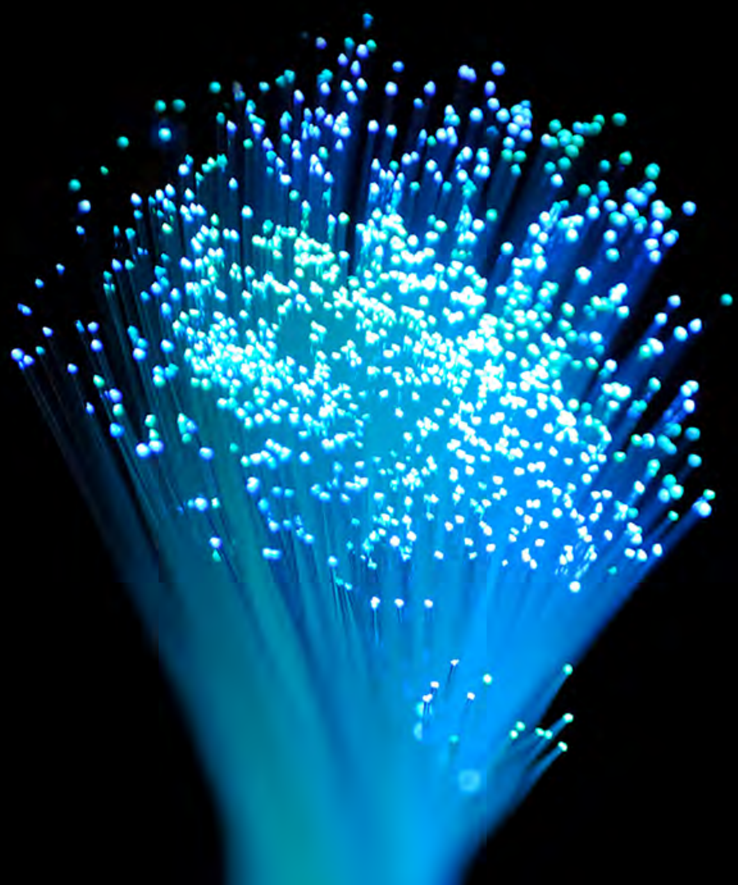
GCC listed banks' results

Embracing digital

Year-ended 31 December 2018



June 2019

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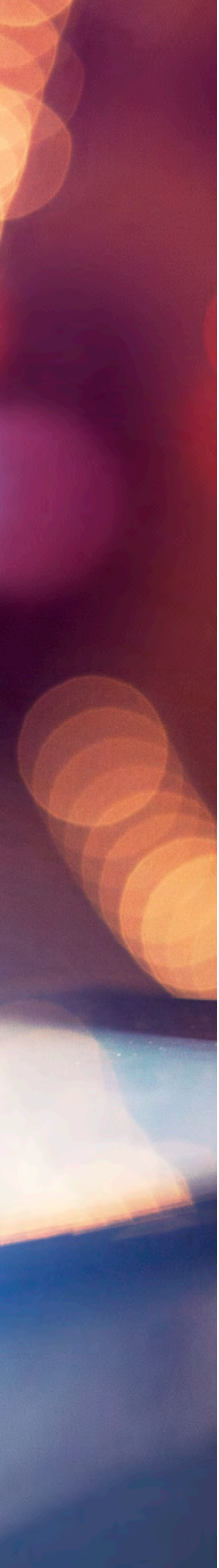

Foreword

We are delighted to launch the fourth edition of KPMG's Gulf Cooperation Council (GCC) listed banks' results report, which analyses the financial results of leading listed commercial banks across the region, comparing them to the previous year. This report provides banking industry leaders with succinct analysis, comparing banking sector key performance indicators across the GCC, alongside forward-looking views and insights.

The 2018 report, titled **'Embracing digital',** focusses on some of the key financial trends in the banking sector across the region, including:

- **asset and profitability growth**
- **lower NPL ratios**
- **improved cost efficiencies**
- **higher loan impairment charges**
- **increased share prices.**

The financial trends identified through analysis of these results carried out by KPMG professionals, were largely positive. Given the unique political and economic circumstances the region has witnessed in recent years, this is particularly impressive and reflects the continued resilience of the banking sector. This report highlights the increased optimism on the back of these positive financial results which, coupled with the increasing government spend on major infrastructure projects in the region, has resulted in banks moving toward a more innovative and growth-driven focus. Furthermore, with customer needs and sophistication evolving, we are seeing banks embracing the digital agenda, more than ever, albeit in a measured manner.

Last year, KPMG professionals made a number of predictions in specific areas including: tax, regulatory reform, customer focus, cost efficiencies, profit growth, expected credit losses and capital/fundraising. Many of these predictions were realized in 2018, and continue to support our overall positive long-term outlook on the sector.

Looking forward, key predictions for the sector in 2019 explored in this report include:

- **continued customer focus through innovation**
- **cost and operational efficiencies remaining a priority**
- **modest credit and profit growth rates**
- **evolving regulatory regimes**
- **increasing capital and fundraising activity**
- **further consolidation.**

Throughout this report, heads of Financial Services from KPMG member firms in the six GCC countries, provide thoughts on their respective banking markets, specifically on the results of the leading listed commercial banks. We hope that our analysis, insights and predictions will help drive banking strategies and shape the industry across the region in the future.

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Basis of preparation

In this report, KPMG professionals have analyzed the results of leading listed commercial banks from each GCC country — the Kingdom of Bahrain (Bahrain), the State of Kuwait (Kuwait), the Sultanate of Oman (Oman), the State of Qatar (Qatar), the Kingdom of Saudi Arabia (Saudi Arabia or KSA) and the United Arab Emirates (UAE). The results and selected key performance indicators (KPIs) of the 56 selected GCC banks for the year-ended 31 December 2018 are summarized and compared with those from last year (year-ended 31 December 2017).

The results and KPIs compared for each bank

- Total assets
- Net profit
- Capital adequacy ratio (CAR)
- Return on equity (ROE)
- Return on assets (ROA)
- Net provision charge on loans
- Coverage ratios on loans – by stage
- Total loans subject to ECL – by stage
- Cost-to-income ratio (CIR)
- Share price
- Loan-to-deposit ratio (LDR)
- Non-performing loan ratio (NPL)

The information used in this report has been obtained solely from publicly available sources, including company filings (interim reports, investor presentations and annual reports), databases and web searches. The terms 'loans and advances' and 'financing assets' (for Islamic banks) have been used interchangeably and collectively referred to as 'loans'.

All the figures used in the report are in the US dollar (US$). For conversion, the average exchange rate of the respective year has been used, i.e. to convert a data point from 2018 (reported in local currency), the average daily exchange rate between 1 January 2018 and 31 December 2018 has been used. The exchange rates used in this report are provided in Appendix III: Sources.

