GCC listed banks' results

Six months ended 30 June 2020

October 2020

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Important notice

The information used in this report has been obtained solely from publicly available sources, including company filings (interim reports, investor presentations and/ or public disclosures), 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$). Where banks report in both local currency and the US$, local currency figures have been converted to the US$ to ensure consistency. US$ is also used when calculating percentage changes. For conversion, the average exchange rate of the respective period end has been used, i.e. to convert a data point from 2020 (reported in local currency), the average daily exchange rate between 1 January 2020 and 30 June 2020 has been used.

Refer to page 11 for the exchange rates used in this report.

This report reflects restatements/revisions in the 2019 and 2020 numbers, as per the 2020 interim financial information published by listed commercial banks, where H1 denotes first six months ending 30 June of respective year. Some of the KPIs for the year-ended 31 December 2019 have been adjusted in this edition (wherever applicable, for consistency) from the last version of the GCC listed banks results report issued by KPMG.

While we use country references, they represent the financial information of entities domiciled in the respective countries being analyzed. Some of these entities are banking groups and their numbers reflect their global and cross-border operations and hence do not necessarily reflect results of activities of the said country only.

Disclosures were not consistent across all banks and countries. Where we have presented a country or GCC average for a given ratio/ KPI, we have aggregated information only for entities that have reported such underlying amounts in their disclosures. The reported ratios/ KPIs are for the purpose of providing directional information as can be analyzed from results and public information reported by listed banks and are not necessarily an accurate average of the banking system in each of the countries covered in this report.

The provisions and results announced during H1'20 are not expected to be comparable, amongst countries or individual banks, due to the inherent limitations imposed by the analyzed information:

— During H1'20, all banks in Bahrain and Kuwait have applied 'IFRS as modified by their local banking regulators', and hence the amounts reported are not comparable with the policies followed by other GCC countries.

— Significant differences in accounting policies and methods of estimates and judgements used for assessing ECL by each bank during these uncertain times. Also, sources and use of macro-economic factors remain widely inconsistent among banks and jurisdictions.

— Each banking regulator in every country has issued their own classification guidelines, which are expected to produce inconsistent stage-wise allocations of portfolios.

While, from an analytics perspective, we have provided a GCC-wide average/ measure and country-wide average/measure of certain ratios, readers should not rely on our report for any decision-making purposes and should use caution in forming judgements or conclusions from our analysis. All presented figures should be read in conjunction with limitations described above (which are indicative and not exhaustive), and the detailed published interim financial information, investor presentation and/ or public disclosures made by each bank.

Click to proceed

Foreword

"The novel corona virus ("COVID-19") pandemic has had an unprecedented impact on the global economy that may eventually surpass the impact of the 2008 global financial crisis. The drop in global interest rates in response to COVID-19 and a low oil price environment has resulted in GCC banks facing two simultaneous economic challenges. This impact coupled with negative view on economic indicator in 2020 is clearly reflected in the H1'20 results analysed by KPMG for 54 listed GCC banks as they have continued to build their loss allowances during the first two quarters of 2020.

During this period, GCC governments and central banks also announced various economic support measures including payment holidays for borrowers and targeted liquidity support for banks. To maintain stability in the banking sector during such unprecedented times, some regulators have also provided specific relief from capital norms and certain accounting guidelines.

Through this publication, we aim to share with you the information on trends in the GCC on credit loss provisions reported by banks in their H1 2020 financial results and a summary of significant regulatory support provided in each GCC country.

With the banking profits on the decline in 2020 and focus of stakeholders shifting towards stability, solvency and liquidity, the question that is being asked is whether this will trigger another wave of mergers and acquisitions in the banking sector in the region.

We trust that you will find the publication useful and should you have any questions or comments, please feel free to get in touch with any of the country contacts listed at the back of this report."

Bhavesh Gandhi
Partner
KPMG in Kuwait

Mahesh Balasubramanian
Partner
KPMG in Bahrain

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COVID-19 impact on the GCC banking sector

34.7% ↓

Overall **net profit** declined by 34.7 percent to US$12.3 billion, compared with US$18.8 billion in H1’19.

76.8% ↑

Significant increase in overall **expected credit loss charge**, up by 76.8 percent to US$9.4 billion in H1’20, compared with US$5.3 billion in H1’19.

