

# GCC Banking Sector Report - Q1-19

May - 2019

## GCC banking sector Q1-19 topline edges up on higher non-interest income...

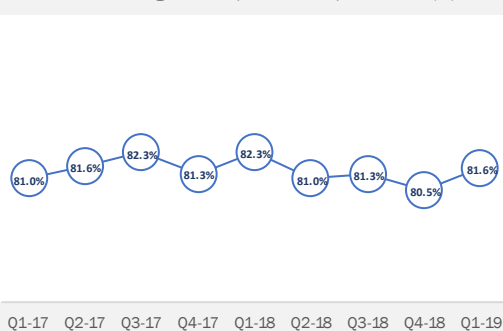
**Q1-19 results for the GCC Banking sector saw a further strengthening of the balance sheet as total assets continue to remain at one of the highest recorded levels, witnessing a q-o-q growth of 1.3% to reach USD 2.2 Trillion.** The q-o-q growth in net loans stood at 1.9%, the highest q-o-q growth since Q2-17, that outpaced the growth in customer deposits recorded at 0.6%, the lowest sequential growth in customer deposits in nine quarters. This resulted in a higher loan-to-deposit ratio of 81.6%, albeit below international standards and implying a further improvement in the near term.

**In terms of profitability, net interest income remained flat q-o-q at USD 14.2 Bn; however, non-interest income saw a big q-o-q boost in Saudi Arabia and UAE during Q1-19. As a result, net interest margin (NIM) remained elevated at 3.2% for LTM Q1-19 with Saudi Arabia reporting the highest NIM of 3.6%, showing further marginal improvement over the previous quarter.** On the other hand, NIM for UAE banks stood at 3.2%, showing a marginal but consistent decline over the past three quarters. On similar lines, yield-on-credit for the aggregate GCC listed banks stood at 4.6%, flat q-o-q. Saudi Arabia reported the highest yield of 4.9% during LTM Q1-19.

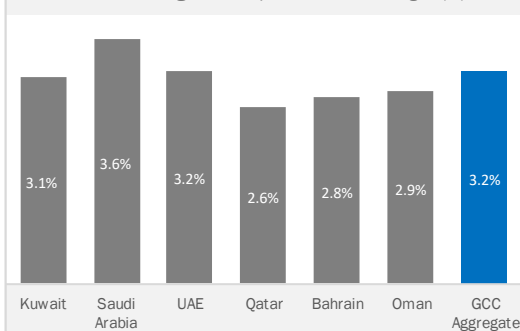
**On the individual country front, UAE continues to boast the biggest share of total listed bank assets in the GCC recorded at USD 682 Bn or 31.3% of the total GCC banking assets. Saudi Arabia followed with total assets at USD 607 Bn or 27.8% at the end of Q1-19, although the q-o-q growth in UAE and Saudi Arabia were marginal at 1.3% and 0.4%, respectively.** Qatar recorded the biggest asset growth during the quarter at 2.4% to reach USD 418 Bn. Earnings for the GCC banking sector was once again the key driver of profitability for the overall GCC corporates accounting for 58% of the total GCC listed corporate earnings. The sector recorded total net income of USD 10 Bn, a y-o-y growth of 8.1% while sequentially it grew at 12.2% during Q1-19. Saudi Arabia, UAE, Qatar and Bahrain recorded double digit q-o-q growth during Q1-19 while in terms of y-o-y performance, Saudi Arabia witnessed the biggest increase of 12.7%.

**Economic growth in the GCC is expected to marginally improve in the near term. KAMCO Research believes that this should drive banking sector earnings especially from higher credit requirements from the private sector for both long term projects as in the case of Saudi Arabia and Kuwait as well as event-specific requirements in the case of Expo 2020 in UAE and the football world cup in Qatar in 2022.**

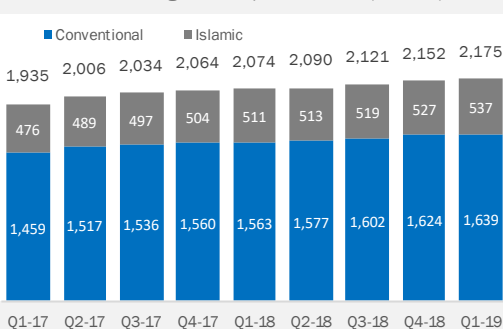
GCC Banking Sector | Loan-to-Deposit Ratio (%)



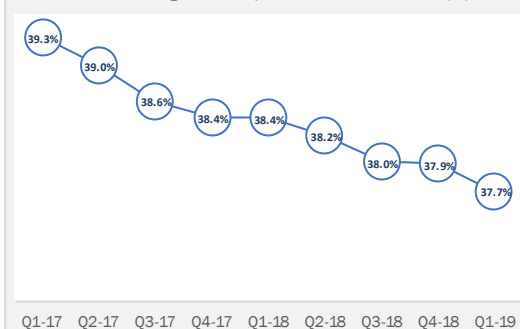
GCC Banking Sector | Net Interest Margin (%)



GCC Banking Sector | Total Assets (USD Bn)



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



Source : Reuters, Company Financials, KAMCO Research

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## Highlights - GCC Banking Sector

This report analyzes financials reported by 63 listed banks in the GCC for Q1-19. The individual banking data has been aggregated to the country level as there are minimal difference 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 - growth remains positive across the GCC*

Total assets continued to show q-o-q growth in Q1-19 although it slowed down to 1.3% to reach USD 2.2 Trillion. Qatar recorded the strongest growth in total assets at 2.4% with all banks barring Al Khalij Commercial Bank and Ahli Bank reporting q-o-q growth in total assets during Q1-19. Assets for the banking sector in Saudi Arabia and UAE grew at 1.3% each. The growth in assets in the UAE was led by 5.1% growth in assets of ENBD followed by 4.4% growth in assets of ADCB that was partially offset by FAB's 1.4% q-o-q drop in total assets. The top 10 banks in the GCC grew their assets by 1.7% during the quarter accounting for 53.3% of the total GCC banking sector assets. Saudi Arabian banks grew their asset base at the second-slowest pace in the GCC during Q1-19 reaching USD 607 Bn with a q-o-q growth of 0.4%. Among the bigger banks in the Kingdom, NCB and Riyadh Bank reported asset growth of 2.9% and 4.2% that was partially offset a 5.4% decline reported by Arab National Bank and marginal declines in Al Rajhi Bank, SABB and Banque Saudi Fransi. Meanwhile, asset growth of Islamic banks continued to outpace that of conventional bank with Islamic banking assets increasing by 1.8% q-o-q while conventional banking assets grew at a relatively slower pace of 0.9% during Q1-19.

