2.2% decline during the previous quarter. The increase was supported by both higher net interest income as well as non-interest income. Non-interest income grew for the second consecutive quarter during Q4-2020 increasing by 8.9% q-o-q, the biggest sequential growth in last five quarters, to reach USD 6.4 Bn. The increase was broad-based and witnessed in all the six countries mainly led by improving capital markets during the last quarter of the year. Net interest income also increased during Q4-2020, but the increase was relatively modest at 2.1% to reach USD 15.1 Bn during the quarter vs. USD 14.7 Bn during Q3-2020. The q-o-q growth was positive in almost all the markets, barring in Bahrain, and came mainly on the back of lending growth boosted by economic recovery post the pandemic.

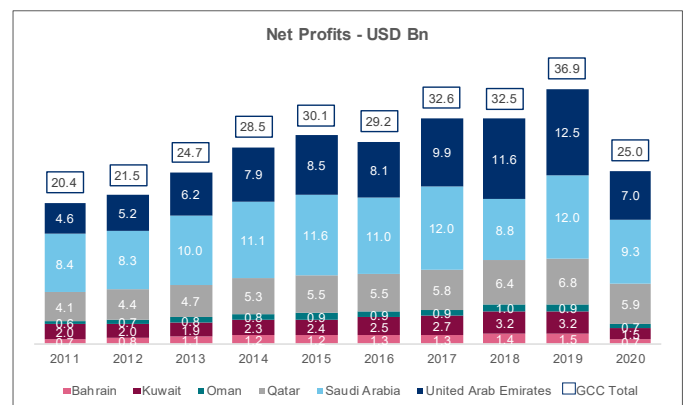
Decline in interest rates affected NIMs across the board...

The growth in net interest income during Q4-2020 failed to have a positive impact on aggregate net interest margins (NIM) during the year as the ratio declined to one of the lowest levels over the last few quarters. Aggregate NIM for the GCC banking sector contracted to 2.9% in Q4-2020 as compared to 2.98% in Q3-2020 mainly led by a relatively higher growth in earning assets during the quarter. NIM has seen marginal but consistent declines over the last eight quarters and went below the 3.0% mark for the first time in Q3-2020. NIM contracted across the board in the GCC during 2020, except in Bahrain that saw a marginal increase of 12 bps. NIM was the highest in the case of Bahraini banks at 3.45% during Q4-2020, an increase from 3.33% in Q3-2020.

Saudi Arabian banks reported the second highest NIM in the region at 3.3% at the end of Q4-2020. However, the sector also witnessed the biggest q-o-q decline in NIM by 13 bps from 3.43% in Q3-2020. Omani banks were next with a NIM of 2.78% closely followed by UAE and Kuwaiti banks at 2.71% and 2.66%, respectively.

Net profits reach 7-year low in 2020 on record provisions...

Net profit for the GCC banking sector once again declined during Q4-2020 led by higher provisions partially offset by higher total banking revenues. The bottom-line dipped almost a third q-o-q during Q4-2020 and reached USD 5.3 Bn. The decline was also reflected in full year net profits that reached the lowest in seven years. Aggregate net profit for FY-2020 declined to USD 25.0 Bn as compared to USD 36.9 Bn during FY-2019, registering a decline of 32.2%. This was the steepest decline on record since at least 2002 and much bigger than the 22.3% decline seen in 2008, the year of the global financial



Source : Reuters, Bank Financials, Kamco Invest Research

crisis. Net profit decline was the steepest in Bahrain at 53.6% closely followed by Kuwait at 53.5%. UAE was next with a decline of 44.2% whereas Saudi and Qatari banks witnessed declines of 22.8% and 12.4%, respectively.

Loan-to-deposit ratio regains 80% mark after two quarters...

Aggregate net loan growth during Q4-2020 stood at 1.4% q-o-q for the GCC banking sector to reach USD 1.54 Trillion led by a broad-based growth seen in most markets in the GCC. The y-o-y growth vs. Q4-2019 was a strong 6.6%, almost in line with the growth in gross loans that grew at 6.4% during the year. Qatari banks reported the biggest q-o-q increase in net loans during Q4-2020 with a growth of 2.5% followed by Saudi and Bahraini banks that clocked growth rate of 2.2%.

The trend in customer deposits was mixed with banks in Kuwait, UAE and Oman reporting q-o-q declines while Saudi, Qatari and Bahraini banks reported growth during Q4-2020. As a result, the aggregate customer deposits for the sector witnessed a marginal growth of 0.4% q-o-q to reach USD 1.92 Trillion. Banks in UAE reported the steepest q-o-q decline in customer deposits at 3.7% to reach USD 573 Bn led by one-off deposits increase backed by the government during Q3-2020 that was off the balance sheet during Q4-2020. The decline in Kuwait and Oman were marginal at 0.4% and 0.6%, respectively.

The aggregate loan-to-deposit ratio for the GCC banking sector regained the 80% mark at the end of 2020 to reach 80.1%, resulting in a growth of 80 bps as compared to Q3-2020. However, unlike the previous quarter when the ratio improved in Saudi Arabia and Qatar, the ratio declined marginally in Saudi Arabia by 60 bps to reach 79.1% and by 90 bps in Qatar to reach 91.1% during Q4-2020. On the other hand, banks in UAE reported the biggest q-o-q improvement to reach 77.5% as compared to 74.8% at the end of Q3-2020. Bahraini banks once again reported the lowest loan-to-deposit ratio of 67.0% during Q4-2020, flat q-o-q, whereas Omani banks continued to report the highest ratios in the GCC that further improved by 130 bps q-o-q to reach 94.4%.

Lending shows strong economic momentum in Saudi Arabia and Qatar...

Data on credit facility by sector for the six GCC countries showed mixed trends. However, the trends in Saudi Arabia and Qatar showed strong growth backed by economic revival. Total credit facilities in Saudi Arabia increased by 3.0% q-o-q in Q4-2020 to SAR 1.78 Trillion while the y-o-y growth was much stronger at 14.8%. Lending to Government & Quasi government sector showed the strongest growth during the year at 28.4% followed by 26.5% growth for the Mining and Quarrying sector. On the other hand, credit to the Manufacturing & Processing and Building & Construction sectors declined marginally by 0.4% during 2020 and to the Transport & Communication sectors credit declined by 7.7%. The YTD-2021 growth until February-2021 has already reached 3.0% to SAR 1.84 Trillion. Data from Qatar Central Bank also showed lending growth during 2020. According to the data, total credit facilities increased by 8.6% during the year to QAR 1.13 Trillion and lending during the first two months of 2021 has increased by 2.4%. Lending to the Public Sector, General Trade, Contractors and to the Services Sector reported double digit growth in 2020 whereas decline was reported only in smaller economic sectors including Industry and Others.