3.2% ↑

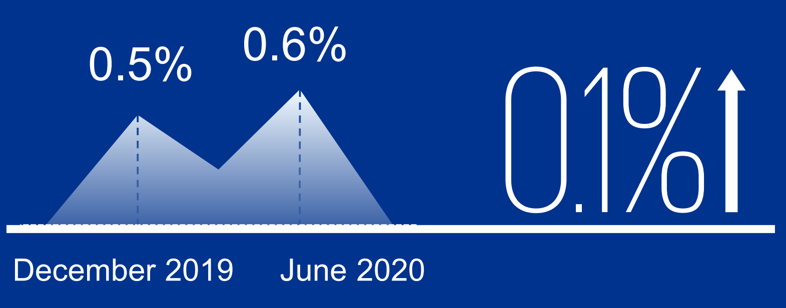
Total loan exposure subject to ECL increased by 3.2 percent to US$1.0 trillion as at 30 June 2020, compared with US$0.9 trillion at 31 December 2019.

0.2% ↑

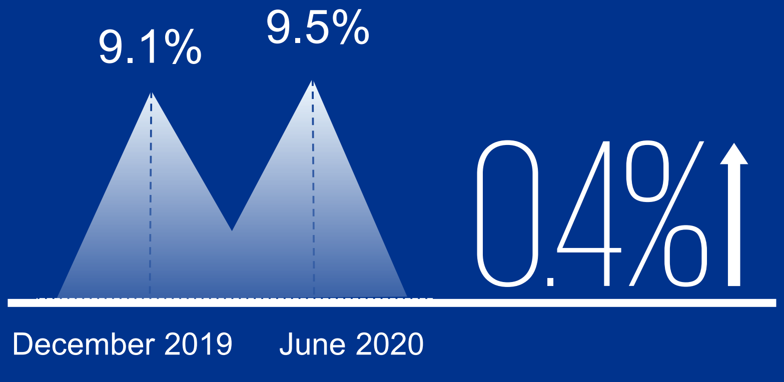
Total coverage ratio on loans increased by 0.2 percent to 3.7 percent as at 30 June 2020.

6.2% ↑

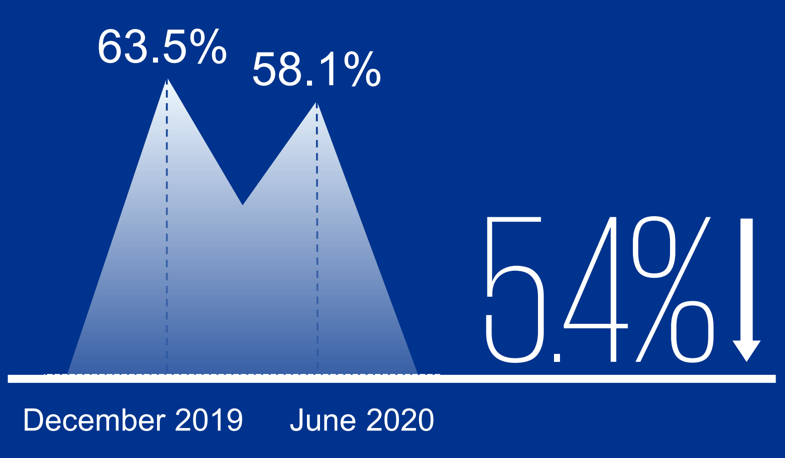
Stage 2 loan exposure subject to ECL witnessed a 6.2 percent increase to US$89.5 billion as at 30 June 2020.



Stage 1



Stage 2



Stage 3

Total coverage ratio on loans witnessed an increase across stage 1 and 2 from 31 December 2019, increasing by 0.1 percent in stage 1 and 0.4 percent in stage 2. However, coverage ratio on loans at stage 3 recorded a 5.4 percent fall as at 30 June 2020.

**ECL charge on loans (US$ billion)*

*Note: Total loan exposure subject to ECL and coverage ratios on loans do not include banks from Kuwait.
Stage-wise figures for 31 December 2019 have not been included for banks not reporting stage-wise figures in 30 June 2020, for comparable purposes.*

GCC economic support measures

This is an interactive page. To read more information, please click on the five icons below.