### *Loan-to-Deposit Ratio - gradually reaching an optimal level*

Net loans growth during Q1-19 was the highest in the past seven quarters at 1.9% with Oman recording the strongest growth of 13.3% followed by Qatar and Kuwait at 2.2% and 1.7%, respectively. In Qatar, barring Doha Bank and Al Khalij Commercial Bank, all the other banks posted growth in net loans. QIIB reported the biggest growth in its loan portfolio recorded at 10.5% while QNB posted a growth of 1.7% to report total net loans of USD 171.2 Bn at the end of the quarter. Loan growth in Kuwait also remained strong with seven out of the 10 Kuwaiti banks posting growth in their net loan portfolio. NBK posted a sequential loan growth of 3.1% during Q1-19 while KFH's loan portfolio declined marginally by 0.6%.

GCC listed bank's customer deposits, on the other hand, recorded the slowest growth in the last nine quarters at 0.6% to reach USD 1.64 Trillion. Qatari banks once again reported the biggest increase in deposits at 2.8% followed by Bahrain and Kuwait at 2.3% and 0.9%, respectively, while Saudi Arabian banks posted a fall of 1% in customer deposits. In Saudi Arabia, nine out of the 12 listed banks reported sequential fall in customer deposits that were partially offset by 3.7% and 2.3% growth reported by Riyadh Bank and NCB, respectively. Arab National Bank reported the biggest decline in customer deposits at 8.8% during Q1-19. Meanwhile, in Qatar, five out of eight banks posted growth in customer deposits during the quarter with Commercial Bank and QIIB posting double digit growth in their customer deposits. The net effect of a faster growth in net loans relative to customer deposits was a higher loan-to-deposit ratio. Qatar and Oman had the highest loan-to-deposit ratio recorded in excess of 90% during Q1-19.

### *Total Bank Revenue - non-interest income was the key driver of topline growth*

Revenue for listed GCC banks reached USD 20.2 Bn in Q1-19 primarily on the back of higher non-interest income while net interest income remained almost flat at USD 14.2 Bn. Net interest income growth was strongest in Bahrain at 2.2% followed by Saudi Arabia and Qatar at 1.4% and 0.8%, respectively, while Kuwait witnessed a q-o-q decline of 3.1% during Q1-19. In Kuwait, a majority of the banks reported higher interest expense that more than offset the increase in interest income. Burgan Bank's net interest income witnessed a drop of 17.7% attributed to consolidation changes by the bank, while AUB Kuwait and KIB reported 6.6% and 7.1% drop in net interest income during the quarter. On the other hand, net interest income growth in Saudi Arabia came mainly on the back of Al Rajhi Bank's 12.1% growth followed by 3.7% growth recorded by Samba which more than offset declines reported mainly by NCB and Riyadh Bank.

Non-interest income was largely positive for all the GCC banks barring Bahrain and Omani banks. Kuwaiti banks reported the biggest increase in non interest income at 22.9% followed by Saudi Arabia and UAE with growth rates of 11.0% and 10.3%, respectively. In Kuwait, KFH reported an 85% increase in non-interest income after the bank's investment income more than doubled during the quarter as compared to Q4-18. Seven out of the 10 Kuwaiti banks reported higher non-interest income during Q1-19. Non-interest income for Saudi Arabian banks was also largely positive with declines in Al Rajhi Bank, Arab National Bank and Banque Saudi Fransi more than offset by increase in non-interest income of other banks in the Kingdom. Notably, NCB's non-interest income increase by almost a third to USD 394.6 Mn in Q1-19.

## Highlights - GCC Banking Sector

### *Net Interest Margin - remains elevated backed by Saudi Arabia*

NIM for the GCC listed banks averaged at 3.2%, flat as compared to the previous quarter and a marginal improvement of 10 bps as compared to Q1-18. Saudi Arabia has consistently growth its NIMs over the past several quarters on the back of rising interest rates. This also implies that with the US Fed pausing its rate hike spree, NIMs in the region are expected to stabilize at current levels. On the other hand, NIMs of UAE and Qatari banks have remained under pressure over the past few quarters. UAE's aggregate NIM, although strong at 3.2%, declined marginally during Q1-19 while Qatari banks reported flat NIM during the quarter.