Where banks report in both local currency and the US$, local currency figures have been converted to the US$ to ensure consistency. The US$ is also used when calculating percentage changes.

This report does not reflect any restatements/revisions in 2017 numbers, as per the 2018 financial statements published by listed commercial banks. Some of the KPIs for the year-ended 31 December 2018 have been adjusted in this edition (wherever applicable, for consistency purposes) from the last version of the GCC listed banks' results report.

KPI definitions and assumptions

Given the varied accounting frameworks and reporting styles across Islamic and conventional banks in the GCC, the following parameters have been used in calculations for consistency in our analysis:

- **Total assets** are as reported in the published annual financial statements.
- **Net profit** is the net profit for the year attributable to the shareholders of the bank.
- **Capital adequacy ratio (CAR)** is the ratio of total capital (the sum of Tier 1 and 2 capital) to total risk weighted assets (RWAs). For Islamic banks, URIA balances are included in total capital, as a result the ratios for Islamic and conventional banks are not entirely comparable.
- **Return on equity (ROE)** is the ratio of net profit attributable to the shareholders of the bank to average equity, where average equity is calculated by halving the sum of total equity attributable to the bank's shareholders (excluding additional Tier 1 (AT1) capital) for the current and previous year ends. The coupon on any AT1 instrument is excluded from net profit.
- **Return on asset (ROA)** is the ratio of net profit attributable to the shareholders of the bank to average assets, where average assets are calculated by halving the sum of total assets for the current and previous year ends.
- **Net provision charge on loans** is the total impairment on loans for the year ended 31 December 2017, and sum of the expected credit loss (ECL) on stage 1 and 2 and impairment charge on stage 3 loans for year ended 31 December 2018.
- **Coverage ratios on loans – by stage** is the provisions (including interest in suspense) at 31 December 2018 for the respective stages as a percentage of the relevant exposure, while for 2017 it is the provisions (including interest in suspense) as a percentage of non-performing loans.
- **Total loans subject to ECL – by stage at 31 December 2018** is the stage-wise exposure of loans subject to ECL (before the impact of ECL) at 31 December 2018 as a percentage of total exposure subject to ECL.
- **Cost-to-income ratio (CIR)** is the ratio of total operating expenses (excluding impairment charges) to total operating income (where interest/financing income or expenses, fee commission income or expenses and URIA costs have all been netted). For Islamic banks, net operating income includes the share of results of associates, while finance expenses and sukuk holders' share of profit have been netted.
- **Share price** is the quoted price at the close of the last day of each quarter, starting 31 December 2017 and ending 31 December 2018.
- **Loan-to-deposit ratio (LDR)** is calculated by dividing net loans by customer deposits. For Islamic banks, unrestricted investment account (URIA) balances have been included in deposits.
- **Non-performing loan ratio (NPL)** is the ratio of non-performing loans to gross loans and advances.

Glossary

In this report, the following **56 listed banks'** results have been analyzed.

Bahrain[1]		Abv.	Sign-off date
1	Ahli United Bank	AUB	19-02-2019
2	*Al Baraka Banking Group*	*Al Baraka*	*20-02-2019*
3	*Al Salam Bank Bahrain[2]*	*Al Salam*	*12-02-2019*
4	*Bahrain Islamic Bank*	*BISB*	*24-02-2019*
5	BBK[3]	BBK	18-02-2019
6	*Ithmaar Holding (formerly known as Ithmaar Bank)*	*Ithmaar*	*10-02-2019*
7	*Khaleeji Commercial Bank*	*Khaleeji*	*06-02-2019*
8	National Bank of Bahrain	NBB	28-01-2019

1. For Bahrain, listed investment banks have been excluded from the report to provide more meaningful comparison of results.
2. Al Salam Bank adopted IFRS 9 in 2017, as a result certain ratios presented may not be comparable within the peer group and with the previous year results.
3. BBK was an early adopter of IFRS 9 in 2016 and continued in 2017. As a result, certain ratios presented may not be comparable within the peer group.

Kuwait		Abv.	Sign-off date
1	*Ahli United Bank*	*AUBK*	*12-02-2019*
2	Al Ahli Bank of Kuwait	ABK	15-01-2019
3	*Boubyan Bank*	*Boubyan*	*10-01-2019*
4	Burgan Bank	Burgan	13-02-2019
5	Gulf Bank	GBK	13-01-2019
6	*Kuwait Finance House*	*KFH*	*10-01-2019*
7	*Kuwait International Bank*	*KIB*	*31-01-2019*
8	National Bank of Kuwait	NBK	08-01-2019
9	The Commercial Bank of Kuwait	CBK	13-01-2019
10	*Warba Bank*	*Warba*	*30-01-2019*

Oman		Abv.	Sign-off date
1	Ahli Bank	Ahli	28-01-2019
2	*Alizz Islamic Bank*	*Alizz*	*10-03-2019*
3	Bank Dhofar	Dhofar	29-01-2019
4	Bank Muscat	Muscat	04-03-2019
5	*Bank Nizwa*	*Nizwa*	*10-03-2019*
6	Bank Sohar	Sohar	12-03-2019
7	HSBC Bank Oman	HSBC	04-03-2019
8	National Bank of Oman	NBO	10-03-2019

Qatar		Abv.	Sign-off date
1	Ahli Bank	Ahli	06-02-2019
2	Al Khaliji Commercial Bank	Al Khaliji	06-02-2019
3	Doha Bank	Doha	18-02-2019
4	*Masraf Al Rayan*	*MAR*	*05-02-2019*
5	*Qatar International Islamic Bank*	*QIIB*	*10-02-2019*
6	*Qatar Islamic Bank*	*QIB*	*03-02-2019*
7	Qatar National Bank	QNB	17-01-2019
8	The Commercial Bank	CB	28-02-2019

Saudi Arabia		Abv.	Sign-off date
1	*Al Rajhi Bank*	*Al Rajhi*	*10-02-2019*
2	Alawwal Bank (formerly known as Saudi Hollandi Bank)	AAAL	13-02-2019
3	*Alinma Bank*	*Alinma*	*07-02-2019*
4	Arab National Bank	ANB	24-02-2019
5	*Bank Al Bilad*	*BAB*	*06-02-2019*
6	*Bank AlJazira*	*BAJ*	*05-02-2019*
7	Banque Saudi Fransi	BSF	07-02-2019
8	Riyad Bank	Riyad	07-02-2019
9	SAMBA Financial Group	SAMBA	31-01-2019
10	The National Commercial Bank	NCB	29-01-2019
11	The Saudi British Bank	SABB	17-02-2019
12	The Saudi Investment Bank	SAIB	10-02-2019

United Arab Emirates[1]		Abv.	Sign-off date
1	Abu Dhabi Commercial Bank	ADCB	29-01-2019
2	*Abu Dhabi Islamic Bank*	*ADIB*	*04-02-2019*
3	Commercial Bank of Dubai	CBD	30-01-2019
4	*Dubai Islamic Bank*	*DIB*	*30-01-2019*
5	Emirates NBD	ENBD	15-01-2019
6	Mashreq bank	Mashreq	25-01-2019
7	The National Bank of Ras Al-Khaimah	RAK	30-01-2019
8	Union National Bank	UNB	12-02-2019
9	First Abu Dhabi Bank[2]	FAB	31-01-2019
10	*Sharjah Islamic Bank*	*SIB*	*29-01-2019*

1. Of the 20 listed banks in the UAE, the 10 largest (by assets and net profit) have been considered for the purpose of this report.
2. First Abu Dhabi Bank (FAB) is a result of the merger of First Gulf Bank (FGB) and National Bank of Abu Dhabi (NBAD), declared effective on 1 April 2017.