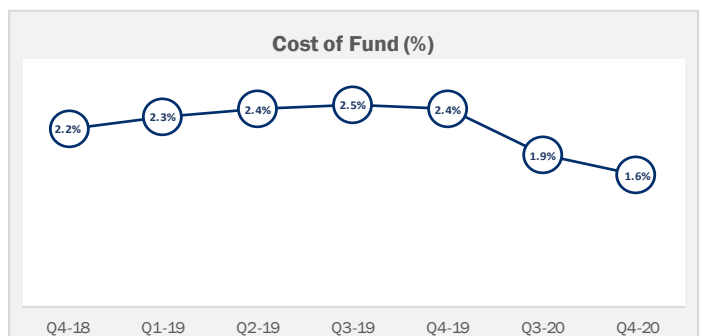
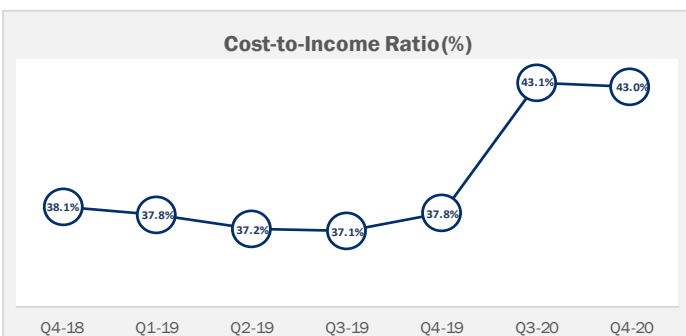
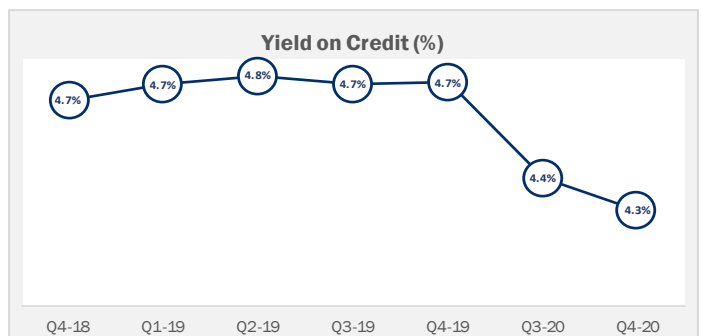
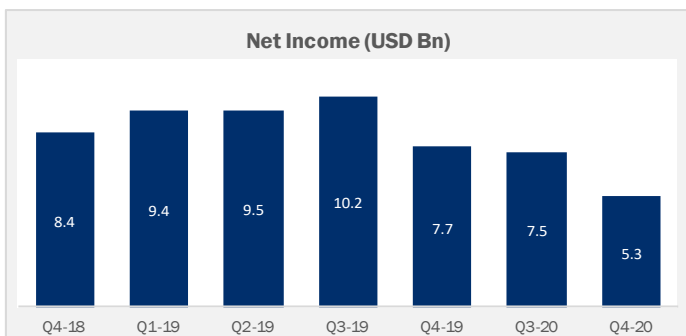
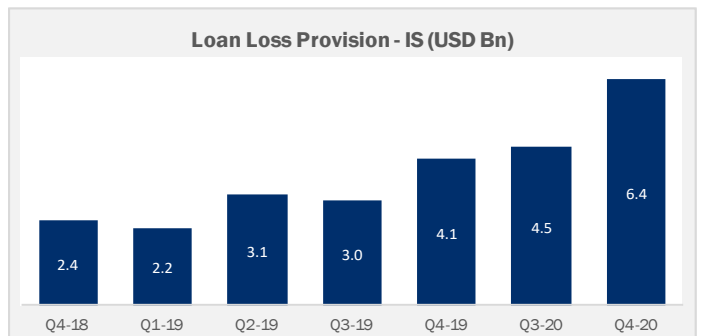
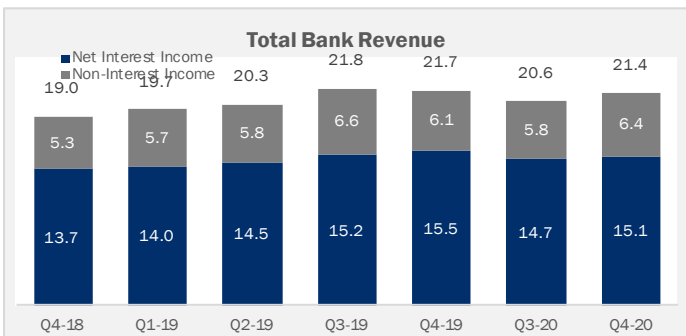
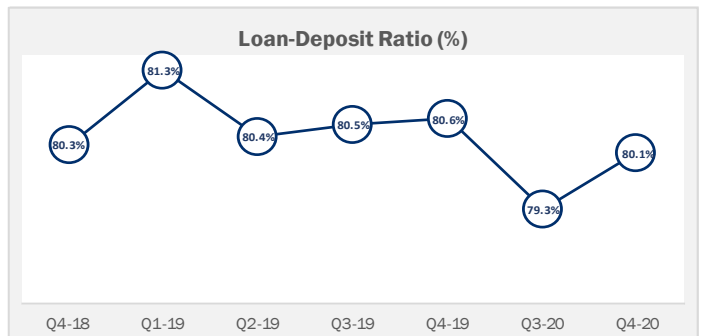
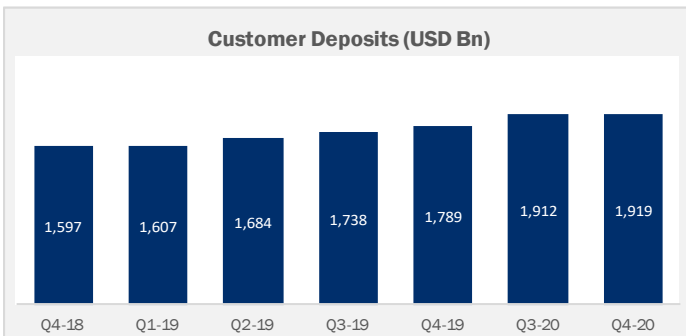
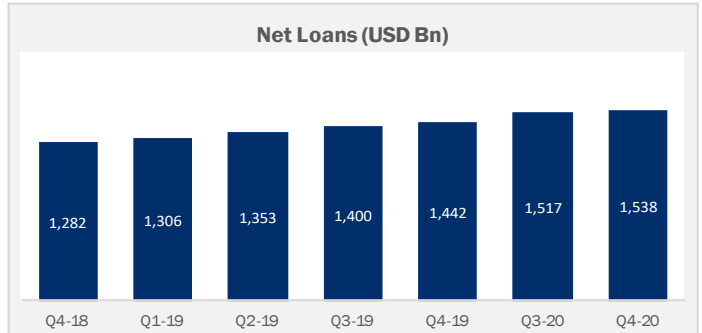
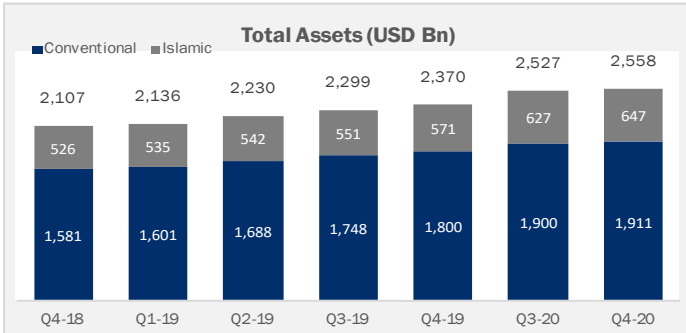
On the other hand, lending growth in the UAE stood at a marginal 0.3% during 2020 to reach AED 1.6 Trillion. Lending to Manufacturing, Trade and Financial Institutions, which accounted for 20.2% of total lending, witnessed the biggest decline of 11.4% that was offset by higher lending to most other sectors. Lending in Kuwait, Oman and Bahrain also witnessed growth ranging from 2.2% to 7.0% during 2020.

The big question on whether worst is over remains unanswered...

The increase in provisions during Q4-2020 that took the yearly LLP to the highest on record for regional banks is expected to result in a decline in impairments in the coming quarters. However, the current results still include the measures taken by central banks in the region to cushion the impact of the pandemic. Banks in the region were proactive in recognizing bad loans with measures such as TESS in the UAE and similar relaxations in regulatory liquidity and capital requirements and for funding and lending. These measures were aimed at continued and uninterrupted flow of financing mainly to the SME sector that provides the bulk of the employment in the region. Relaxations such as zero cost funding for banks and financing companies, payment holidays and loan moratoriums to borrowers came as a relief to banks, however, it basically postpones the recognition of bad loans that would exacerbate if the economy fails to recover in the near term.

With economy apparently back on the growth track and the pandemic on the decline, the regulatory support is expected to taper this year and this is expected to have a negative impact on sector earnings. That said, we believe that banks would be cautious in reporting an immediate impact on their asset quality and loan books and would spread the impact over several quarters. In addition, the strong growth in lending, especially in Saudi Arabia and Qatar, should help to cushion the impact of unrecognized provisions in the coming quarters.