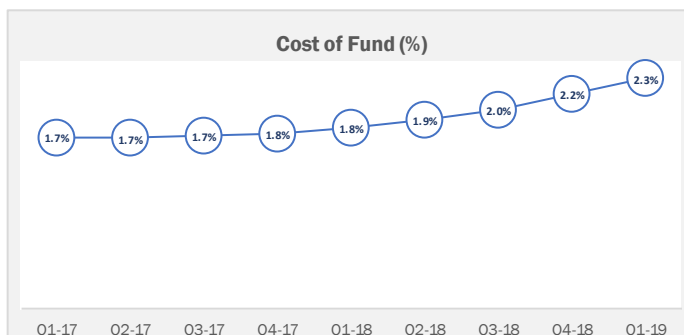
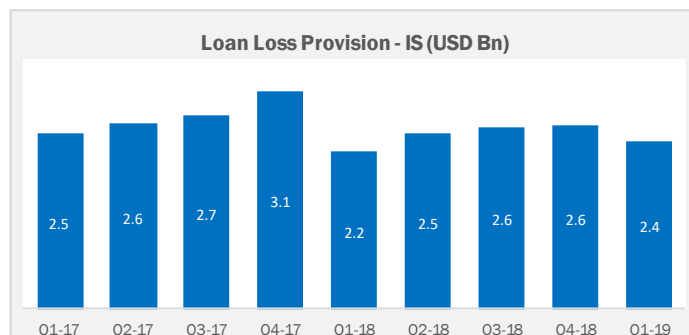
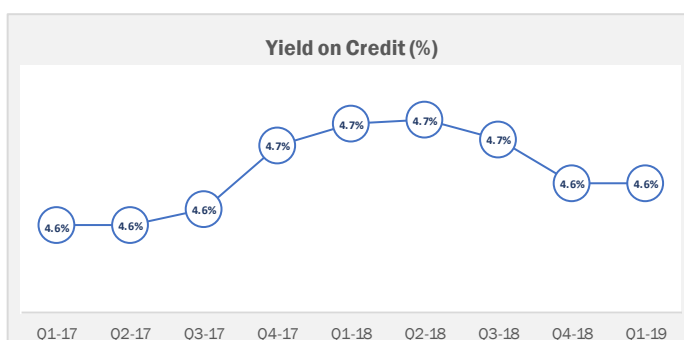
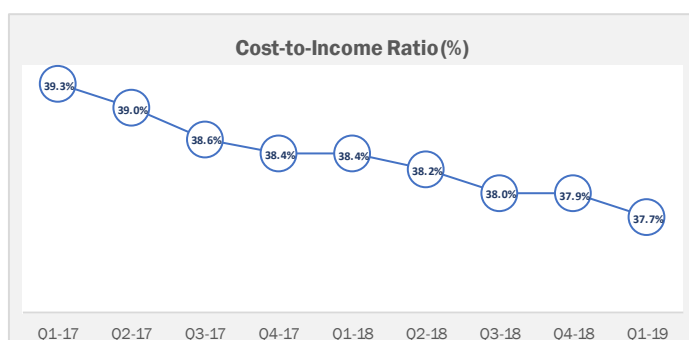
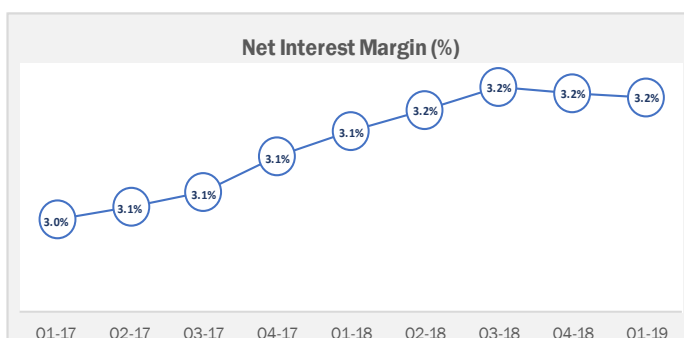
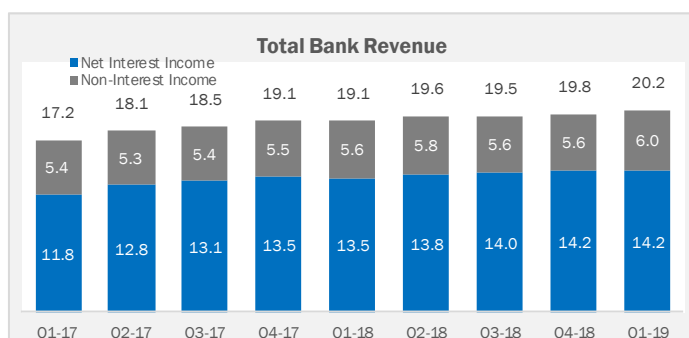
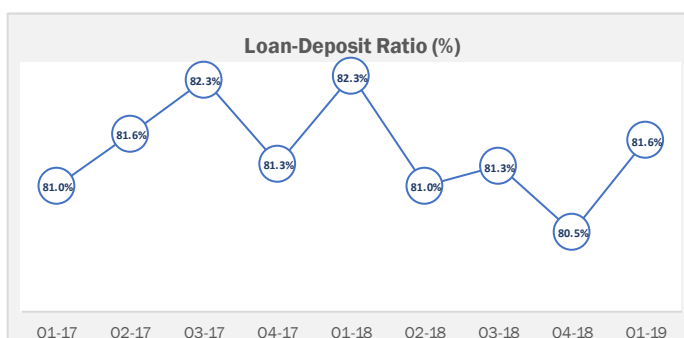
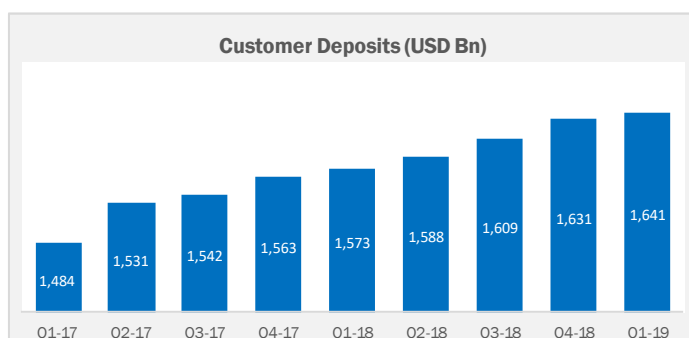
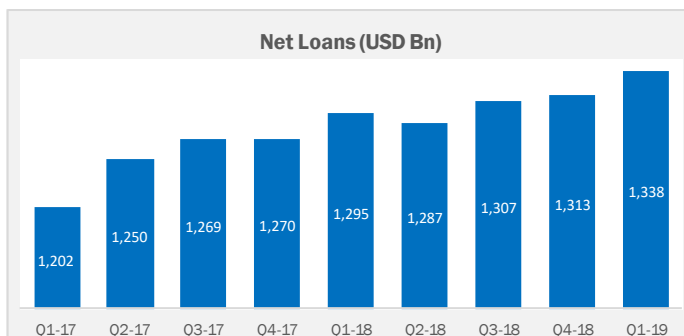
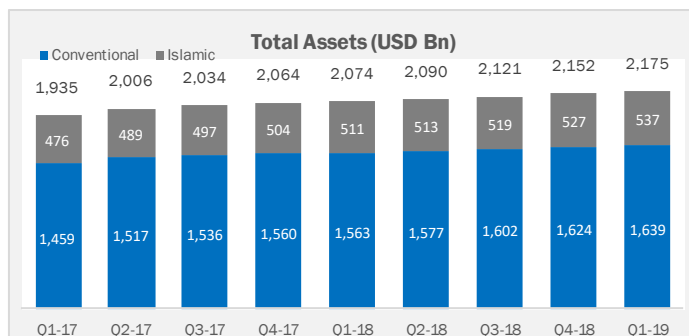
### *Cost-to-Income Ratio - topline pressure offset by lowering costs*

Cost efficiency improvement measures implemented by GCC banks has resulted in a visible improvement in the sector's cost-to-income ratio. The ratio has consistently declined over the past several quarters for the aggregate GCC banking sector and stood at 37.7% during Q1-19 for the GCC. Qatar has consistently reported the most cost efficient model with a cost-to-income ratio of 31.5% during Q1-19 vs. 32% in Q4-18 and 34.8% in Q1-18. Meanwhile, Saudi Arabia also reported a 70 bps decline in its cost-to-income ratio which stood at 36.2% in Q1-19.