Country	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Announced by	CBB	CBK	CBO	QCB / SOQ	SAMA	CB UAE
Overall size of the package, US$ billion	11.3	Not announced	20.0	20.5	23.8	70.0
Percentage of GDP	30%	Not applicable	28%	10%	1%	17%

Customer relief (postponement of loan repayments)

Capital and liquidity requirements

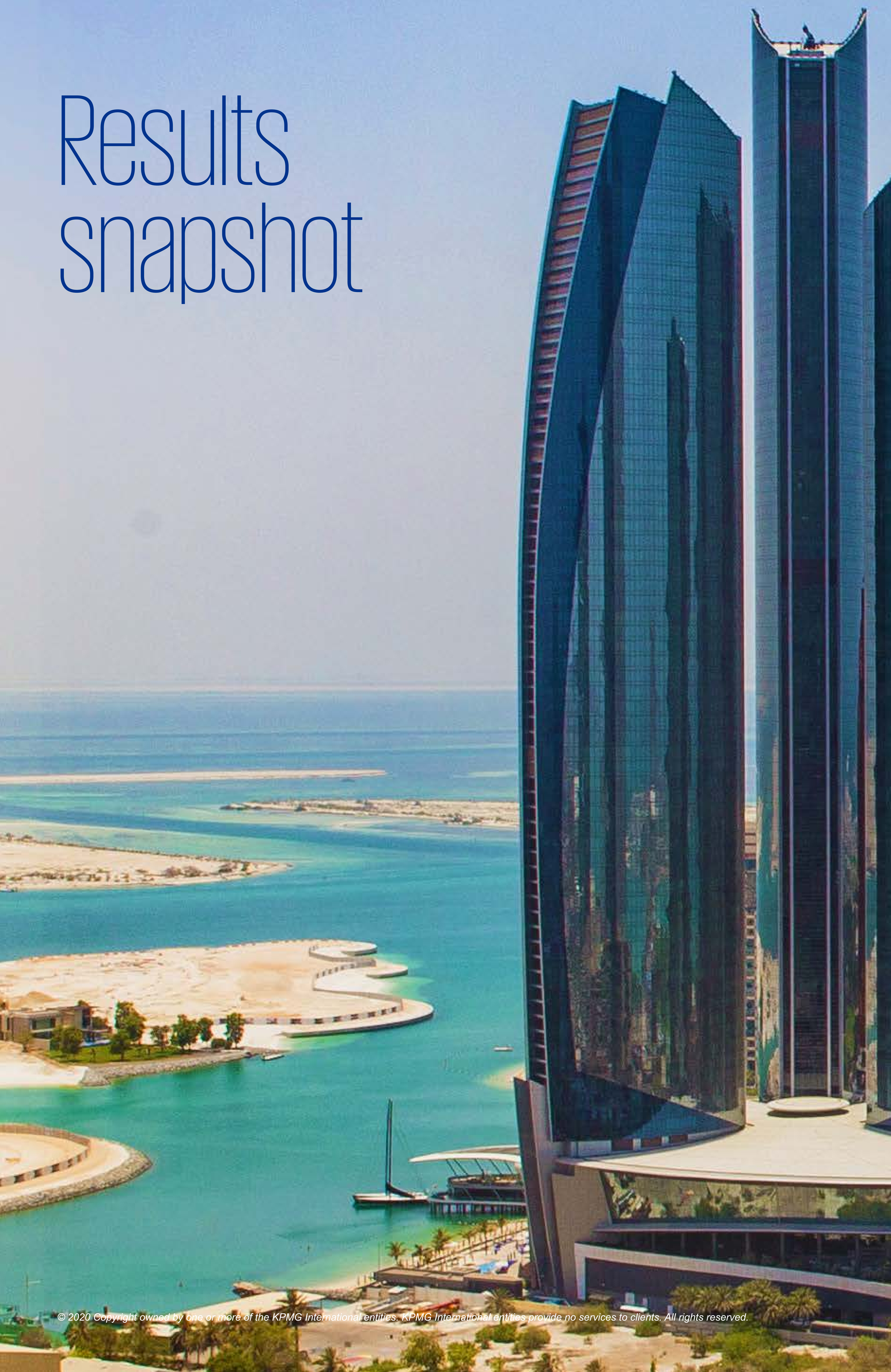
Interest rate reductions

Credit risk management

Other key initiatives announced

Notes:
CBB: Central Bank of Bahrain;
CBK: Central Bank of Kuwait;
CBO: Central Bank of Oman;
QCB: Qatar Central Bank;
SAMA: Saudi Arabian Monetary Authority;
CB UAE: Central Bank of the United Arab Emirates

Results snapshot



Results snapshot

This is an interactive page. To read more information, please click on the six country icons available on the page.