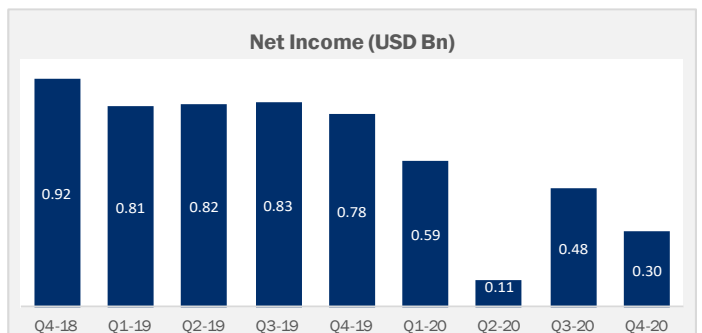
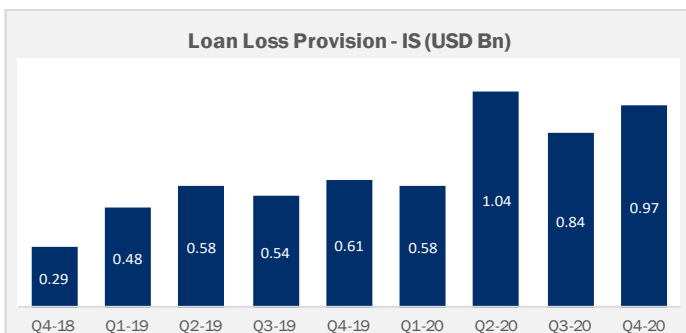
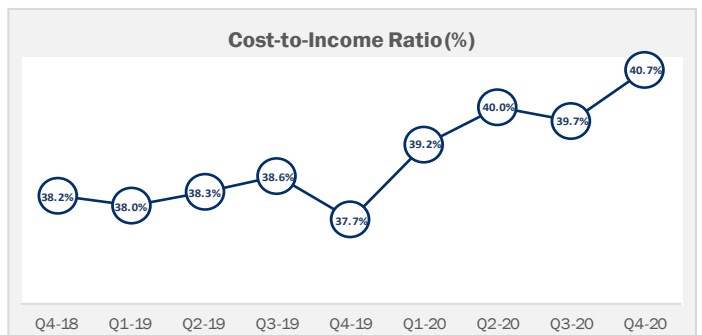
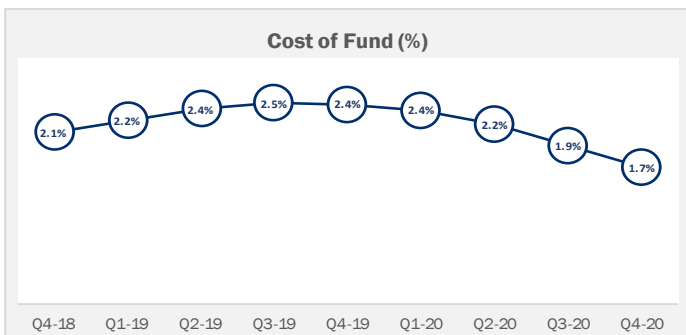
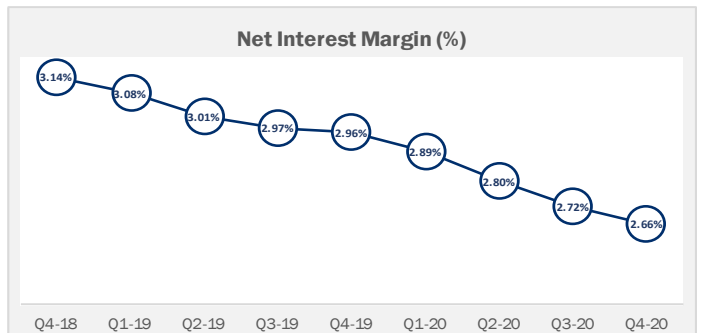
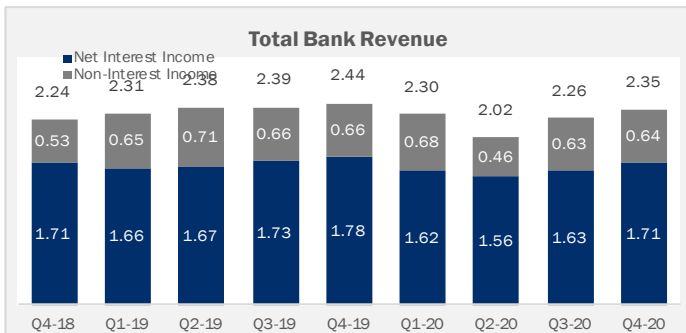
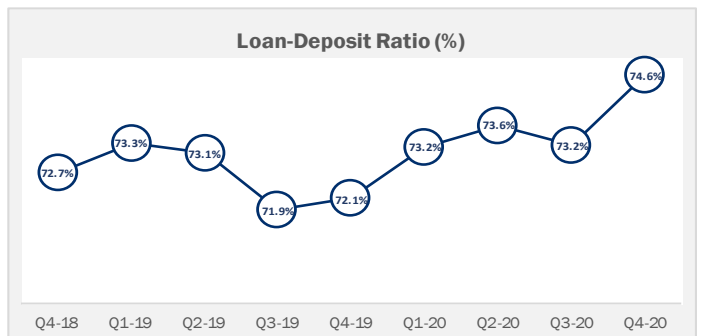
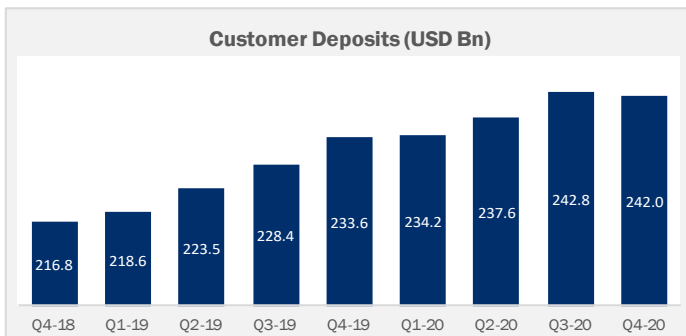
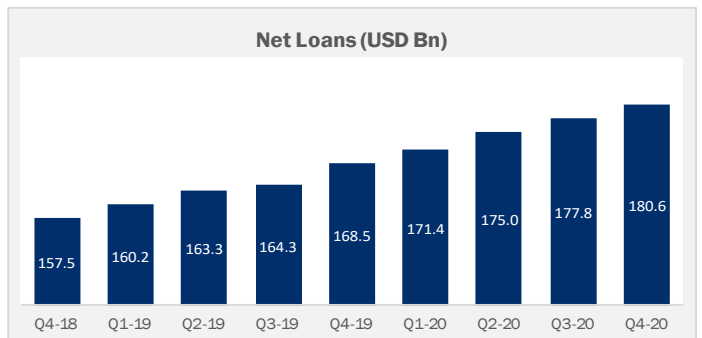
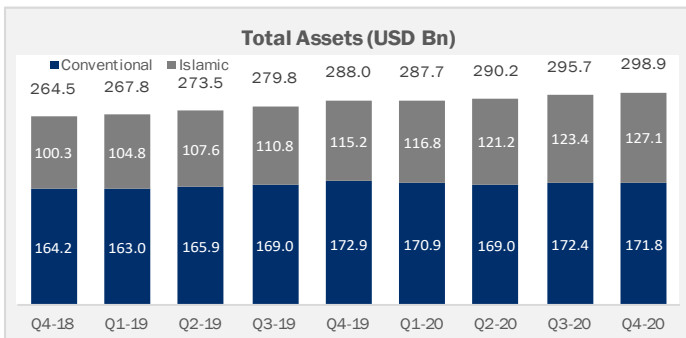
Key Banking Sector Metrics : GCC