### *Loan Loss Provision - a decline after three consecutive quarters of higher provisions*

Quarterly LLP for aggregate GCC banking sector stood at USD 2.4 Bn, a decline of 8.2% as compared to Q4-18 but an increase vs. last year. The quarterly decline came on the back of lower provisions reported by Saudi Arabia, UAE, Qatar and Oman that more than offset a steep rise in provisions reported by Kuwaiti banks in addition to a small rise in the case of Bahraini banks. Qatari banks reported the biggest drop in provisions that almost halved during the quarter with most banks reporting lower provisions. On the other hand, in Saudi Arabia, a majority of the banks reported higher provisions, but these increases were more than offset by lower provisions reported by NCB, Arab National Bank and Banque Saudi Fransi.

## Key Banking Sector Metrics : GCC



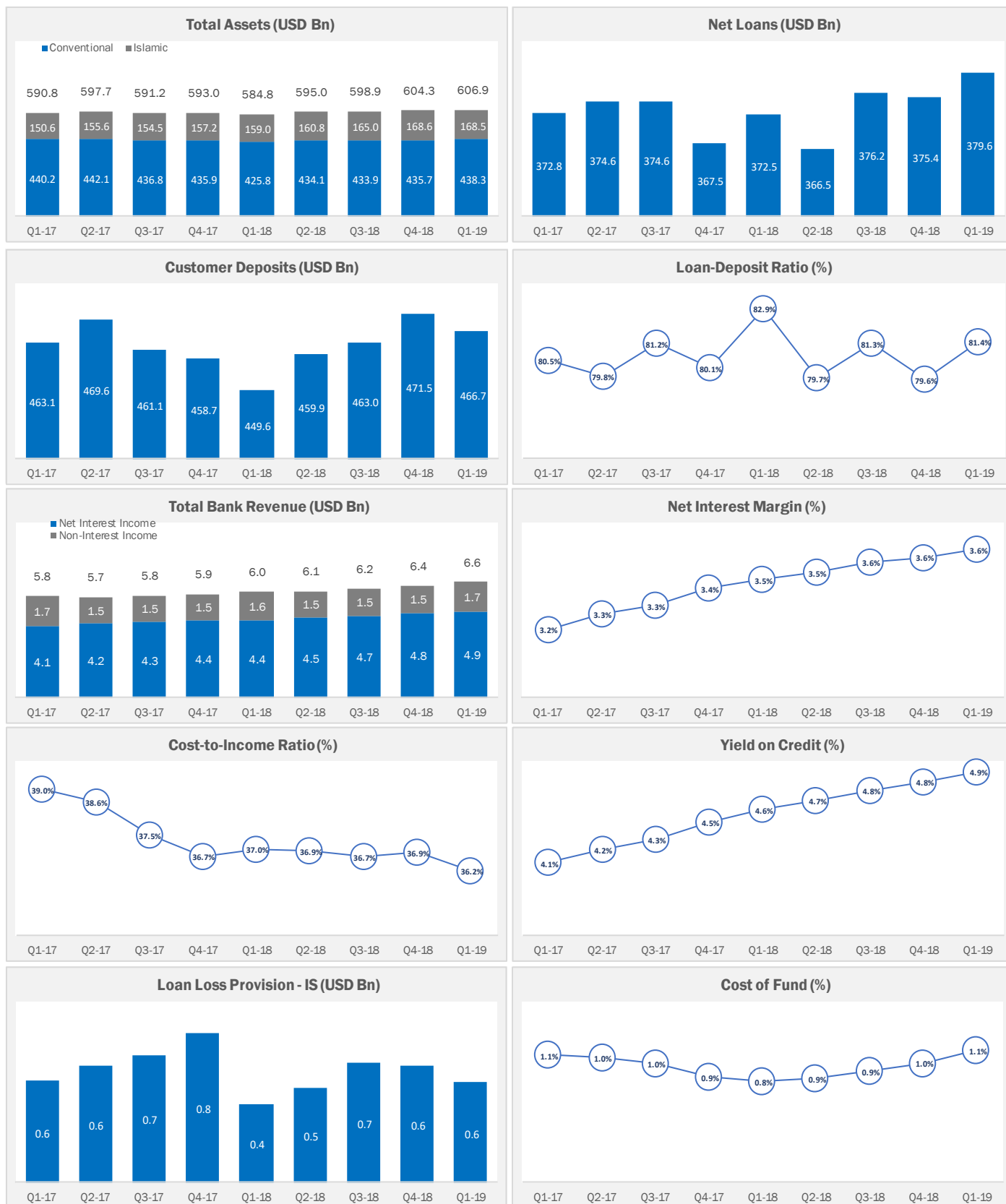
Source : Reuters, Company Financials, KAMCO Research

