

GCC banking over the past 40 years: a story of resilience and growth



A cursory glance at a list of the biggest GCC banks from the late 1980s gives the impression that little has changed over the past 40 years. National Commercial Bank, Qatar National Bank, Arab Banking Corporation, Gulf International Bank and several Kuwaiti banks were all prominent 30–40 years ago, and they remain so today.

But this simple comparison masks many significant changes in GCC banking, and these have made the region's banking system immeasurably stronger and more sustainable.

Arab Banker's Editor, Andrew Cunningham, who has been writing about GCC banks for most of the past 40 years, considers how the region's banking systems have evolved.

The expansion, contraction and health of banks in the six GCC states has always been driven by the extent of financial liquidity in the region.

Although some GCC banks were created by local merchant families in the 1950s and 1960s – National Bank of Kuwait and Saudi Arabia's National Commercial Bank are examples

– it was not until the region was inundated with cash in the mid-1970s, following the quadrupling of oil prices in 1973–4, that a large number of new, locally-capitalised banks, was established.

The second big increase in oil prices, following the Iranian revolution in 1979, was even more significant than the first in terms of the amount of cash that flowed into the region, and it led to a second wave of new banks being created.

Many of the banks established at that time are familiar to us today, but the underlying structure of GCC banking during the 1970s and early 1980s was very different.

Kuwait had begun enjoying large oil revenues earlier than other countries, and as a result Kuwaiti banks and investment houses were well developed with strong international profiles by the early 1980s. Three big investment firms, known as the 'Three Ks' (KIC, KIIC and KFTCIC) were among the most prominent Middle East financial institutions, recycling huge amounts of money through global markets, and particularly through London.

Kuwait lost its position as the leading Middle East financial market when the local stock market crashed in 1982 leaving the banks with huge bad debts, many of which were uncollectable because they were owed by prominent local individuals.

Bahrain was the GCC's banking centre in the 1980s

The second oil boom led to the creation of numerous offshore banks in Bahrain, which had been designated by the recently formed Gulf Cooperation Council as the