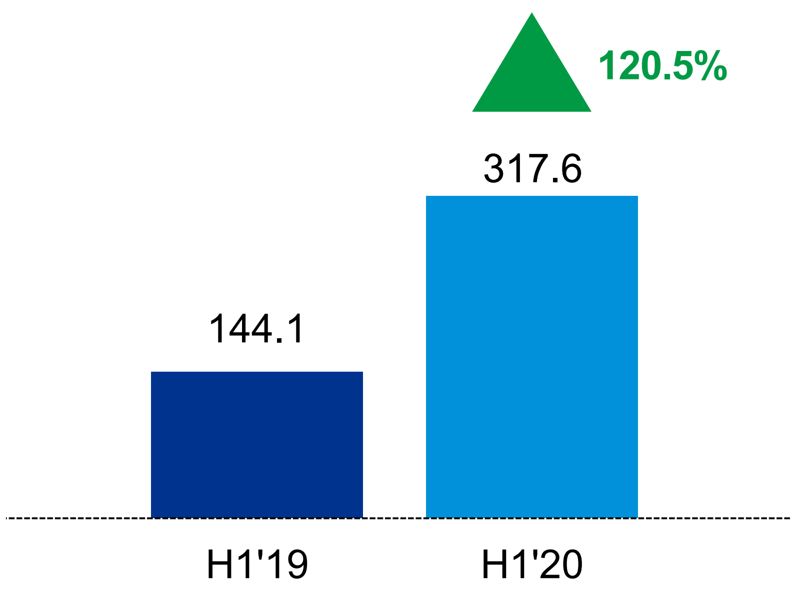
Bahrain

The COVID-19 pandemic gradually translated into a full-blown global economic crisis and has had its share of impact on business continuity and growth in the regional economy. For the banking sector in Bahrain, this resulted in lower level of banking activities affecting the major revenue streams, i.e. interest and fee income and generally muted credit growth. During H1'20, the listed banks reported an average decline in net profits of 23.6 percent compared with H1'19. The decline is mainly attributed to the sharp increase in the average expected credit loss charges by 120.5 percent, indicative of an expected downturn and volatility in economic parameters used to determine expected credit losses. Overall ECL coverage ratios increased to 4.4 percent in H1'20 compared with 4.2 percent at the end of 2019.

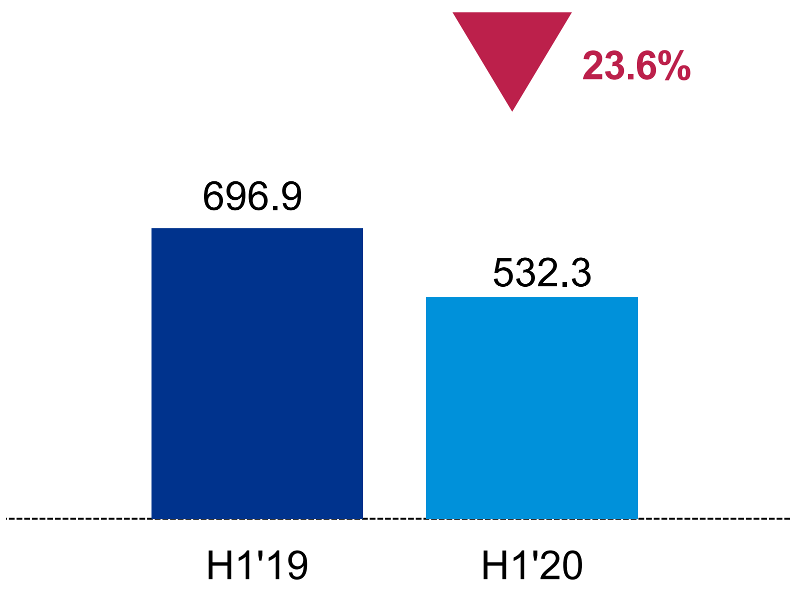
As part of the regulatory support measures announced by the Central Bank of Bahrain ("CBB"), the banks have granted deferral of loan installments by six months without charging any additional interest/ profits. This resulted in a modification loss for the listed banks of approximately USD 429 million, which was recorded in equity.

However, banks remain well capitalized and strong on liquidity measures, reflecting the general resilience of the banking sector.