## Key Banking Sector Metrics : Kuwait



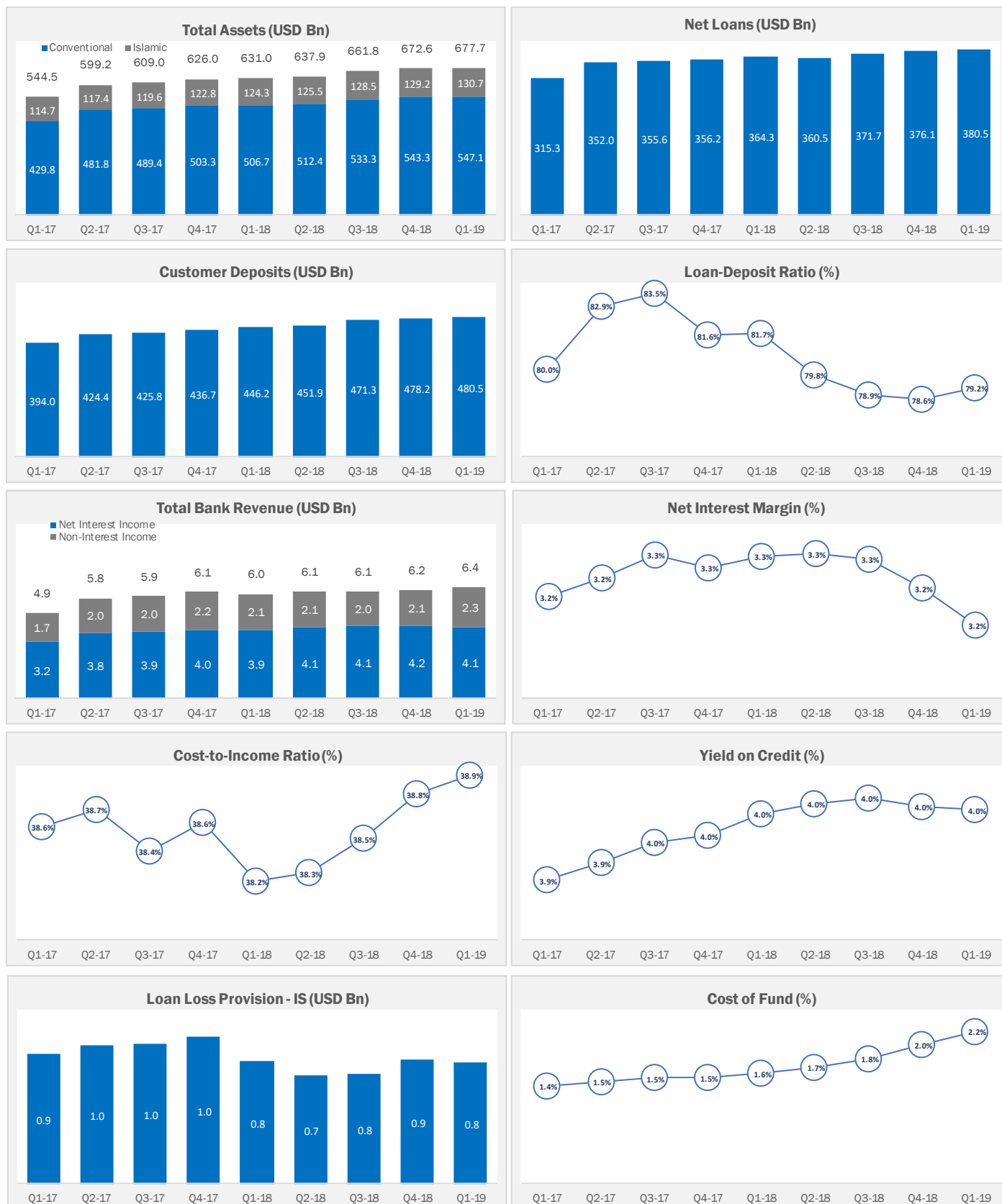
Source : Reuters, Company Financials, KAMCO Research

## Key Banking Sector Metrics : Saudi Arabia



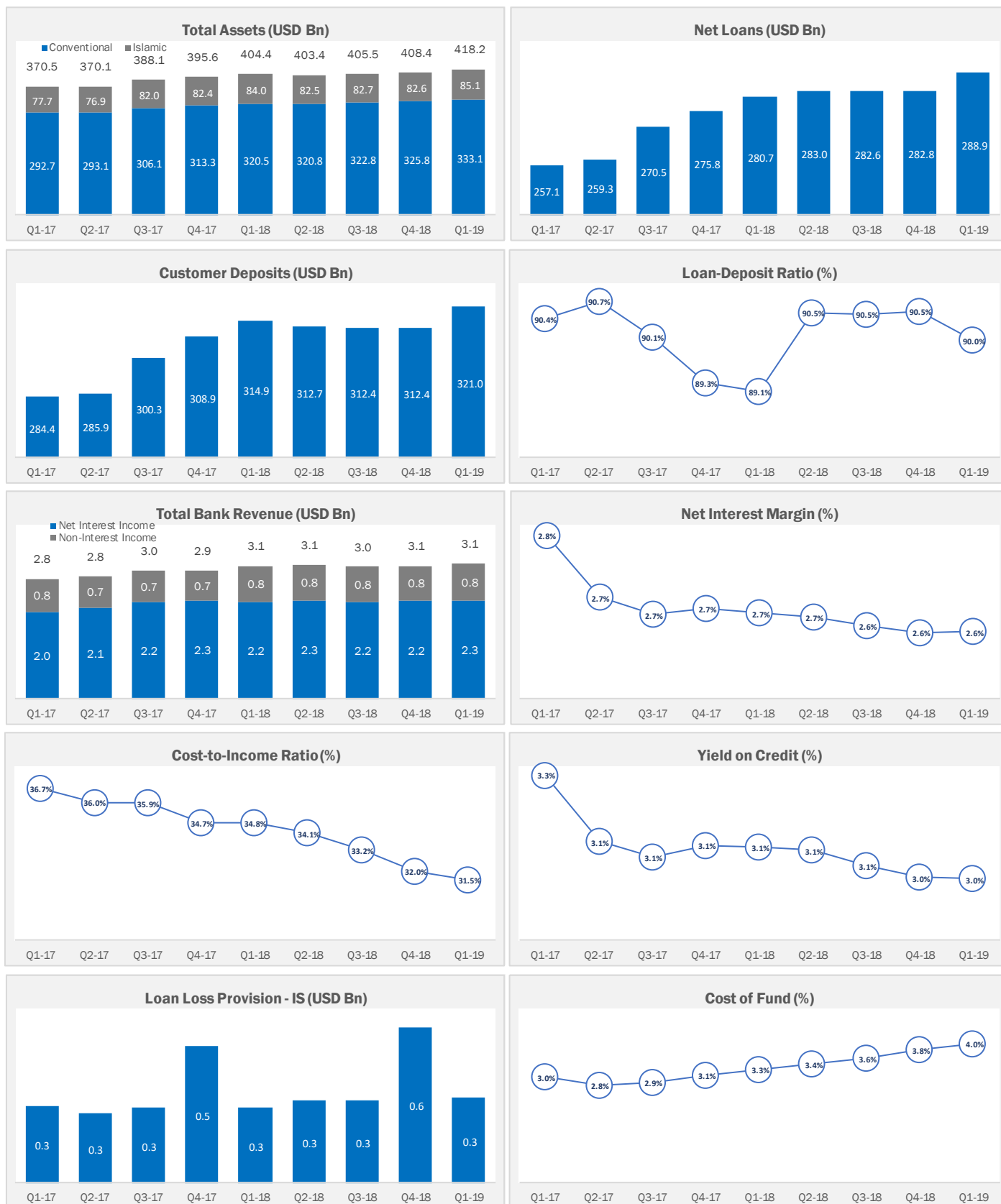
Source : Reuters, Company Financials, KAMCO Research