Please refer to the Appendix report for a country-wise analysis

Note: Banks have been listed alphabetically, by their full names, which is also the order followed throughout the report.
The sign-off dates represent the sign-off date available on the statement of financial position; in case of unavailability, the auditor sign-off date has been considered.
Islamic banks have been presented in Italics. In case of Qatar, the sign-off date represents the auditor sign-off date.

Contents

Executive summary

11.8%

Impressive profitability growth, with overall **net profit up by 11.8 percent to US$36.1 billion.**

4.5%

Total assets up by 4.5 percent to US$2.1 trillion with robust asset growth across all GCC countries.

25.0%

Bank share prices have exhibited an **upward trend** with an increase of **25.0 percent** over the year.

Net provision charge on loans increased by 4.9 percent to US$10.0 billion.

4.9%

Net provision charge on loans

0.2%

Fall in total capital adequacy ratio, to 18.5 percent, yet still well above minimum regulatory requirements.

0.1% ROA

1.1% ROE

Overall average **ROA (1.5 percent) and ROE (11.3 percent) are marginally up** from 2017.

1.2%

The overall **cost-to-income ratio** has declined by **1.2 percent** from 2017, averaging **40.5 percent** in 2018.

8.4%

2.7%

88.9%

Out of the total loan exposure subject to ECL at 31 December 2018, **88.9 percent was in stage 1, 8.4 percent was in stage 2 and 2.7 percent was in stage 3.**

70.7%

Average coverage ratio on stage 3 loans stood at **70.7 percent** as at 31 December 2018.

Note: Total loan exposure subject to ECL and coverage ratios on loans do not include banks from Kuwait

Economic overview

The economic outlook remains positive for the GCC region, where governments are taking the lead to boost economic growth and improve consumer and investor sentiments.

Growth in the GCC recovered to 2.2 percent in 2018 and 2.0 percent in 2019 (expected) after economies began slowing down as a result of their commitment to the recent Organization of the Petroleum Exporting Countries (OPEC) production-cut agreement. In addition, expansionary fiscal policy will continue to drive non-oil growth, which has picked up modestly from 2.5 percent in 2018 to 3.2 percent in 2019 after a contraction of 0.4 percent in 2017, as stated by many international institutions.

However, global trade tensions are likely to indirectly hamper GCC growth. The region may be impacted secondarily due to the possibility of a fall in global crude oil prices, a slowdown in trade and the logistics industries, tariffs on aluminum, and an outflow of capital. However, the GCC's strong economic foundations are likely to absorb the shocks of a global trade war.

In 2018, the US Federal Reserve raised the federal funds target rate by 75 basis points and signaled more monetary tightening by the end of 2019. However, because of the weaker global economic environment in 2019 due to slow demands in China and Europe, policy uncertainty concerning Brexit, and trade tension, the Federal Reserve has sent signals of a slowdown in the pace of interest rate increases in 2019. The current pause will help to prevent possible negative effects on economic growth due to risks from overseas.

Monetary policy among the GCC members remains focused on stabilizing the currency pegs to the US$. In 2018, key policy rates increased following a recent hike in the US$. The tighter monetary policy has had a negative effect on the region by constraining the governments' expansion plans, increasing borrowing costs, and weakening private sector growth. However, given the Federal Reserve's shift toward a slower pace of rate hikes, borrowing costs should stay lower for longer in 2019, leading to a boost in the region's growth.

Financial systems in the GCC have developed significantly in recent years, largely due to banks, but there appears to be room for further progress, as stated by the IMF. Financial soundness indicators suggest that the banking systems are well positioned, with strong capitalization and adequate liquidity, and well equipped to absorb potential shocks. However, a further increase in policy rates in 2019, in line with the U.S. Federal Reserve's actions, may tighten financial conditions and put some pressure on credit growth, which will eventually hit non-oil sectors.

GCC countries' banking systems, overall, remain steady and show improvement in their operating conditions. Despite some weakening, loan performance still remains strong, supported by a robust capital flow due to the recent increases in oil prices. Credit is expected to grow due to increased government spending, boosting economic activity. The legacy of problem loans in recent years is still a challenge to the GCC banking sector. The percentage of NPL is expected to remain steady by the end of 2019. In addition, we do not expect any major shocks in the GCC banking system, which is expected to stay stable in 2019, as long as oil prices maintain the same levels and the geopolitical situation remains steady.