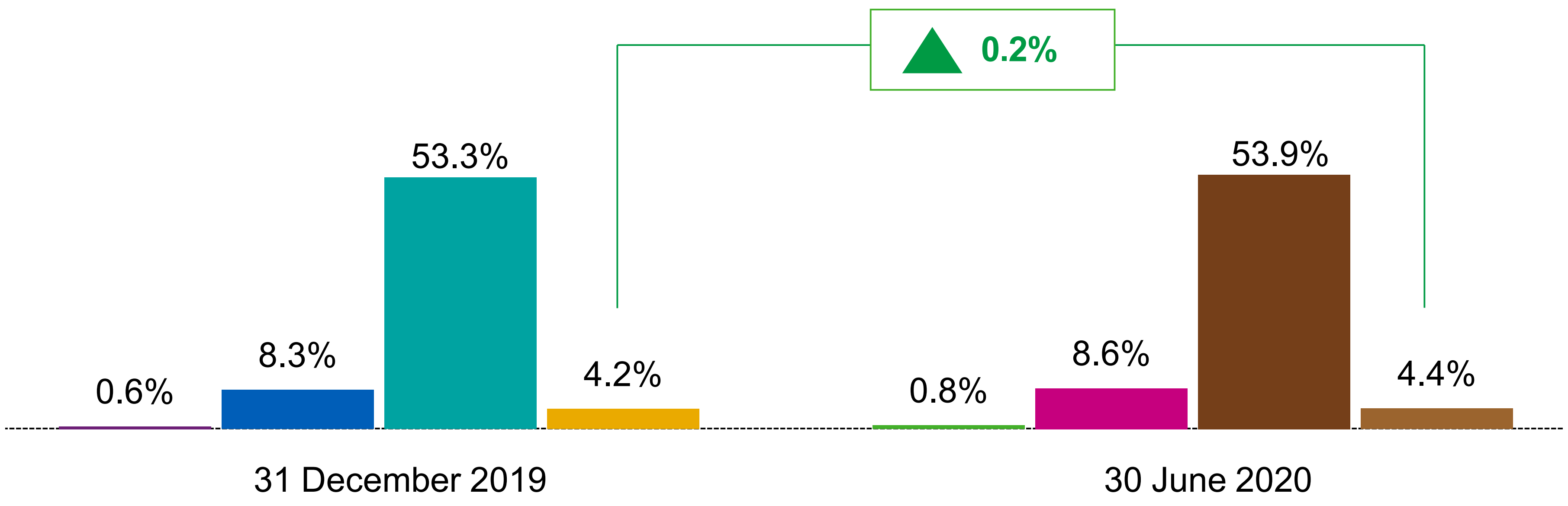
ECL charge on loans
(US$ million)



Net profit
(US$ million)



Coverage ratios on loans — by stage (%)



H1'19 H1'20

Stage 1: 2019

Stage 1: H1'20 Stage 2: H1'20 Stage 3: H1'20 Total coverage: H1'20

Note: Stage-wise figures for 31 December 2019 have not been included for banks not reporting stage-wise figures in 30 June 2020, for comparable purposes.
[1]Percentage increase/decrease represents year-on-year change for ECL charge and net profit, and absolute percentage change for total coverage ratios on loans.

GCC performance vs Europe

GCC performance vs. Europe

GCC banks overview

— The overall net profit of GCC banks witnessed a decline of 34.7 percent in H1’20 compared with H1’19.

— There was an increase of 76.8 percent in the ECL charge recorded by the GCC banks in H1’20, compared with H1’19.

— The overall loans issued by GCC banks increased by 3.2 percent as at 30 June 2020, compared with 31 December 2019, the total provision coverage ratio on loans increased by 0.2 percent to 3.7 percent on 30 June 2020, with coverage ratio of stage 2 loans demonstrating a marginal increase of 0.4 percent.

— The stage 2 loans in proportion to the total loans increased from 8.5 percent as at 31 December 2019 to 8.8 percent as at 30 June 2020.

— However, the coverage ratio of stage 3 loans reduced by 5.5 percent to 58.1 percent on 30 June 2020.

European banks overview

— The average profit before tax of European banks for H1’20 also showed a decline compared with H1’19, but the percentage decrease varies considerably for each bank.