## Key Banking Sector Metrics : UAE



Source : Reuters, Company Financials, KAMCO Research

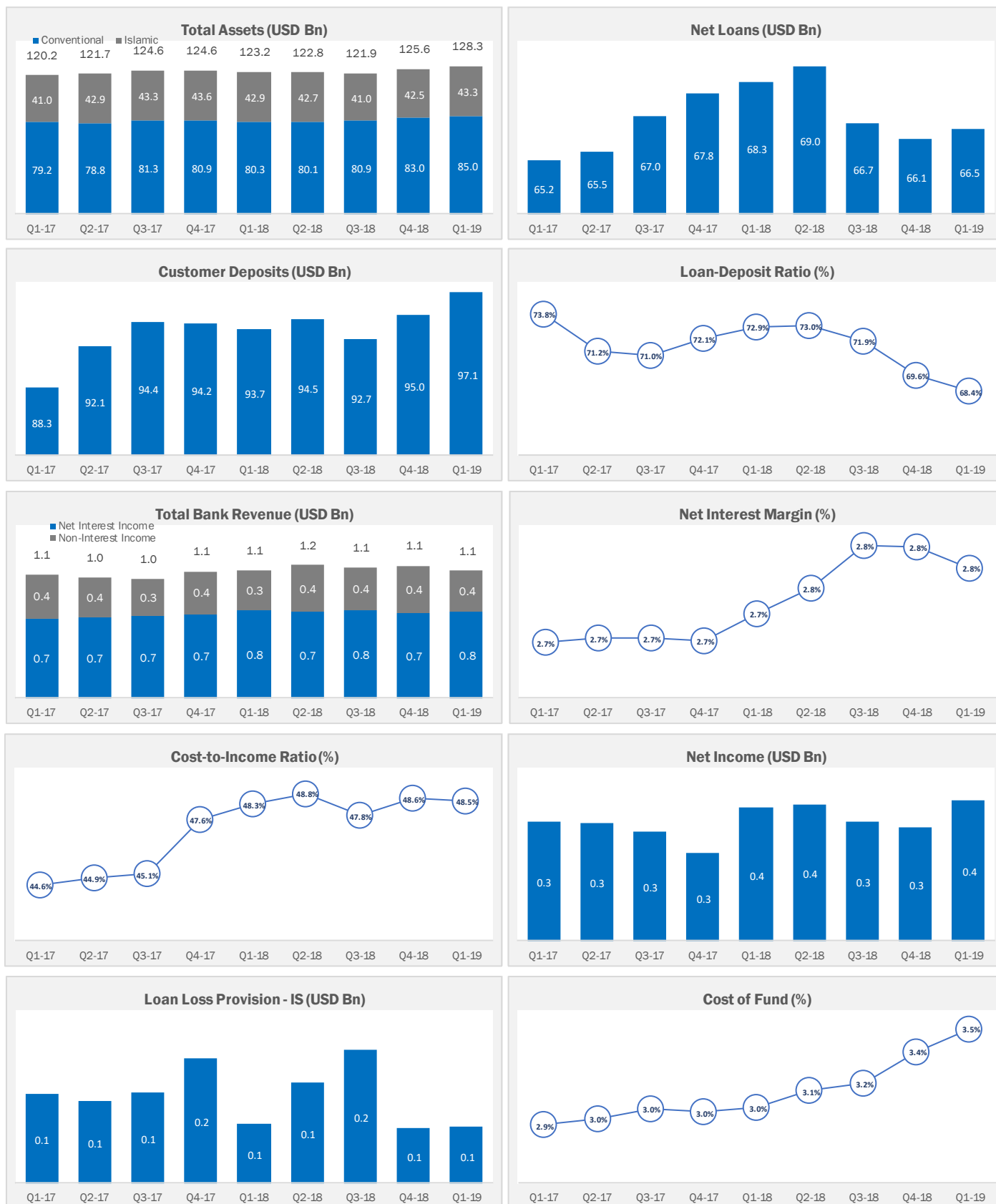
## Key Banking Sector Metrics : Qatar



Source : Reuters, Company Financials, KAMCO Research

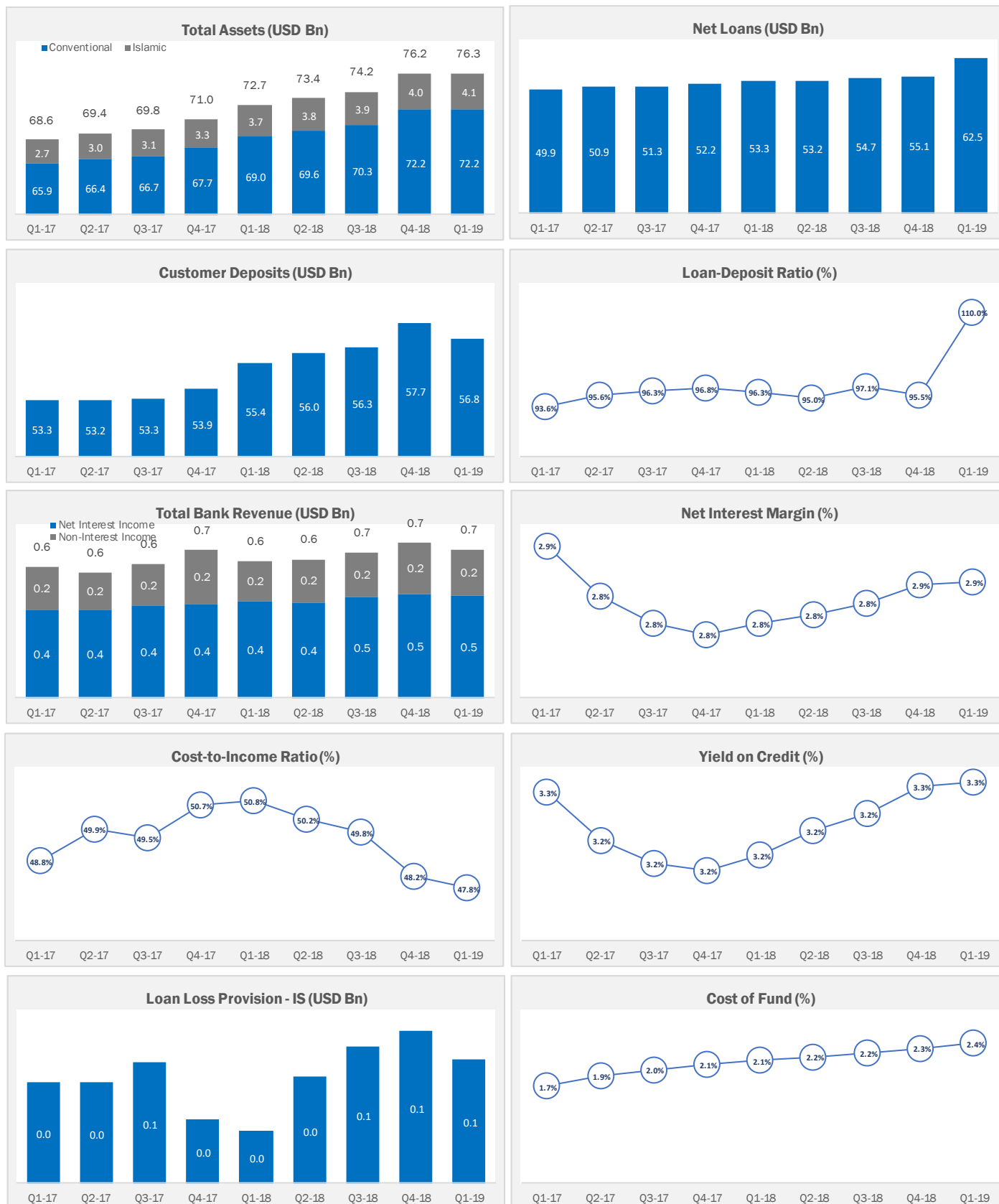


## Key Banking Sector Metrics : Bahrain



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	7.1	0.810	10.5	1.9	5.6	37.4%	26.8%	12.0%	16.4%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.6	0.635	13.7	2.1	3.6	18.7%	16.9%	9.7%	12.0%
ARAB BANKING CORP	Bahrain	1.4	0.445	7.0	0.4	6.7	14.6%	N/A	N/A	1.6%
BBK BSC	Bahrain	1.5	0.444	8.0	1.2	9.0	5.8%	19.9%	8.5%	9.7%
AL-SALAM BANK	Bahrain	0.5	0.085	9.8	0.6	4.0	-8.7%	3.3%	-13.3%	1.7%
ALBARAKA BANKING GROUP	Bahrain	0.4	0.330	4.7	0.4	9.1	20.6%	0.1%	-11.7%	-8.2%
BAHRAIN ISLAMIC BANK	Bahrain	0.3	0.118	10.7	1.0	N/A	-9.2%	N/A	-6.7%	-9.0%
ITHMAAR HOLDING BSC	Bahrain	0.2	0.060	N/A	1.4	N/A	-29.4%	-22.7%	-17.3%	-11.4%
KHALEEJI COMMERCIAL BANK	Bahrain	0.2	0.063	107.9	0.7	N/A	-25.0%	1.1%	2.0%	-8.9%
NATIONAL BANK OF KUWAIT	Kuwait	20.3	0.977	16.9	2.0	3.4	27.6%	26.3%	9.1%	8.8%
KUWAIT FINANCE HOUSE	Kuwait	15.0	0.663	20.2	2.8	2.7	22.7%	27.3%	8.4%	6.9%
BOUBAYAN BANK K.S.C	Kuwait	5.6	0.562	28.5	4.1	1.3	13.3%	21.1%	8.5%	10.9%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.3	0.520	18.8	1.5	3.5	18.0%	20.8%	5.1%	-0.3%
GULF BANK	Kuwait	3.0	0.311	16.1	1.5	3.2	27.4%	14.8%	0.3%	-0.7%
BURGAN BANK	Kuwait	2.7	0.312	10.8	1.1	3.7	21.6%	5.5%	-4.4%	4.3%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	1.8	0.301	11.5	1.3	4.7	11.1%	-1.6%	-6.1%	4.4%
AL AHLI BANK OF KUWAIT	Kuwait	1.6	0.309	11.8	0.9	4.5	9.1%	1.5%	-2.6%	0.1%
WARBA BANK KSCP	Kuwait	1.2	0.246	36.3	1.8	N/A	17.1%	15.1%	-1.0%	N/A