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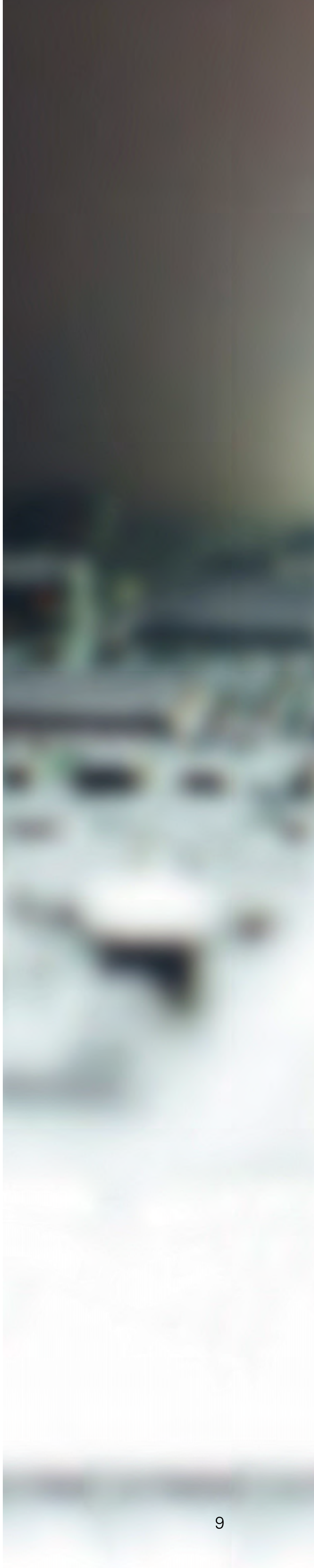
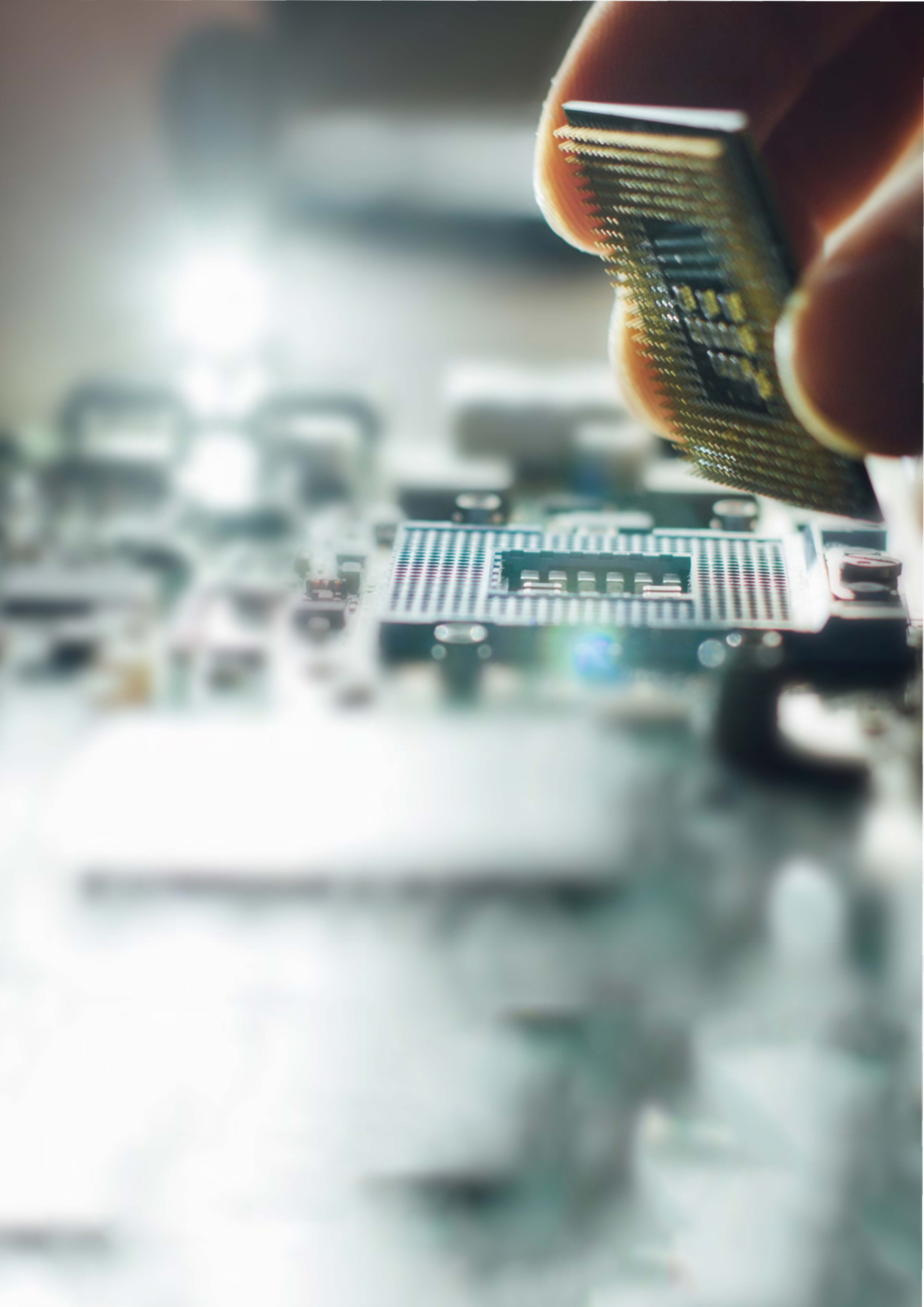
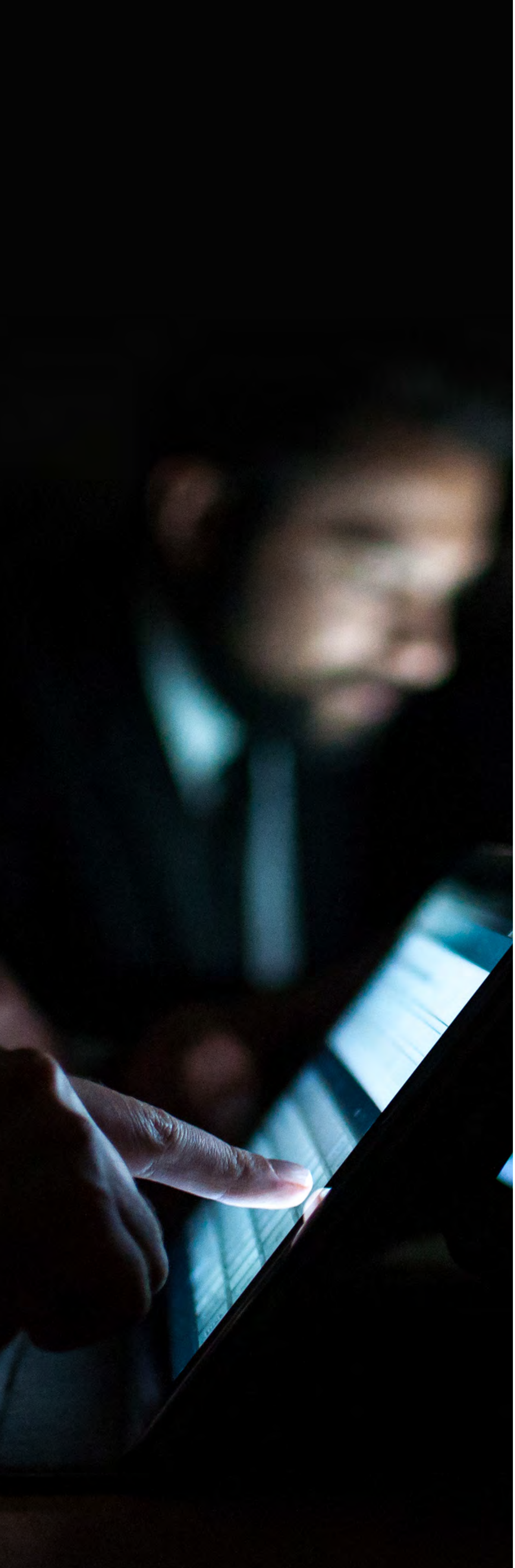


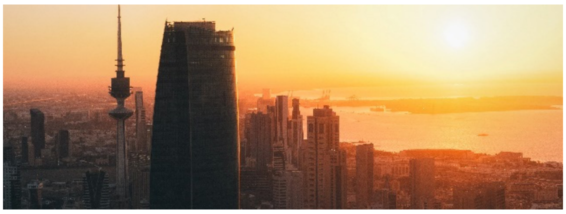




Country highlights

Bahrain

Overall growth in Bahrain decelerated during 2018 due to a combination of various geopolitical factors including volatility in oil prices and a global economic slow down. However, the banking sector demonstrated resilience with strong credit growth of 3.8 percent. Retail banks continue to outperform since 2009. Tightening liquidity, dynamic regulatory changes and technology disruption pose a significant challenge to the banking sector. Local and regional stimuli on implementation of proposed projects are expected to support the economic growth in the medium term.