— The European banking sector witnessed an increase in ECL charge from H1’19 to H1’20 and the average ECL charge for Q2’20 was more than four times higher than that for Q2’19. European banks saw a constant increase in their loss allowances with an increase in the average loss allowance ratio for loans increasing from 1.3 percent on 31 December 2019 to 1.6 percent on 30 June 2020.

— For the European banks that disclosed the analysis of their loans by stages, there was also an increase in the proportion of stage 2 loans on 30 June 2020 with the average share of loans in stage 2 increasing from 6.8 percent on 31 December 2019 to 11.3 percent on 30 June 2020.

— However, for those banks, the proportion of loans in stage 3 remained mostly stable.

Bank performance

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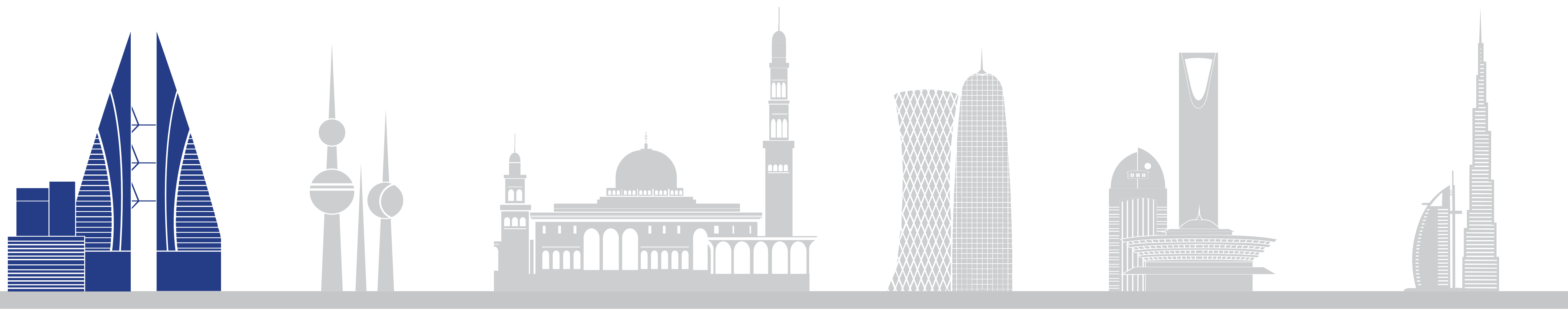

Bahrain Kuwait Oman Qatar Saudi Arabia United Arab Emirates

Bank	ECL charge on loans (US$ million)			Net profit (US$ million)		
	H1'19	H1'20	Δ y-o-y	H1'19	H1'20	Δ y-o-y
AUB	34.3	82.4	139.9%	377.5	293.4	(22.3)%
Al Baraka	28.5	126.7	345.0%	56.2	47.1	(16.2)%
Al Salam	3.3	23.1	604.8%	32.7	18.9	(42.3)%
BISB	15.7	18.6	18.2%	8.8	3.9	(55.3)%
BBK	28.5	11.4	(59.8)%	106.4	77.7	(27.0)%
Ithmaar	10.0	28.1	181.6%	8.4	(1.3)	(115.4)%
Khaleeji	11.3	0.3	(97.2)%	0.5	15.2	2768.8%
NBB	12.5	27.1	117.0%	106.4	77.4	(27.3)%
Total	**144.1**	**317.6**	**120.5%**	**696.9**	**532.3**	**(23.6)%**

Bank	Coverage ratios on loans as at 31 December 2019								
	Stage 1 (US$ million)			Stage 2 (US$ million)			Stage 3 (US$ million)		
	ECL	Exposures subject to ECL	Coverage ratio	ECL	Exposures subject to ECL	Coverage ratio	ECL	Exposures subject to ECL	Coverage ratio
AUB	100.8	18,339.3	0.5%	312.5	2,758.0	11.3%	356.5	414.8	85.9%
Al Baraka	61.5	13,186.6	0.5%	131.3	2,462.2	5.3%	415.7	840.0	49.5%
Al Salam	17.8	2,489.1	0.7%	19.4	295.7	6.6%	44.4	166.0	26.8%
BISB	4.8	1,706.4	0.3%	11.6	143.2	8.1%	101.3	340.6	29.7%
BBK	13.0	3,635.9	0.4%	57.4	805.3	7.1%	204.3	277.4	73.6%
Ithmaar	48.5	6,033.2	0.8%	69.6	818.9	8.5%	336.1	503.2	66.8%
Khaleeji	12.6	962.0	1.3%	8.3	111.7	7.4%	88.9	287.5	30.9%
NBB	19.9	3,006.6	0.7%	11.4	94.4	12.1%	96.5	254.8	37.9%
Total	**279.0**	**49,359.1**	**0.6%**	**621.4**	**7,489.5**	**8.3%**	**1,643.8**	**3,084.4**	**53.3%**