KUWAIT INTERNATIONAL BANK	Kuwait	0.8	0.272	13.8	1.0	3.9	10.9%	16.8%	1.9%	4.2%
BANKMUSCAT SAOG	Oman	3.3	0.416	7.0	0.7	8.0	15.4%	14.2%	3.1%	7.5%
BANK DHOFAR SAOG	Oman	1.1	0.138	10.9	0.8	6.8	-5.2%	-5.3%	-3.2%	4.1%
NATIONAL BANK OF OMAN SAOG	Oman	0.7	0.164	3.2	0.7	9.8	-1.7%	-4.1%	-0.7%	4.2%
HSBC BANK OMAN	Oman	0.6	0.118	7.3	0.7	7.9	6.6%	9.2%	-0.7%	-3.1%
SOHAR INTERNATIONAL BANK	Oman	0.6	0.111	7.2	0.8	5.4	5.5%	-5.1%	-4.9%	5.0%
AHLI BANK	Oman	0.5	0.119	8.2	0.7	8.0	-7.8%	-4.3%	0.6%	7.2%
BANK NIZWA	Oman	0.4	0.090	16.7	1.0	N/A	-1.1%	5.8%	0.7%	N/A
AL IZZ ISLAMIC BANK	Oman	0.2	0.081	37.5	1.0	N/A	-10.0%	12.4%	-3.9%	N/A
QATAR NATIONAL BANK	Qatar	43.4	172.0	12.1	2.5	3.5	-8.9%	15.4%	7.4%	21.4%
QATAR ISLAMIC BANK	Qatar	9.6	167.0	15.1	2.6	3.0	13.5%	26.0%	15.1%	15.9%
MASRAF AL RAYAN	Qatar	7.1	34.4	12.0	2.1	5.8	-13.1%	6.6%	-6.1%	18.0%
COMMERCIAL BANK PQSC	Qatar	4.7	42.6	11.9	1.1	3.5	11.8%	10.2%	-2.1%	8.0%
QATAR INTERNATIONAL ISLAMIC	Qatar	2.8	67.8	12.2	1.9	5.9	9.0%	10.2%	1.1%	12.6%
AL AHLI BANK	Qatar	1.8	28.0	9.7	1.2	3.2	13.8%	-4.4%	-2.3%	12.2%
DOHA BANK QSC	Qatar	1.9	22.3	12.9	0.8	4.5	5.4%	-6.8%	-12.0%	4.8%
AL KHALIJ COMMERCIAL BANK	Qatar	1.1	11.6	7.5	0.8	6.5	7.6%	-5.7%	-8.1%	3.3%
AL RAJHI BANK	Saudi Arabia	45.1	67.6	15.6	3.3	4.3	21.2%	27.0%	13.7%	10.0%
NATIONAL COMMERCIAL BANK	Saudi Arabia	43.7	54.6	15.6	2.7	4.0	16.2%	30.6%	N/A	N/A
RIYAD BANK	Saudi Arabia	21.3	26.7	15.3	2.1	3.0	36.8%	41.0%	13.0%	14.7%
SAMBA FINANCIAL GROUP	Saudi Arabia	18.0	33.7	12.4	1.6	5.9	10.2%	22.3%	12.0%	8.0%
SAUDI BRITISH BANK	Saudi Arabia	15.8	39.6	11.4	1.8	5.1	24.2%	28.6%	8.4%	6.8%
BANQUE SAUDI FRANSI	Saudi Arabia	12.4	38.5	13.9	1.4	4.2	25.1%	24.2%	8.9%	6.5%
ALINMA BANK	Saudi Arabia	9.6	24.0	13.4	1.8	4.2	8.7%	26.6%	7.6%	10.3%
ARAB NATIONAL BANK	Saudi Arabia	9.9	24.8	10.9	1.4	4.6	19.4%	30.8%	11.2%	7.0%