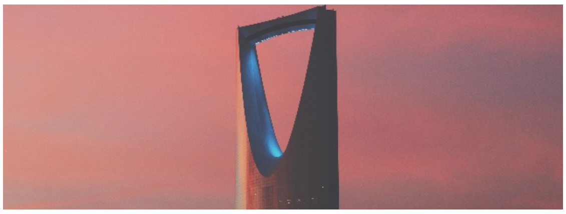


Kuwait

Kuwait banks have witnessed one of the best years in the recent past with an overall increase in net profits of 19.3 percent. Total assets grew at a healthy 5.0 percent with the CIR on the decline on account of investments in technology and deployment of digital strategies and solutions. During the year, the Central Bank of Kuwait (CBK) introduced regulations to promote innovation in electronic payment operations.

Oman

Oman's economy experienced a slight rebound in 2018 resulting from higher than budgeted oil prices and benefits from the diversification policy. The banking sector in Oman has been showing remarkable resilience to the tightening of operating conditions since the decline in oil price. Banks maintained sufficient capital buffers, remained fairly liquid, and posted decent profits. The credit grew by 6.3 percent indicating an overall credit risk being well-contained. The implementation of value added tax (VAT) is likely to impact the banking sector in 2020.



Saudi Arabia

2018 was widely considered a 'mixed' year for Saudi Arabia's economic performance, for both macroeconomic and geopolitical reasons. While there was optimism springing from the government's expansionary budget plans and higher oil prices, this was in contrast to flat performances in a number of traditional industries. Liquidity in the market improved, largely from the trickle-down impact of government debt programs. The banking industry showed modest growth in the asset base, more pronounced among the Islamic banks, and margins benefited from higher SAIBOR rates. As a result, returns on assets and equity showed slight increases, compared with the previous year.

Qatar

It has been a positive year for listed banks in Qatar, with an average 9.5 percent growth in net profit and 3.2 percent growth in total assets, which demonstrates both strength and opportunities in the banking sector. Furthermore, cost-to-income ratios for all (except two) banks in Qatar have reduced year-on-year, reflecting the continued focus on efficiencies to improve net profits. Credit quality does remain a challenge, as loan impairment and NPL ratios increased compared to the prior year, while the ECL impact, as a result of the adoption of IFRS 9 on 1 January 2018, was US$3.0 billion (50.0 percent of existing provisions as at 31 December 2017). However, Qatar's listed banks did not experience a significant adverse impact on their total CARs as a result of the adoption of IFRS 9.

UAE

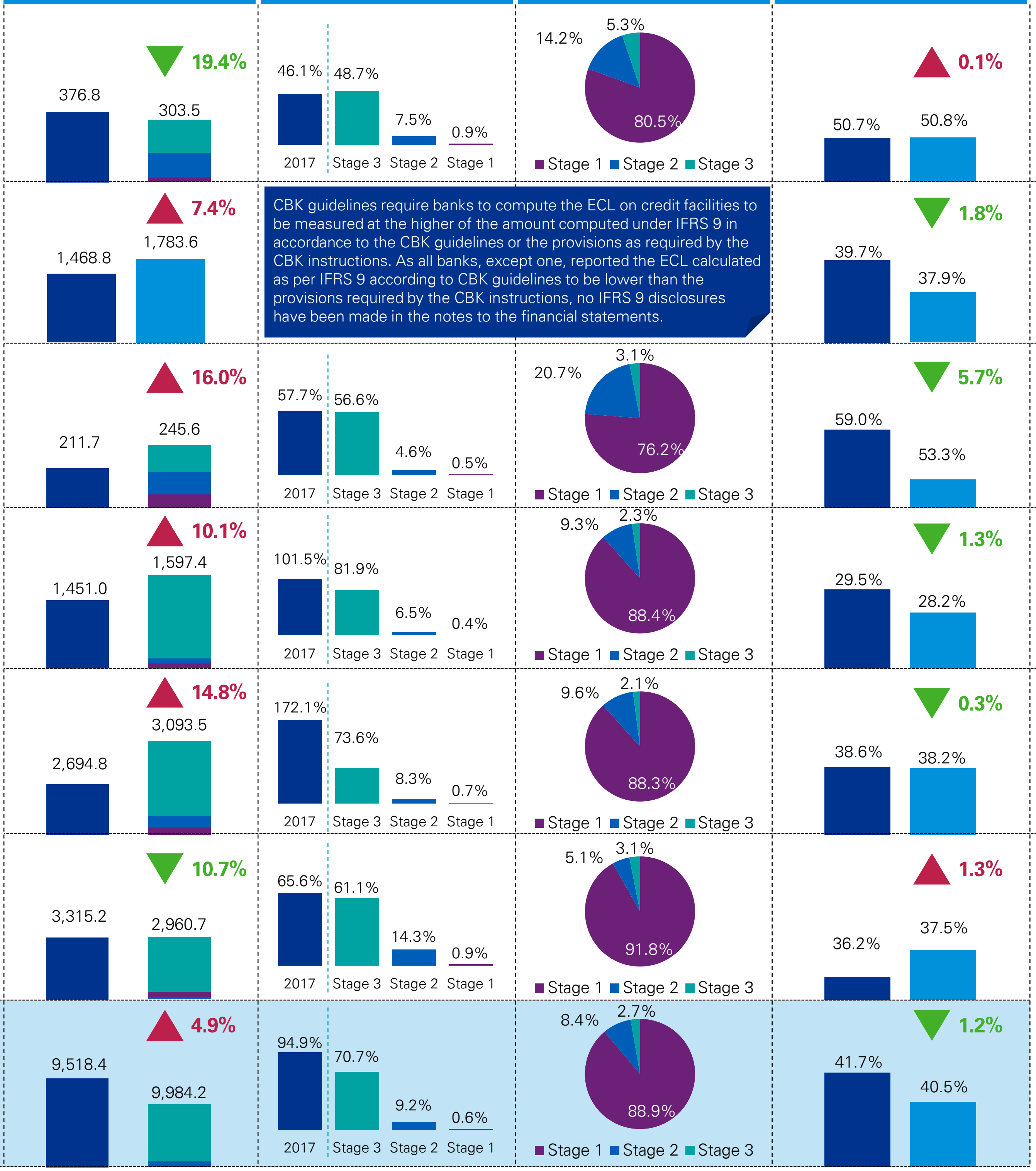
The top 10 banks in the UAE have enjoyed a healthy surge of 11.1 percent in net profits, instigated by an increase in their overall loan books. Due to the adoption of IFRS 9, day 1 adjustments were passed through retained earnings, which in turn had a positive effect on current year net profits through a reduction in the impairment charge. Financial institutions must contend with an incursion of new regulations and a burgeoning demand for innovative new products and systems to meet consumer demands in a market that is increasingly digitally enabled. Considering the muted economic growth in the past year, the prospect of mergers and acquisitions between top banks appears to be one of the most significant topics of discussion within the UAE banking sector.