Source : Reuters, Bloomberg, Bank Financials, Kamco Invest Research

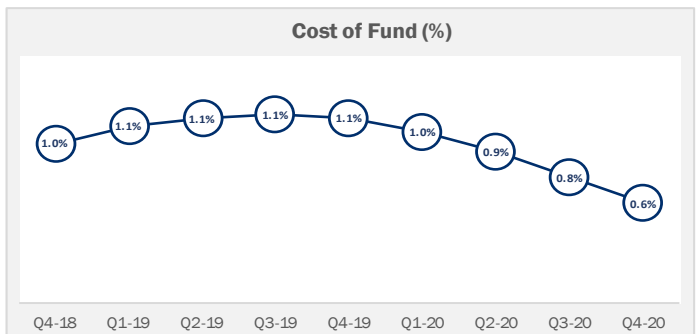
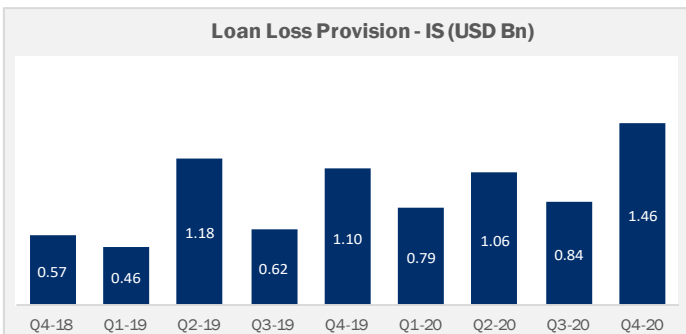
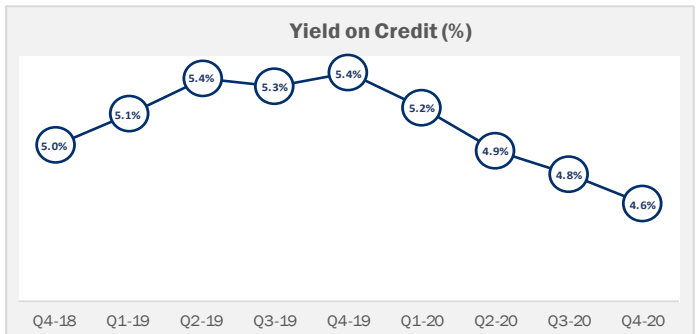
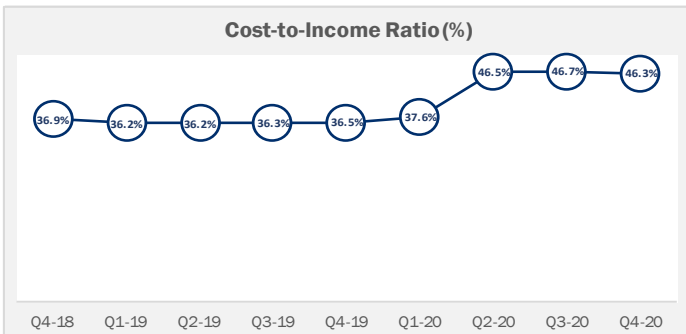
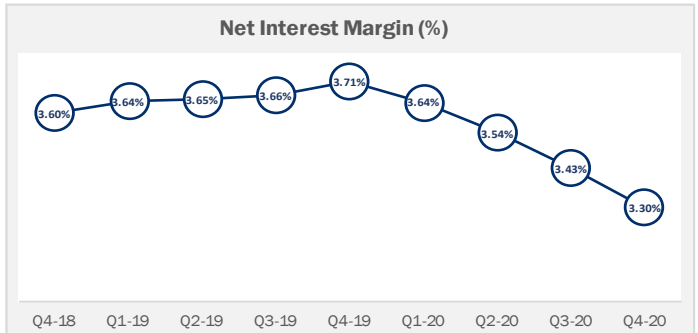
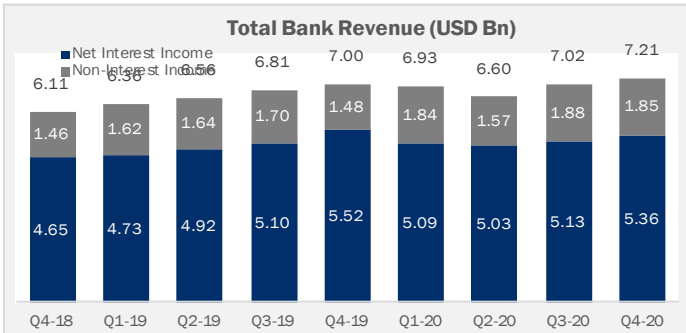
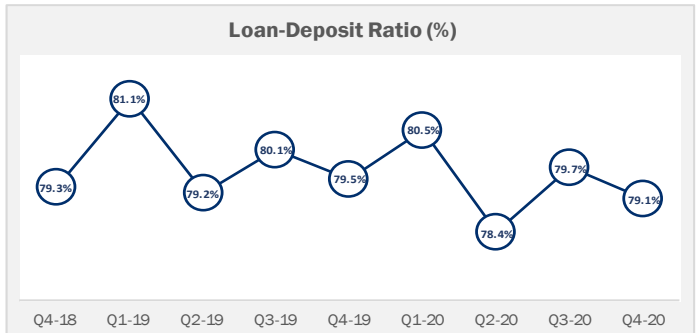
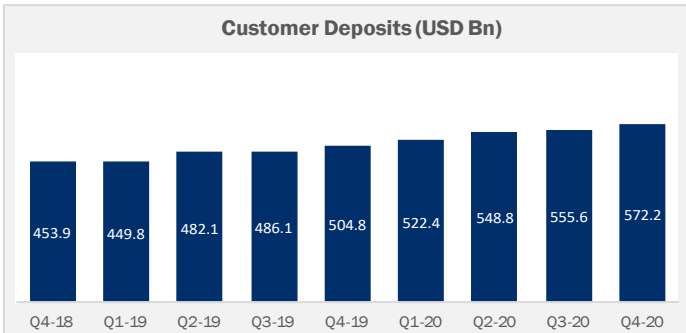
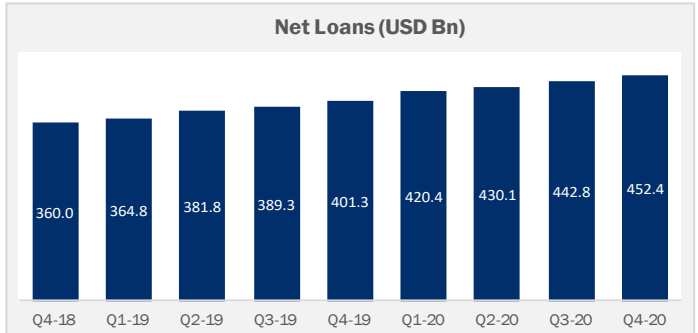
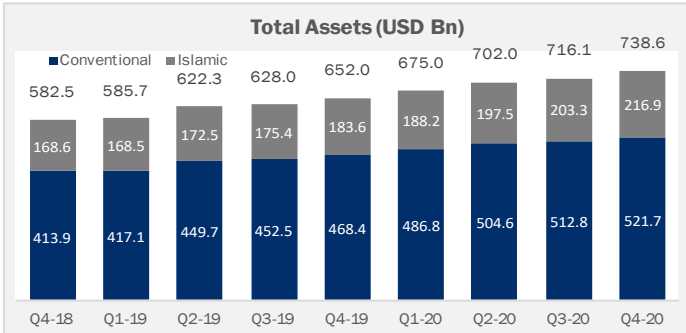
Note : The charts exclude Q1-2020 and Q2-2020 data due to lack of comparable data for Bahraini banks

Key Banking Sector Metrics : Kuwait



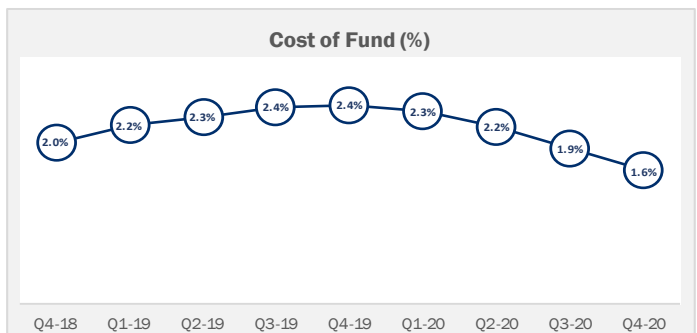
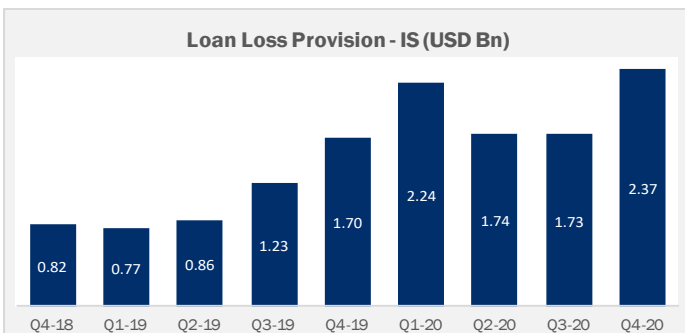
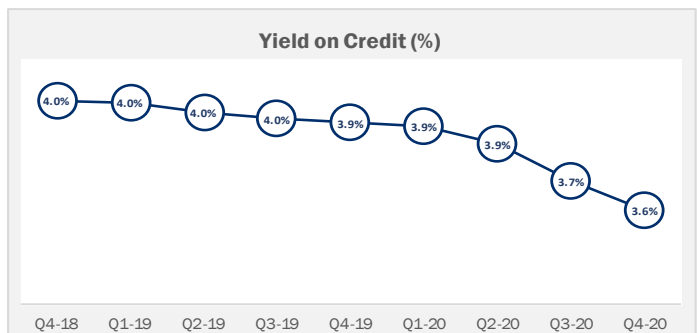
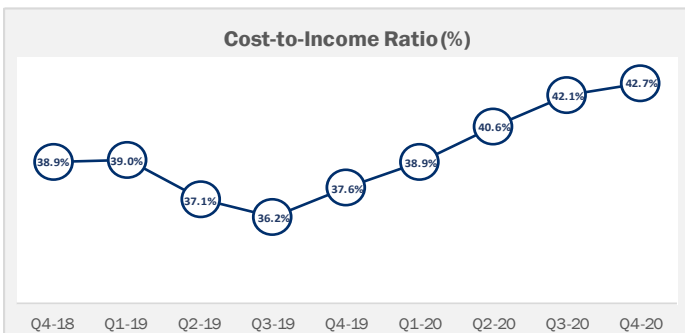
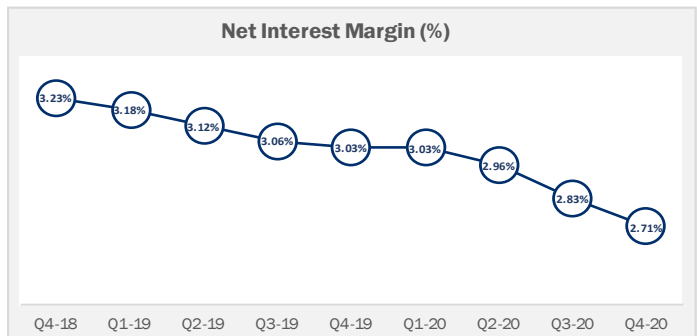
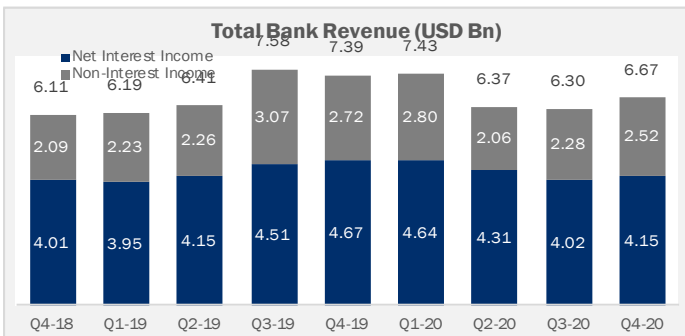
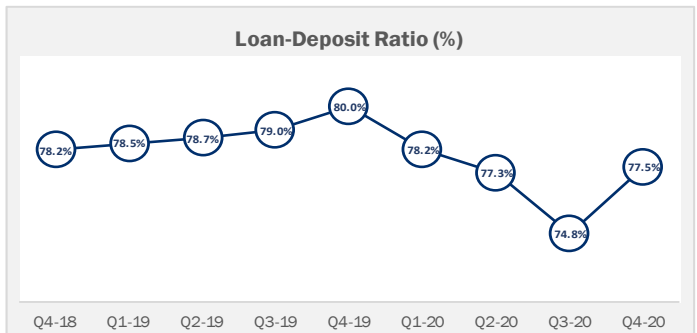
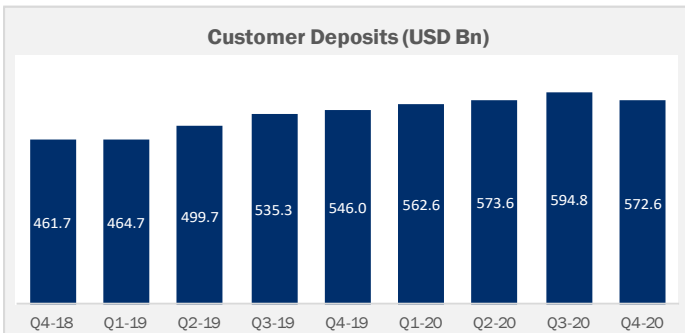
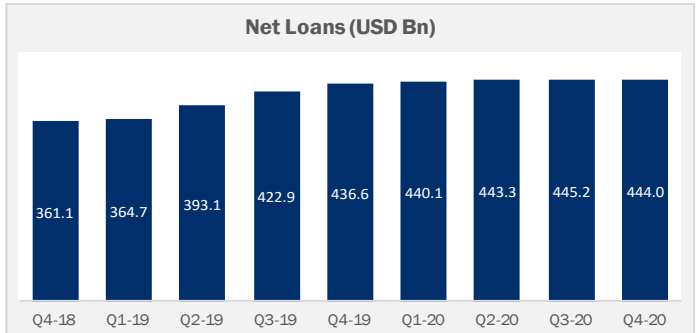
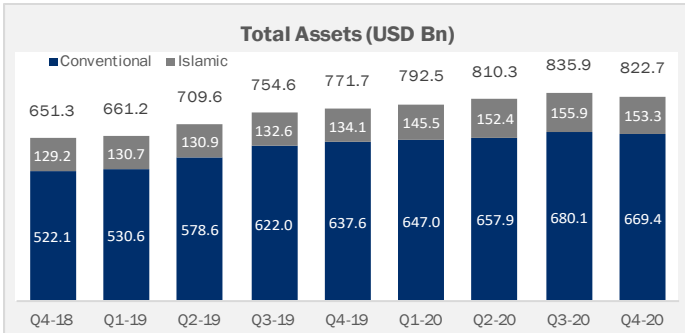
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Saudi Arabia