Bank	Coverage ratios on loans as at 30 June 2020								
	Stage 1 (US$ million)			Stage 2 (US$ million)			Stage 3 (US$ million)		
	ECL	Exposures subject to ECL	Coverage ratio	ECL	Exposures subject to ECL	Coverage ratio	ECL	Exposures subject to ECL	Coverage ratio
AUB	150.2	18,761.9	0.8%	304.0	2735.9	11.1%	382.2	467.4	81.8%
Al Baraka	98.8	12,299.8	0.8%	174.3	2634.8	6.6%	467.4	877.6	53.3%
Al Salam	26.8	2,914.4	0.9%	14.2	172.8	8.2%	60.6	201.5	30.1%
BISB	6.2	1,484.6	0.4%	3.3	61.4	5.3%	32.0	157.9	20.2%
BBK	19.1	3,576.6	0.5%	58.0	689.4	8.4%	211.2	285.1	74.1%
Ithmaar	50.6	4,969.3	1.0%	65.4	871.7	7.5%	343.2	518.6	66.2%
Khaleeji	17.9	1,916.9	0.9%	5.2	64.6	8.0%	34.9	152.7	22.9%
NBB	32.4	5,250.8	0.6%	17.8	196.5	9.1%	123.1	409.6	30.1%
Total	**402.1**	**51,174.4**	**0.8%**	**642.1**	**7,427.1**	**8.6%**	**1,654.6**	**3,070.4**	**53.9%**

Key definitions and exchange rates used

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:

- **Net profit** is the net profit for the year attributable to the shareholders of the bank.
- **ECL charge on loans** is the sum of the expected credit loss (ECL) on stage 1 and 2 and impairment charge on stage 3 loans for year ended 31 December 2019 and H1'20 as of 30 June 2020.
- **Coverage ratios on loans** – by stage is the provisions (including interest in suspense) at 31 December 2019 and 30 June 2020 for the respective stages as a percentage of the relevant exposure.
- **Total loans subject to ECL** – by stage at 31 December 2019 and 30 June 2020 is the stage-wise exposure of loans subject to ECL (before the impact of ECL) as a percentage of total exposure subject to ECL.

The below currency conversion rates from Oanda.com have been used:

BD $

Bahraini Dinar

(BD)/US$

2.6596

KD $

Kuwaiti Dinar

(KD)/US$

3.3228

RO $

Omani Rial

(RO)/US$

2.5974

QAR $

Qatari Riyal

(QAR)/US$

0.2747

SAR $

Saudi Riyal

(SAR)/US$

0.2668

AED $

UAE Dirham

(AED)/US$

0.2722

Sources

1. CBB circular OG/106/2020 dated 17 March 2020, OG/124/2020 dated 30 March 2020;
2. Government of Bahrain announces BHD 4.3 billion economic stimulus package, Bahrain, News Agency, Link;
3. CBK press releases dated 8 March 2020 and 16 March 2020;
4. CBK circular 2/BS/IBS/454/2020 dated 2 April 2020;
5. CMA circular no 30 of 2020 dated 18 March 2020;
6. CBO circular BSD/CB/2020/001 dated 18 March 2020;
7. CMA press release dated 2 April 2020;
8. QCB circular 05/2020 dated 22 March 2020;
9. 'Qatar to stop all incoming flights; shuts public transport, QR75bn incentives for private sector', The Peninsula, Link;
10. SAMA press release dated 14 March 2020;
11. CMA press release, 'An announcement from the CMA regarding the extending of the statutory deadline to disclose the financial statements for listed companies whose Interim Period ends on 29/7/1441, 29/2/2020 and 31/03/2020', dated 6 April 2020;
12. Tadawul stock exchange, Link;
13. CBUAE targeted economic support scheme press release dated 14 March 2020;
14. Securities and commodity authority circular 127/2020 dated 2 April 2020;
15. 'European banks and COVID-19 – the impact on 2020 half-year results', KPMG, Link;

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