Results snapshot

KPI[1] / Country	Total assets (US$ billion)			Net profit (US$ million)			Capital adequacy ratio (%)			Return on equity/return on assets (%)					
										ROE			ROA		
	2017	2018	y-o-y	2017	2018	y-o-y	2017	2018	y-o-y	2017	2018	y-o-y	2017	2018	y-o-y
Bahrain 	95.1	96.0	▲ 1.0%	1,060.7	1,247.3	▲ 17.6%	20.3%	19.4%	▼ 0.9%	5.8%	7.6%	▲ 1.8%	0.9%	1.1%	▲ 0.1%
Kuwait 	251.9	264.5	▲ 5.0%	2,722.1	3,247.7	▲ 19.3%	18.4%	18.3%	▼ 0.1%	9.2%	10.4%	▲ 1.2%	1.0%	1.2%	▲ 0.1%
Oman 	71.0	76.2	▲ 7.3%	884.1	985.9	▲ 11.5%	16.9%	17.0%	▲ 0.1%	6.6%	8.4%	▲ 1.8%	0.9%	1.1%	▲ 0.2%
Qatar 	395.8	408.4	▲ 3.2%	5,851.1	6,407.5	▲ 9.5%	17.1%	17.6%	▲ 0.5%	12.0%	13.0%	▲ 1.0%	1.4%	1.5%	▲ 0.1%
Saudi Arabia 	592.5	604.9	▲ 2.1%	12.0	13.3	▲ 11.3%	20.2%	20.5%	▲ 0.3%	12.2%	13.2%	▲ 1.0%	1.8%	2.0%	▲ 0.2%
UAE 	578.4	623.8	▲ 7.9%	9,836.2	10,927.8	▲ 11.1%	18.7%	17.3%	▼ 1.3%	13.5%	13.7%	▲ 0.2%	1.7%	1.7%	0.0%
Total	1,984.7	2073.9	▲ 4.5%	32,336.1	36,147.4	▲ 11.8%	18.7%	18.5%	▼ 0.2%	10.2%	11.3%	▲ 1.1%	1.3%	1.5%	▲ 0.1%

■ 2017 ■ 2018 ▲ y-o-y[3] increase ● No change ▼ y-o-y[3] decrease ■ Stage 1 ■ Stage 2 ■ Stage 3

Net provision charge on loans[2] (US$ million)	Coverage ratios on loans – by stage (%)	Total loans subject to ECL– by stage as at 31 December 2018 (%)	Cost-to-income ratio[2] (%)



CBK guidelines require banks to compute the ECL on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by the CBK instructions. As all banks, except one, reported the ECL calculated as per IFRS 9 according to CBK guidelines to be lower than the provisions required by the CBK instructions, no IFRS 9 disclosures have been made in the notes to the financial statements.

Note: The total assets, net profit and net provision charge on loans numbers represent totals for all the analyzed listed banks covered for each country. Year-on-year percentage change has been calculated based on the actual, not rounded numbers. For other KPIs, a simple average of all listed banks covered has been used.

[1]All KPIs have been calculated as of, or for the year-ended 31 December 2018; Total loans subject to ECL (by stage) and coverage ratios on loans (by stage) does not include banks from Kuwait

[2]Decrease (or increase) in CIR and net provision charge on loans has been shown as a positive (or negative) movement.

[3] Y-o-y represents year-on-year.

Outcomes against last year's outlook

Tax back on the agenda

In 2018, we saw the implementation of VAT gain traction in the GCC and in turn gain more prominence in management discussions. Both the UAE and Saudi introduced their respective VAT laws and regulations with an effective date of 1 January 2018; Bahrain and Oman are expected to implement VAT in 2019 while Qatar and Kuwait are expected to follow suit in 2020 and 2021 respectively.

Evolving regulatory regimes

The increase in regulatory oversight and supervision witnessed in 2015, 2016 and 2017 has continued in 2018, and is expected to continue in the foreseeable future. We saw regulators across the region take on a proactive role with regard to AML regulations, General Data Protection Regulation (GDPR) and IFRS 9 implementation with most regulators issuing specific guidance for the latter.

Greater customer focus

With greater competition in the market and increasing cost of funds, banks became more customer focused. This is evidenced by the way in which banks are managing customer satisfaction and, in turn, developing internal KPIs to monitor progress. We have seen banks implement innovative technology to improve the ways in which customers, both retail and corporate, engage with banks through the various channels and, in particular, through mobile applications.

More measured credit growth

With the challenging political environment and increasing regulatory capital requirements, we have seen banks being more measured in their lending activities and focused on higher-end customer base. This was evidenced by slower credit growth rate when compared to what we have seen in recent years and further concentration risk in the sector particularly real estate and contracting.

Cost and operational efficiencies remain a priority

In line with our expectations, banks continued their focus on cost and operational efficiencies in 2018, with the overall CIR declining on a year-on-year basis. We expect this trend to continue in the long-term with cost reduction, operational efficiency, digitization and innovation all likely to be high on board agendas for the foreseeable future, to help ensure that banks manage the cost of doing business.

Expected credit losses

We expected banks to move to a more forward-looking approach with the adoption of IFRS 9 for calculating provisions for credit risk thus resulting in banks recording provisions earlier. This can be evidenced by an increase in provisions on financing portfolios during the year. However, the increase in provision charge did not have a significant impact on profitability as the ECL related adjustment was taken as a 'Day 1' impact to retained earnings upon adoption of IFRS 9.

Sustainable profit growth rates

Although we expected profitability growth to remain in the single digits in 2018, the collective profitability growth for listed banks in the region was in fact in the double digits. This is mainly due to rising oil prices driving asset growth, the ability to reprice in a rising interest rate environment, increased cost efficiencies, and improving economic conditions in the GCC countries.

Continued capital and fundraising activity

Amidst rising interest rates, challenging global macro-economic conditions and institutional scrutiny around corporate governance in the region, capital and fundraising activity did not live up to expectations at the beginning of the year.