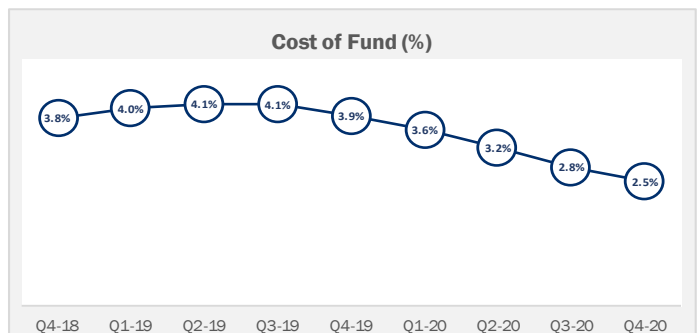
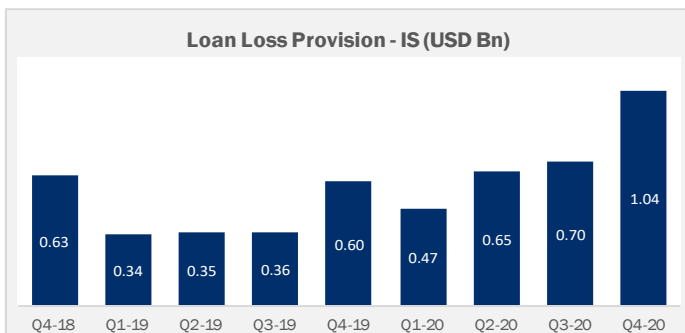
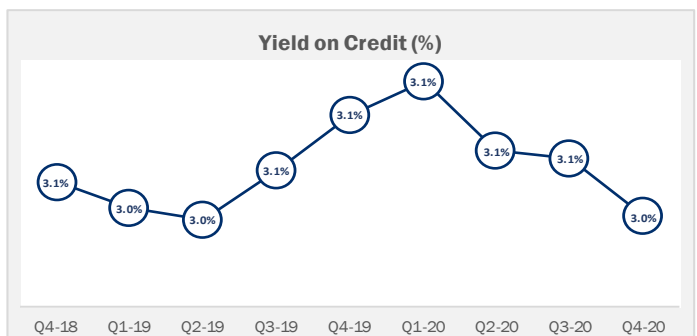
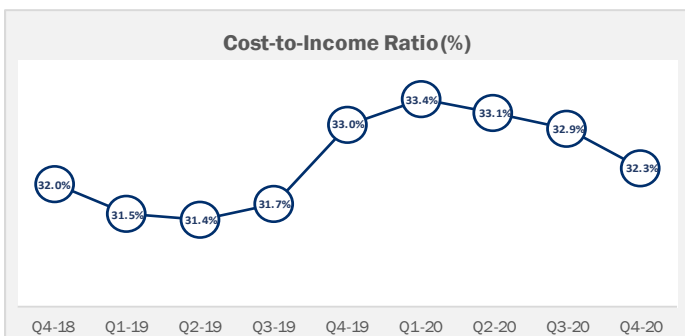
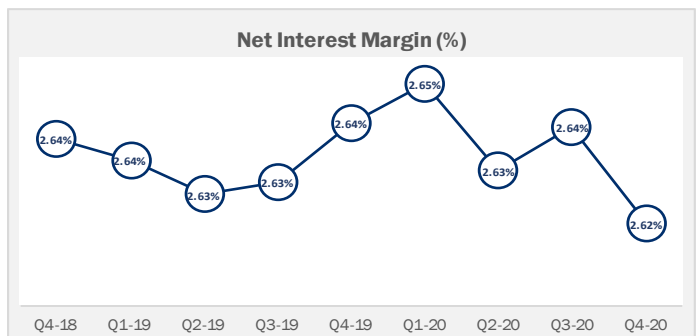
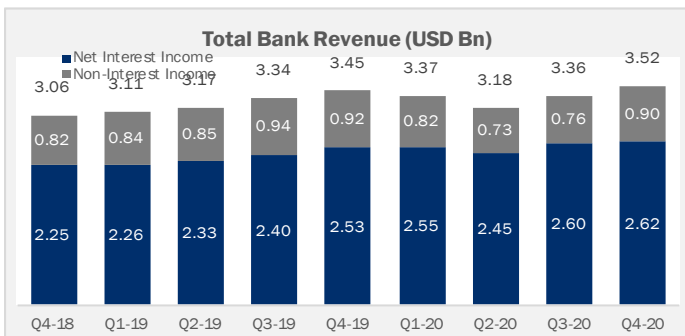
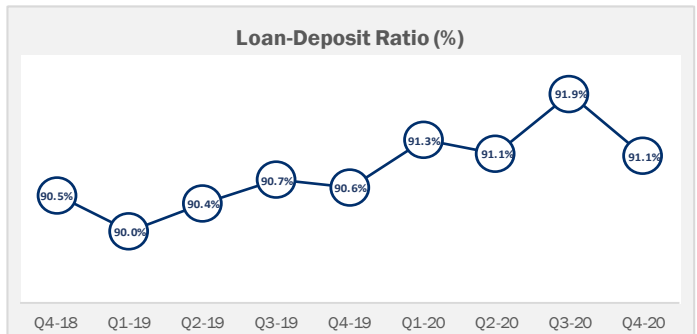
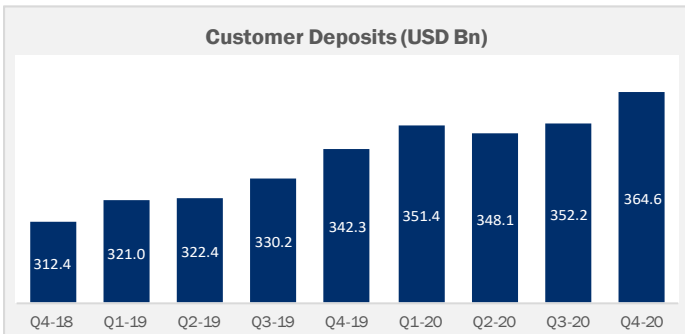
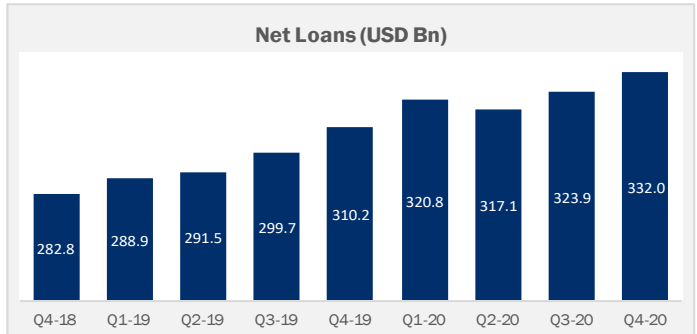
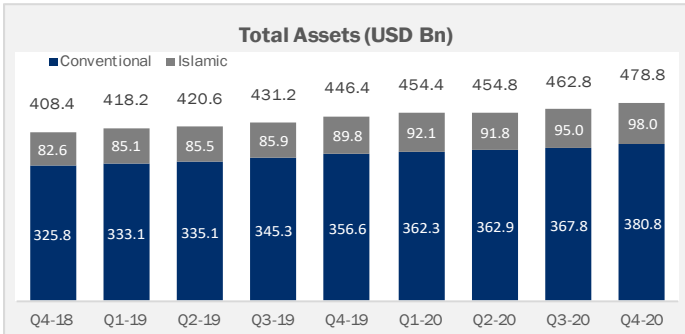
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Key Banking Sector Metrics : UAE