ALAWWAL BANK	Saudi Arabia	5.5	17.9	19.2	1.5	N/A	18.5%	13.9%	1.9%	4.7%
BANK ALBILAD	Saudi Arabia	4.8	24.2	15.4	2.2	N/A	11.0%	19.9%	0.5%	11.8%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	3.6	18.0	9.0	1.0	N/A	5.1%	18.1%	-0.1%	6.4%
BANK AL-JAZIRA	Saudi Arabia	3.2	14.7	11.3	1.0	3.4	5.9%	20.3%	-6.5%	4.4%
FIRST ABU DHABI BANK PJSC	UAE	41.6	14.0	13.0	1.8	5.3	4.5%	26.8%	5.4%	19.1%
EMIRATES NBD PJSC	UAE	16.6	11.0	6.2	1.1	3.6	28.9%	13.6%	7.8%	21.8%
EMIRATES ISLAMIC BANK	UAE	14.8	10.0	48.0	7.1	N/A	0.1%	93.8%	N/A	N/A
ABU DHABI COMMERCIAL BANK	UAE	16.8	8.9	10.0	1.6	5.2	13.7%	20.5%	7.6%	25.4%
DUBAI ISLAMIC BANK	UAE	9.0	5.0	6.9	1.4	7.0	7.8%	10.3%	3.9%	18.9%
ABU DHABI ISLAMIC BANK	UAE	4.5	4.6	7.7	1.3	6.0	24.4%	16.5%	1.0%	17.0%
UNION NATIONAL BANK/ABU DHAB	UAE	4.4	5.9	17.7	1.0	3.4	N/A	N/A	N/A	14.3%
MASHREQBANK	UAE	3.7	76.4	6.5	0.7	5.2	2.8%	8.1%	-2.1%	-0.2%
COMMERCIAL BANK OF DUBAI	UAE	2.9	3.8	8.8	1.2	5.4	0.2%	-8.7%	-0.6%	12.3%
NATIONAL BANK OF FUJAIRAH	UAE	2.4	4.8	14.8	1.9	1.5	13.8%	11.4%	16.3%	N/A
INVEST BANK	UAE	2.2	2.5	N/A	5.3	N/A	0.0%	5.4%	0.3%	13.7%
NATIONAL BANK OF RAS AL-KHAI	UAE	2.2	4.8	8.3	1.2	6.4	21.4%	2.5%	-3.8%	15.4%
NATIONAL BANK OF UMM AL QAIW	UAE	1.2	2.4	10.7	1.0	4.6	-17.3%	-8.8%	-1.0%	4.1%
SHARJAH ISLAMIC BANK	UAE	0.9	1.1	6.1	0.6	7.3	1.5%	-3.9%	-4.4%	9.3%
UNITED ARAB BANK PJSC	UAE	0.7	1.2	45.2	1.0	N/A	3.3%	-17.0%	-23.9%	N/A
BANK OF SHARJAH	UAE	0.5	0.9	5.5	0.5	N/A	-9.2%	-8.4%	-11.0%	0.4%
AMAN BANK PJSC	UAE	0.5	0.9	9.2	0.8	3.9	2.8%	-16.0%	-16.9%	1.1%
COMMERCIAL BANK INTERNATIONA	UAE	0.3	0.6	4.8	0.5	N/A	-29.8%	-32.8%	-21.1%	-9.9%
AMLAKE FINANCE	UAE	0.1	0.3	N/A	0.4	N/A	-25.1%	-42.1%	N/A	N/A

Source : Bloomberg

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