Bank rankings

		By y o y growth rate (2017 vs. 2018)				By value/percent as of, or for the y/e, 31 December 2018		
		Bank	**Country**	**Δ y o y**		**Bank**	**Country**	**Value/ percent**
TOTAL ASSETS (US$ billion)	1	*Bank Nizwa*	*Oman*	*25.2%*	1	Qatar National Bank	Qatar	236.9
	2	*Warba Bank*	*Kuwait*	*24.0%*	2	First Abu Dhabi Bank	UAE	202.6
	3	*Alizz Islamic Bank*	*Oman*	*20.0%*	3	Emirates NBD	UAE	136.2
	4	*Sharjah Islamic Bank*	*UAE*	*16.9%*	4	The National Commercial Bank	Saudi Arabia	121.0
	5	*Bank Al Bilad*	*Saudi Arabia*	*16.6%*	5	*Al Rajhi Bank*	*Saudi Arabia*	*97.4*
	6	Ahli Bank	Oman	13.7%	6	National Bank of Kuwait	Kuwait	90.5
NET PROFIT (US$ million)	1	The Commercial Bank	Qatar	175.5%	1	Qatar National Bank	Qatar	3,787.9
	2	*Bank Nizwa*	*Oman*	*98.4%*	2	First Abu Dhabi Bank	UAE	3,269.6
	3	*Warba Bank*	*Kuwait*	*88.8%*	3	The National Commercial Bank	Saudi Arabia	2,846.2
	4	HSBC Bank Oman	Oman	64.1%	4	*Al Rajhi Bank*	*Saudi Arabia*	*2,747.4*
	5	Burgan Bank	Kuwait	27.0%	5	Emirates NBD	UAE	2,733.2
	6	*Bank Alinma*	*Saudi Arabia*	*25.3%*	6	SAMBA Financial Group	Saudi Arabia	1,472.9
NET PROVISION CHARGE ON LOANS[1] (US$ million)	1	The Commercial Bank of Kuwait	Kuwait	(270.3)%	1	*Ithmaar Holding*	*Bahrain*	*(9.1)*
	2	*Ithmaar Holding*	*Bahrain*	*(137.8)%*	2	*Masraf Al Rayan*	*Qatar*	*(4.0)*
	3	*Masraf Al Rayan*	*Qatar*	*(113.5)%*	3	*Alizz Islamic Bank*	*Oman*	*2.1*
	4	The Saudi British Bank	Saudi Arabia	(84.9)%	4	HSBC Bank Oman	Oman	4.5
	5	*Sharjah Islamic Bank*	*UAE*	*(70.2)%*	5	*Bank Nizwa*	*Oman*	*5.4*
	6	HSBC Bank Oman	Oman	(69.0)%	6	*Khaleeji Commercial Bank*	*Bahrain*	*11.3*
RETURN ON EQUITY (%)	1	*Ithmaar Holding*	*Bahrain*	*11.5%*	1	*Dubai Islamic Bank*	*UAE*	*20.8%*
	2	The Commercial Bank	Qatar	6.4%	2	*Al Rajhi Bank*	*Saudi Arabia*	*19.7%*
	3	*Alizz Islamic Bank*	*Oman*	*6.3%*	3	Qatar National Bank	Qatar	19.6%
	4	HSBC Bank Oman	Oman	3.4%	4	The National Commercial Bank	Saudi Arabia	18.8%
	5	*Al Rajhi Bank*	*Saudi Arabia*	*2.8%*	5	*Abu Dhabi Islamic Bank*	*UAE*	*18.2%*
	6	The Saudi British Bank	Saudi Arabia	2.8%	6	Emirates NBD	UAE	18.1%
RETURN ON ASSETS (%)	1	*Alizz Islamic Bank*	*Oman*	*0.9%*	1	*Al Rajhi Bank*	*Saudi Arabia*	*2.9%*
	2	The Commercial Bank	Qatar	0.8%	2	The Saudi British Bank	Saudi Arabia	2.7%
	3	*Ithmaar Holding*	*Bahrain*	*0.7%*	3	SAMBA Financial Group	Saudi Arabia	2.4%
	4	The Saudi British Bank	Saudi Arabia	0.6%	4	The National Commercial Bank	Saudi Arabia	2.4%
	5	HSBC Bank Oman	Oman	0.5%	5	*Dubai Islamic Bank*	*UAE*	*2.3%*
	6	*Bank Nizwa*	*Oman*	*0.3%*	6	National Bank of Bahrain	Bahrain	2.2%

Note: [1]Rankings for CIR, net provision charge on loans and stage 3 loans subject to ECL have been sorted from smallest to largest, reflecting preferred negative movement.
The rankings are based on the actual, not rounded off, numbers. Islamic banks have been presented in italics.

		By y-o-y growth rate (2017 vs. 2018)				By value/percent as of, or for the y/e, 31 December 2018		
		Bank	**Country**	**Δ y-o-y**		**Bank**	**Country**	**Value/ percent**
CAPITAL ADEQUACY RATIO (%)	1	*Bank AlJazira*	*Saudi Arabia*	*6.5%*	1	National Bank of Bahrain	Bahrain	33.8%
	2	Ahli Bank	Qatar	2.8%	2	*Bank AlJazira*	*Saudi Arabia*	*27.5%*
	3	Qatar National Bank	Qatar	2.5%	3	*Warba Bank*	*Kuwait*	*24.3%*
	4	HSBC Bank Oman	Oman	2.5%	4	SAMBA Financial Group	Saudi Arabia	22.7%
	5	Al Ahli Bank of Kuwait	Kuwait	1.9%	5	The Saudi British Bank	Saudi Arabia	21.3%
	6	Bank Dhofar	Oman	1.9%	6	*Bank Alinma*	*Saudi Arabia*	*21.1%*
COST-TO-INCOME RATIO[1] (%)	1	*Alizz Islamic Bank*	*Oman*	*(30.0)%*	1	*Masraf Al Rayan*	*Qatar*	*24.0%*
	2	*Bank Nizwa*	*Oman*	*(11.9)%*	2	*Qatar International Islamic Bank*	*Qatar*	*24.9%*
	3	*Warba Bank*	*Kuwait*	*(9.1)%*	3	*Qatar Islamic Bank*	*Qatar*	*25.7%*
	4	*Ithmaar Holding*	*Bahrain*	*(7.1)%*	4	Qatar National Bank	Qatar	26.6%
	5	HSBC Bank Oman	Oman	(6.7)%	5	Ahli United Bank	Bahrain	27.1%
	6	*Bahrain Islamic Bank*	*Bahrain*	*(6.5)%*	6	First Abu Dhabi Bank	UAE	27.4%
COVERAGE RATIOS ON LOANS – STAGE 3[2] (%)	1	HSBC Bank Oman	Oman	37.6%	1	Alawwal Bank	Saudi Arabia	120.9%
	2	*Bank Nizwa*	*Oman*	*32.7%*	2	Al Khaliji Commercial Bank	Qatar	106.6%
	3	Bank Dhofar	Oman	18.9%	3	Qatar National Bank	Qatar	104.1%
	4	Union National Bank	UAE	14.1%	4	*Bank Al Bilad*	*Saudi Arabia*	*101.8%*
	5	*Sharjah Islamic Bank*	*UAE*	*10.3%*	5	*Qatar Islamic Bank*	*Qatar*	*100.0%*
	6	*Ithmaar Holding*	*Bahrain*	*9.0%*	6	Doha Bank	Qatar	97.5%
STAGE 3 LOANS SUBJECT TO ECL[1,2] (%)	1	*Al Salam Bank Bahrain*	*Bahrain*	*(9.4)%*	1	*Bank Nizwa*	*Oman*	*0.0%*
	2	*Ithmaar Holding*	*Bahrain*	*(3.0)%*	2	*Masraf Al Rayan*	*Qatar*	*0.8%*
	3	HSBC Bank Oman	Oman	(1.9)%	3	*Al Rajhi Bank*	*Saudi Arabia*	*0.9%*
	4	First Abu Dhabi Bank	UAE	(1.5)%	4	*Alizz Islamic Bank*	*Oman*	*1.2%*
	5	*Sharjah Islamic Bank*	*UAE*	*(0.6)%*	5	*Qatar Islamic Bank*	*Qatar*	*1.2%*
	6	The National Bank of Ras Al-Khaimah	UAE	(0.4)%	6	Arab National Bank	Saudi Arabia	1.3%