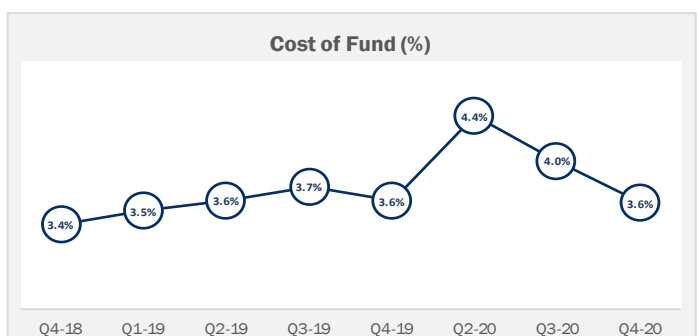
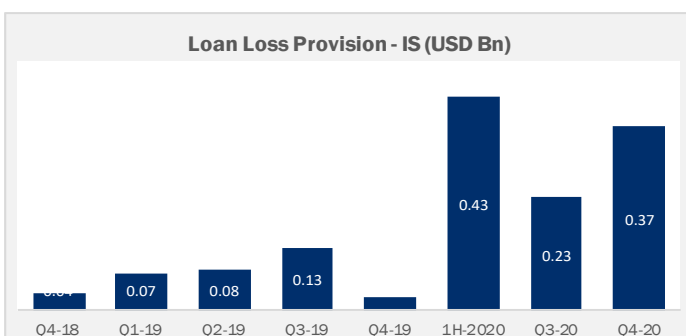
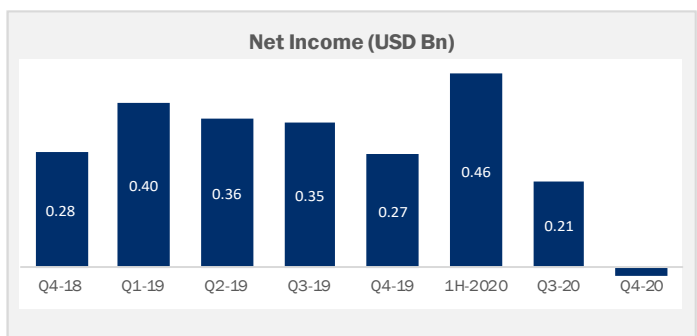
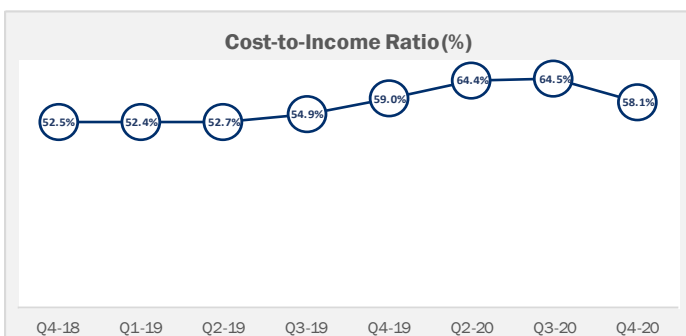
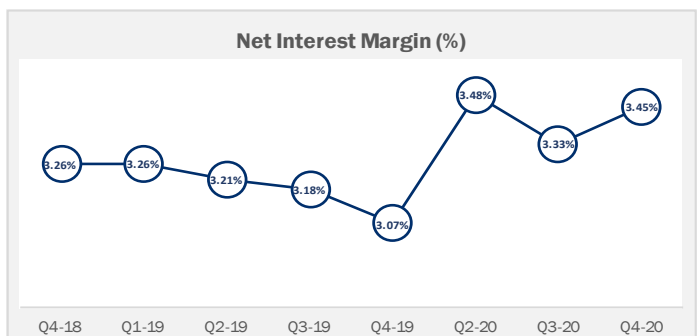
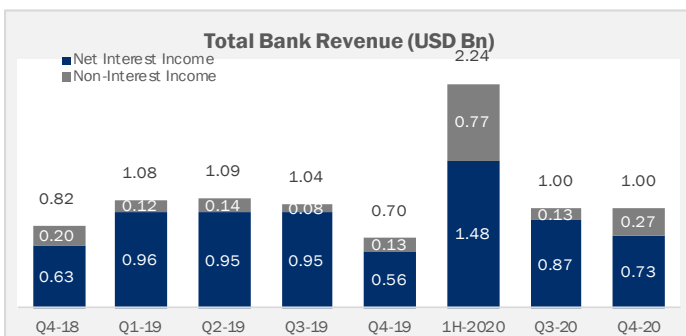
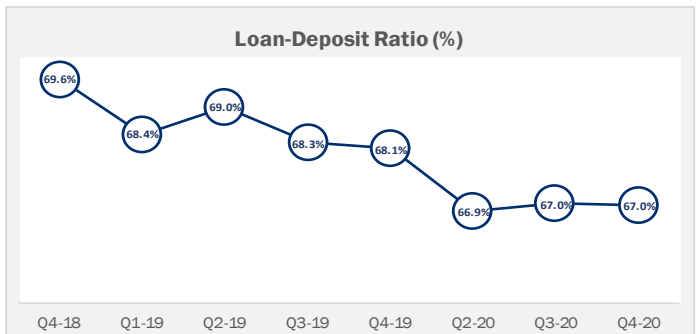
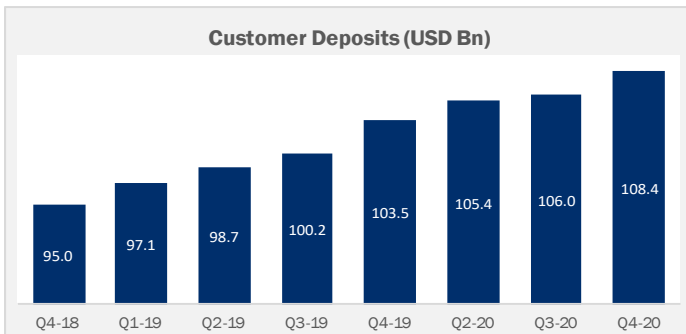
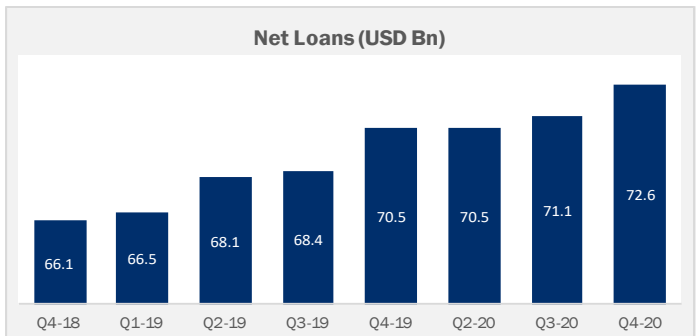
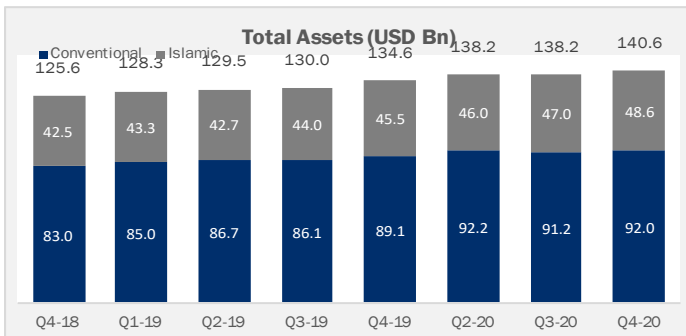
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Qatar