Bahrain · Kuwait · Oman · Qatar · Saudi Arabia · United Arab Emirates

Note: [1]Rankings for CIR, net provision charge on loans and stage 3 loans subject to ECL have been sorted from smallest to largest, reflecting preferred negative movement.
[2]Total loan exposure subject to ECL and coverage ratios on loans does not include banks from Kuwait
The rankings are based on the actual, not rounded off, numbers. Islamic banks have been presented in italics.

Insights

The summary below sets out the broader themes, both positive and negative, emerging from the results analysis provided in this report for the year-ended 31 December 2018.

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The GCC banking sector continues to remain relatively resilient despite political and economic uncertainty in the region and across the globe.

Asset growth remains robust at 4.5 percent, particularly when compared to more developed markets. Growth was driven by increased lending to government and related entities.

Overall net profit increased year-on-year by 11.8 percent when compared to single digit growth in the previous year, driven by improving interest margins and cost efficiencies.

The overall NPL ratio for the GCC banking sector has reduced by 0.4 percent and now stands at 2.7 percent, reflecting the more stringent risk policies adopted by banks in recent years, given the focus on credit from the regulators.

CIR continues to decline, reflecting a significant focus on cost reductions and operating efficiency initiatives, particularly driven by digital innovation and technology.

Overall, banks performed well in terms of asset growth and profitability in 2018, which is reflected in both fundamentals and market sentiments with bank share prices showing an upward trend with an increase of 25.0 percent as compared to the previous year.

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Although banks have remained resilient, they have not seen the double-digit asset growth experienced in recent years, reflecting a more cautious approach.

CAR has fallen year-on-year by an average of 0.2 percent and currently stands at 18.5 percent on average, well above minimum regulatory requirements.
This is largely due to an increase in risk-weighted assets without a corresponding increase in capital levels.

Net provision charges on loans have increased year-on-year by an average of 4.9 percent as a result of banks adopting a more forward looking approach to recognizing credit losses in 2018.

The ECL impact from the adoption of IFRS 9 on 1 January 2018 amounted to US$11.2 billion and had an adverse impact on banks' CET 1 ratios.

ROE (11.3 percent in 2018) and ROA (1.5 percent in 2018) pressures continue to remain with no significant increase in both metrics.

Funding costs continue to rise given the increasing interest rates environment and greater competition on the liability side of banks' balance sheets, in turn having an adverse impact on profitability.

Outlook

The summary below sets out the thoughts of KPMG Financial Services leaders from member firms across the GCC on the outlook for the banking sector in the region.

Further consolidation

Lenders in the GCC have been rapidly consolidating as they seek to remain competitive. In 2018, all GCC countries experienced mergers, or talks to merge, both in the conventional and islamic banking sector thus creating larger, stronger and more resilient financial institutions. We expect that this consolidation drive will continue in 2019 across the region, with numerous discussions and/or potential further transactions.

Evolving regulatory regimes

As predicted last year, the regulatory agenda continues to evolve on national, regional and international levels, driven by global developments. New accounting standards, Basel IV regulations and increasing focus on anti money laundering (AML), financial crime, and know your customer (KYC) will continue to keep regulators busy in the year ahead. Banks will need to ensure that their business models are reshaped to ensure compliance.

Continued customer focus through innovation

Banks will continue to focus on their customers' ever-changing needs and requirements. With the rapid pace of technological advancement in the financial services industry, banks will be looking to identify ways in which they can use innovation to gain a competitive advantage over their peers. Traditional banking channels will continue to be challenged in favor of more efficient and effective alternatives.

Modest credit growth

With the challenging political environment and increasing regulatory requirements, banks will continue pursuing a more measured approach in their lending activities and look to focus on the higher end customer base. Credit growth is, however, expected to pick up slightly from last year owing to borrowing driven by new infrastructure projects. Concentration by economic sectors (such as the construction sector) is expected to be a source of banks' exposure to cyclicality risks.

Positive long-term outlook

The overall long-term outlook for the GCC banking sector remains largely positive when compared with relatively more developed markets. Banks are in a strong position to weather the current economic and political challenges, given the expectation of continued government support, rising oil prices, and committed infrastructure investment, which will help maintain stability in the sector.

Cost and operational efficiencies to remain a priority

Given the margin pressures banks have experienced across the region in 2018, we expect cost and operational efficiencies to remain high on the management agenda. Banks are likely to look at more sophisticated ways in which costs can be managed through the use of robotics, analytics and fintech amongst others.

Embracing digital

In a world where we are witnessing rapid technological change and evolving customer requirements, banks will need to continue to digitize to remain relevant; particularly as they become increasingly invisible. Whether that be through their go-to-market channels, or through the use of innovative technology in the back and front office, we expect an increased investment in this space.

Sustainable profit growth rates

The upward trend in profitability of GCC banks is expected to continue in 2019, although not necessarily at the double digit levels witnessed in 2018. The growth is likely to be modest and tempered by slower loan growth, and rising loan provisioning under the expected credit loss regime.

Increased capital and fundraising activity

We expect capital and fundraising activity to pick up in 2019, as regulators increase the minimum capital adequacy and liquidity requirements in-line with Basel III regulations, and banks look to strengthen their funding base on the back of an expected improvement in the political and economic environment and more stability in the interest rate environment.

Notes

Notes

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