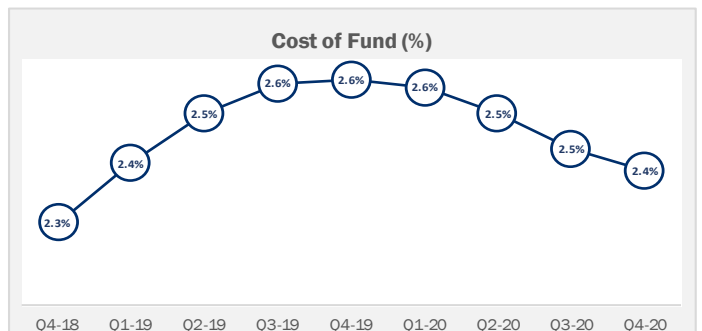
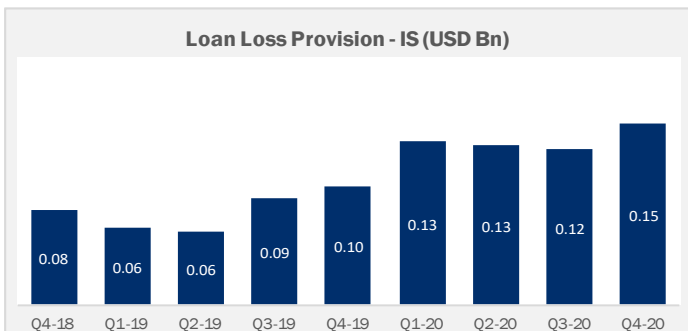
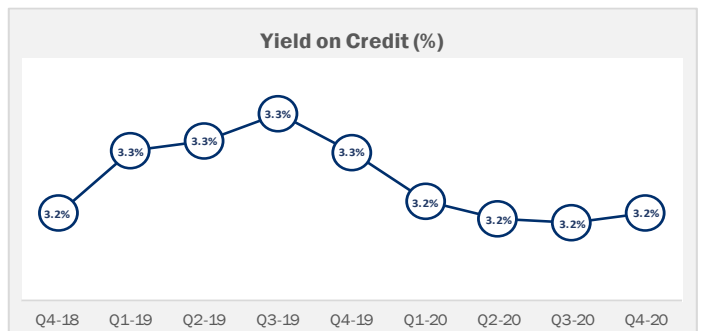
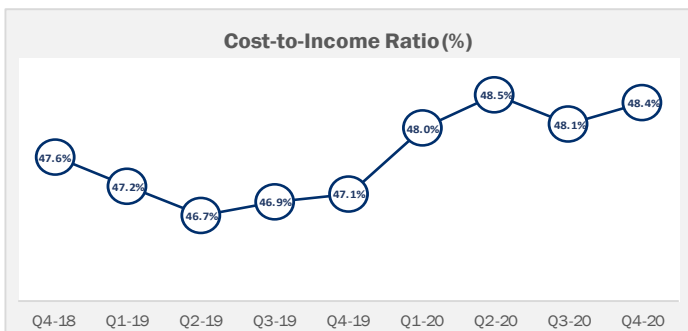
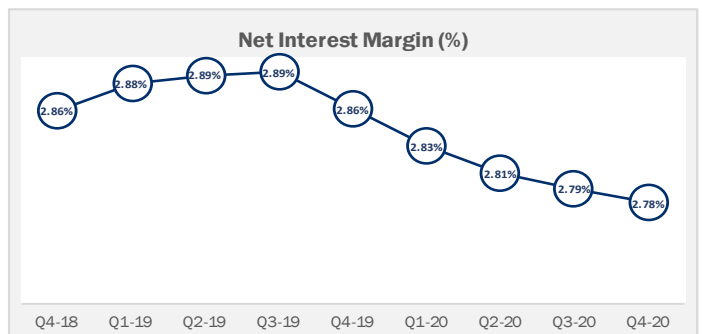
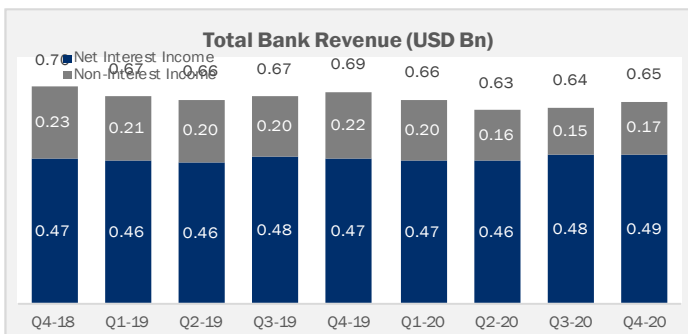
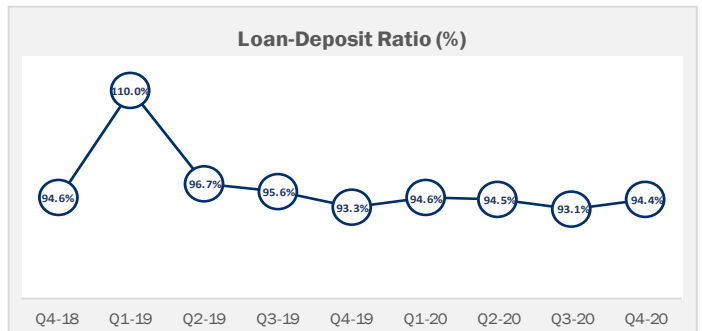
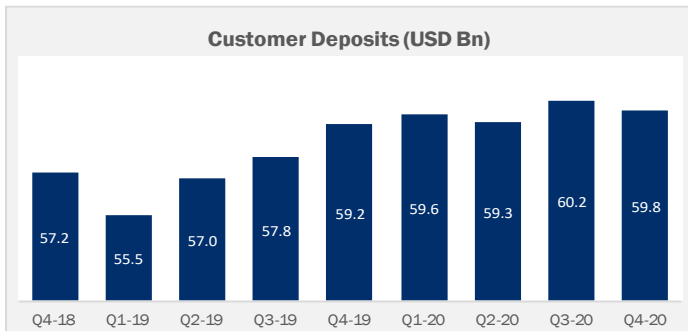
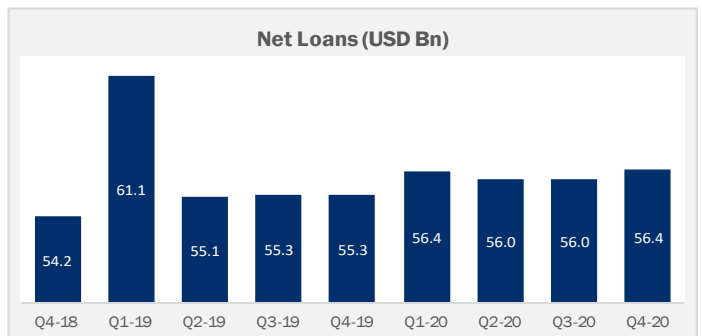
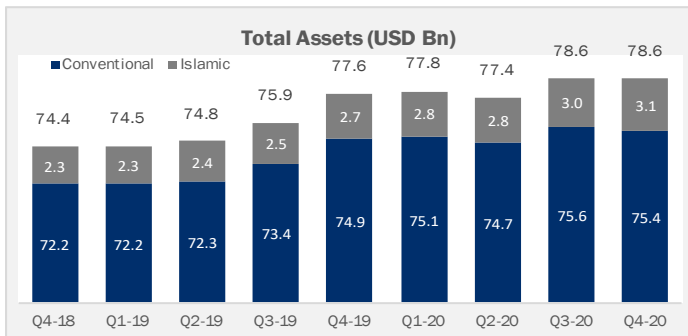
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Bahrain



Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Oman



Source : Reuters, Company Financials, Kamco Invest Research

GCC Banking Sector : Market Data

Name	Country	M-CAP (USD Bn)	Price (LCL)	P/E (x)	P/BV (x)	Div Ind Yield (%)	YTD-21 Returns	3-Yr Avg Tot Return	5-Yr Avg Tot Return	10-Yr Avg Tot Return
AHLI UNITED BANK B.S.C	Bahrain	6.9	0.716	16.1	1.7	1.7	-5.8%	15.4%	15.8%	12.3%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.9	0.595	21.1	2.1	3.1	7.2%	12.7%	13.5%	10.6%
ARAB BANKING CORP	Bahrain	0.9	0.290	N/A	0.2	N/A	-3.3%	0.5%	-1.3%	N/A
BBK BSC	Bahrain	2.0	0.495	15.8	1.4	7.3	11.8%	15.3%	19.2%	11.0%
AL-SALAM BANK	Bahrain	0.4	0.066	13.2	0.5	5.6	-5.1%	-11.8%	-0.7%	7.6%
ALBARAKA BANKING GROUP	Bahrain	0.3	0.230	1.3	0.3	N/A	-10.9%	-8.6%	-9.3%	-7.8%
BAHRAIN ISLAMIC BANK	Bahrain	0.2	0.087	16.8	1.0	N/A	-2.2%	N/A	N/A	-2.9%
ITHMAAR HOLDING BSC	Bahrain	0.2	0.062	N/A	12.2	N/A	-11.4%	-17.4%	-13.7%	-6.5%
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.042	4.7	0.3	N/A	-20.8%	-25.2%	-10.5%	-2.5%
NATIONAL BANK OF KUWAIT	Kuwait	18.9	0.803	26.8	1.7	2.4	2.7%	11.1%	13.5%	4.5%
KUWAIT FINANCE HOUSE	Kuwait	19.2	0.763	40.2	3.0	1.3	12.7%	23.1%	21.1%	7.9%
BOUBYAN BANK K.S.C	Kuwait	6.0	0.601	63.3	3.5	N/A	5.8%	16.9%	15.2%	4.8%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.2	0.500	N/A	1.4	N/A	0.0%	13.1%	12.2%	0.1%
GULF BANK	Kuwait	2.1	0.218	22.7	1.0	2.3	-0.5%	-2.5%	3.6%	-4.7%
BURGAN BANK	Kuwait	1.9	0.220	23.1	0.8	2.3	3.3%	-0.9%	-2.1%	-1.0%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	2.0	0.308	22.9	1.4	4.6	6.6%	8.4%	2.7%	0.0%
AL AHLI BANK OF KUWAIT	Kuwait	1.1	0.200	N/A	0.6	3.5	-4.3%	-13.5%	-7.0%	-7.8%
WARBA BANK KSCP	Kuwait	1.2	0.236	N/A	2.0	N/A	0.0%	4.3%	8.8%	N/A
KUWAIT INTERNATIONAL BANK	Kuwait	0.7	0.200	N/A	0.8	N/A	-3.8%	2.0%	5.4%	-0.5%
BANKMUSCAT SAOG	Oman	3.6	0.390	8.7	0.7	5.8	15.4%	17.5%	14.4%	4.9%
BANK DHOFAR SAOG	Oman	0.8	0.106	13.7	0.6	3.8	9.3%	-14.0%	-7.2%	-6.0%
NATIONAL BANK OF OMAN SAOG	Oman	0.6	0.150	30.0	0.6	N/A	-6.2%	-0.5%	-2.1%	2.1%
HSBC BANK OMAN	Oman	0.5	0.098	N/A	0.6	N/A	7.7%	4.7%	5.0%	-6.3%
SOHAR INTERNATIONAL BANK	Oman	0.5	0.086	10.2	0.6	N/A	-5.5%	-10.3%	-2.4%	0.1%
AHLI BANK	Oman	0.5	0.104	7.0	0.6	4.8	-14.4%	-4.3%	-2.0%	-0.2%
BANK NIZWA	Oman	0.4	0.094	12.2	0.9	1.3	-0.8%	3.9%	4.9%	N/A
QATAR NATIONAL BANK	Qatar	44.3	17.8	14.9	2.2	2.5	2.2%	14.2%	10.2%	11.1%
QATAR ISLAMIC BANK	Qatar	10.5	16.4	13.6	2.1	2.4	-1.7%	22.5%	13.8%	12.5%
MASRAF AL RAYAN	Qatar	8.7	4.3	14.8	2.2	4.0	-1.3%	12.2%	9.1%	11.6%
COMMERCIAL BANK PQSC	Qatar	5.1	4.7	17.3	1.0	2.1	9.3%	20.3%	7.2%	3.1%
QATAR INTERNATIONAL ISLAMIC	Qatar	3.6	8.7	15.9	2.1	3.7	0.1%	26.6%	11.6%	11.2%
AL AHLI BANK	Qatar	2.4	3.6	12.9	1.4	4.2	8.8%	14.0%	2.5%	10.4%
DOHA BANK QSC	Qatar	1.9	2.3	14.0	0.7	3.3	-0.5%	-2.9%	-3.7%	-1.1%
AL KHALIJ COMMERCIAL BANK	Qatar	2.1	2.1	12.2	1.2	2.6	18.5%	30.6%	9.6%	6.3%
AL RAJHI BANK	Saudi Arabia	64.0	96.0	22.7	4.1	2.1	31.8%	29.3%	28.1%	11.5%
NATIONAL COMMERCIAL BANK	Saudi Arabia	41.5	51.9	14.1	2.2	N/A	19.7%	9.8%	18.2%	N/A
RIYAD BANK	Saudi Arabia	17.8	22.2	14.2	1.5	4.5	12.4%	21.5%	20.8%	10.5%
SAMBA FINANCIAL GROUP	Saudi Arabia	20.3	38.0	17.7	1.6	N/A	24.4%	17.5%	18.6%	7.9%
SAUDI BRITISH BANK	Saudi Arabia	14.2	26.0	N/A	1.1	N/A	5.2%	-2.9%	6.6%	5.8%
BANQUE SAUDI FRANSI	Saudi Arabia	10.6	33.0	25.6	1.2	2.4	4.3%	7.9%	10.0%	5.0%
ALINMA BANK	Saudi Arabia	9.6	18.0	18.1	1.5	1.7	11.1%	8.0%	15.9%	9.9%
ARAB NATIONAL BANK	Saudi Arabia	8.4	21.0	15.2	1.1	3.8	6.3%	6.7%	14.5%	5.1%
BANK ALBILAD	Saudi Arabia	7.1	35.3	19.7	2.5	2.8	24.5%	26.8%	20.2%	17.3%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	3.3	16.4	12.9	0.8	2.4	2.5%	3.1%	6.3%	4.4%
BANK AL-JAZIRA	Saudi Arabia	3.4	15.5	N/A	1.1	N/A	13.3%	15.0%	13.5%	6.2%
FIRST ABU DHABI BANK PJSC	UAE	43.3	14.6	15.6	1.6	5.1	18.8%	13.2%	16.7%	15.5%
EMIRATES NBD PJSC	UAE	19.8	11.5	11.5	1.0	3.5	15.7%	9.6%	13.7%	20.0%
EMIRATES ISLAMIC BANK	UAE	11.8	8.0	N/A	5.5	N/A	0.0%	-5.6%	42.3%	N/A
ABU DHABI COMMERCIAL BANK	UAE	11.8	6.3	12.2	0.9	4.3	0.8%	2.1%	3.3%	16.9%
DUBAI ISLAMIC BANK	UAE	9.0	4.6	11.9	1.2	4.4	3.2%	5.7%	6.2%	18.5%
ABU DHABI ISLAMIC BANK	UAE	4.8	4.9	13.4	1.2	4.2	3.6%	17.0%	13.3%	15.6%
MASHREQBANK	UAE	3.1	65.0	N/A	0.6	6.2	-4.3%	1.0%	0.4%	N/A
COMMERCIAL BANK OF DUBAI	UAE	3.1	4.1	10.3	1.1	4.9	8.9%	5.9%	-3.6%	12.4%
NATIONAL BANK OF FUJAIRAH	UAE	2.6	5.0	N/A	2.2	N/A	0.0%	26.4%	10.4%	8.8%
INVEST BANK	UAE	0.4	0.5	N/A	1.1	N/A	0.0%	-42.7%	-25.4%	-7.2%
NATIONAL BANK OF RAS AL-KHAI	UAE	1.8	4.0	13.3	0.9	3.8	2.6%	2.1%	-0.9%	6.9%
NATIONAL BANK OF UMM AL QAIW	UAE	1.1	2.2	18.8	0.9	3.6	12.0%	-6.0%	-4.4%	5.6%
SHARJAH ISLAMIC BANK	UAE	1.1	1.3	10.3	0.7	6.1	5.2%	9.4%	7.1%	11.9%
UNITED ARAB BANK PJSC	UAE	0.5	0.9	N/A	1.3	N/A	4.2%	-10.1%	-16.0%	N/A
BANK OF SHARJAH	UAE	0.3	0.6	N/A	0.4	N/A	-4.8%	-18.2%	-15.3%	-5.7%
AJMAN BANK PJSC	UAE	0.4	0.7	29.7	0.6	N/A	-7.6%	-10.6%	-15.0%	3.6%
COMMERCIAL BANK INTERNATIONA	UAE	0.3	0.7	N/A	0.6	N/A	-6.7%	-2.7%	-19.1%	-0.8%

Source : Bloomberg

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