Largest 50 GCC commercial banks, ranked by equity size (end-2019)*

All figures in \$ mn except for the capital ratio which is %

			Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)
1	First Abu Dhabi Bank	UAE (Abu Dhabi)	29,418.3	223,820.7	111,071.4	141,367.0	3,428.9	16.9
2	Qatar National Bank	Qatar	26,064.4	259,957.3	186,756.3	188,354.3	3,979.3	18.9
3	Emirates NBD	UAE (Dubai)	22,218.8	186,068.7	119,112.5	184,274.4	3,949.3	18.5
4	National Commercial Bank	Saudi Arabia	18,614.8	135,303.9	75,295.7	94,260.5	3,063.1	18.7
5	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	15,166.4	110,317.6	68,079.3	71,367.8	1,305.0	16.9
6	Saudi British Bank	Saudi Arabia	14,979.8	70,810.2	41,257.4	51,257.1	750.1	19.4
7	National Bank of Kuwait	Kuwait	14,076.4	96,740.6	54,706.7	52,651.0	1,407.9	17.8
8	Al-Rajhi Bank	Saudi Arabia	13,654.5	102,448.5	66,598.6	83,328.9	2,709.6	19.9
9	Samba Financial Group	Saudi Arabia	12,122.7	68,177.9	37,768.1	48,056.1	1,064.5	18.5
10	Riyad Bank	Saudi Arabia	10,821.8	70,894.6	46,406.7	51,884.3	1,494.3	18.1
11	Dubai Islamic Bank	UAE (Dubai)	9,457.5	63,117.6	41,093.5	44,770.9	1,389.4	16.6
12	Banque Saudi Fransi	Saudi Arabia	8,788.0	47,518.1	33,535.0	35,432.1	830.9	19.2
13	Arab National Bank	Saudi Arabia	7,560.1	48,930.1	31,697.8	37,910.4	806.0	19.0
14	Kuwait Finance House	Kuwait	7,414.5	64,087.3	30,857.7	44,791.6	865.3	17.7
15	Qatar Islamic Bank	Qatar	6,097.7	44,996.4	31,302.2	30,715.2	821.3	19.5
16	Mashreqbank	UAE (Dubai)	6,056.7	43,412.8	20,740.2	24,770.7	581.7	16.3
17	Commercial Bank of Qatar	Qatar	5,986.8	40,598.4	24,218.0	20,994.9	556.1	16.4
18	Alinma Bank	Saudi Arabia	5,986.8	35,165.9	25,286.6	27,223.5	676.1	20.0
19	Ahli United Bank	Bahrain	5,361.5	40,280.1	20,742.4	25,518.1	788.8	16.4
20	Bank Muscat	Oman	5,216.3	32,014.3	23,125.2	20,952.0	483.4	19.7
21	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	5,201.8	34,306.1	22,085.6	27,612.2	708.3	18.9
22	Bank-ABC	Bahrain	4,489.0	30,068.0	16,452.0	16,666.0	194.0	17.9
23	Masraf Al Rayyan	Qatar	3,888.6	29,231.7	20,561.1	18,026.6	601.2	20.3
24	Saudi Investment Bank	Saudi Arabia	3,736.1	26,890.6	15,233.9	18,420.1	63.9	18.3
25	Doha Bank	Qatar	3,664.8	29,776.3	18,102.2	16,087.8	207.5	17.8
26	Gulf International Bank	Bahrain	3,296.3	30,241.7	9,876.1	21,223.3	63.0	18.4
27	Barwa Bank	Qatar	3,165.7	21,224.4	14,288.4	13,080.2	210.5	17.6
28	Burgan Bank	Kuwait	3,147.4	23,402.8	14,159.7	13,190.3	280.6	16.8
29	Bank Al Jazira	Saudi Arabia	3,091.3	23,084.2	13,246.0	16,723.3	264.3	24.6
30	Commercial Bank of Dubai	UAE (Dubai)	2,782.0	23,981.0	16,387.1	17,245.8	381.3	14.2
31	Bank AlBilad	Saudi Arabia	2,514.2	22,959.1	15,833.9	17,817.1	331.7	17.5
32	Commercial Bank of Kuwait	Kuwait	2,421.6	16,106.0	7,491.5	8,106.9	0.3	18.2*
33	Al Ahli Bank of Kuwait	Kuwait	2,283.8	16,138.7	10,628.0	10,972.0	95.2	18.7
34	Qatar International Islamic Bank	Qatar	2,245.5	15,638.6	10,184.4	8,593.3	255.1	18.5
35	Gulf Bank	Kuwait	2,195.5	20,641.2	13,962.4	13,054.5	210.2	17.1
36	Boubyan Bank	Kuwait	2,158.8	17,518.3	12,323.8	14,367.6	207.2	20.3
37	National Bank of Ras Al Khaimah	UAE (Ras Al Khaimah)	2,135.3	15,553.7	9,408.2	10,027.9	298.3	16.8
38	Sharjah Islamic Bank	UAE (Sharjah)	2,050.2	12,632.2	6,846.4	7,437.4	148.5	22.8
39	Al Khalij Commercial Bank	Qatar	1,927.1	14,795.5	8,480.0	8,032.7	177.8	19.1
40	Bank Dhofar	Oman	1,787.4	11,267.7	7,979.2	7,666.4	78.7	17.9
41	Noor Bank	UAE (Dubai)	1,750.7	12,906.1	8,387.5	9,608.8	136.2	16.8
42	National Bank of Fujairah	UAE (Fujairah)	1,729.3	11,655.9	7,378.1	8,699.9	150.4	17.8
43	Ahli United Bank (Kuwait)	Kuwait	1,706.1	14,381.5	9,977.2	8,913.6	181.8	16.0
44	Ahli Bank of Qatar	Qatar	1,639.7	12,084.3	8,693.1	7,016.9	185.8	17.1
45	National Bank of Oman	Oman	1,442.8	9,493.6	7,297.5	6,594.0	133.9	16.6
46	Bank of Bahrain and Kuwait	Bahrain	1,460.1	10,316.6	4,460.0	5,790.9	202.9	21.7
47	National Bank of Bahrain	Bahrain	1,420.8	8,526.9	3,239.6	5,589.4	198.1	37.3
48	Kuwait International bank	Kuwait	1,240.7	8,882.6	6,165.8	4,857.1	57.2	19.2
49	Sohar International Bank	Oman	1,396.4	9,130.0	6,392.6	5,463.0	89.6	18.9
50	National Bank of Umm al-Qaiwain	UAE (Umm al-Q.)	1,298.9	3,893.1	2,250.1	2,460.3	115.6	38.2

* Includes commercial banks that are licensed by GCC central banks. Source for data is banks publicly available financial statements. Commercial Bank of Kuwait's Capital Ratio refers to 3Q 2019.

region's banking centre. Bahrain's neighbours recognised that since the island lacked significant oil wealth it would need to develop its service industries. Some of the institutions created during those liquidity-fuelled years still exist, such as Arab Banking Corporation (ABC, now Bank-ABC) and Gulf International Bank; but there was also a huge number of smaller institutions with no distinct strategy or business model other than recycling back to the West the vast flows of oil revenues that were flowing into the region. Many of the banks created at that time no longer conduct business.

In the 1970s and 80s, Bahrain was not only an international banking centre, but also a route into the Saudi economy for those institutions that were not part of Saudi-incorporated joint-venture banks. As it became easier for foreign bankers to do business in Saudi Arabia without having a physical presence in the Kingdom, Bahrain's advantage was reduced.

Modern banking in the GCC took shape in the 1990s

GCC banking as we know it today took shape during the mid-1990s. Many of the smaller Bahrain offshore banks closed, and several Saudi banks merged to make stronger, larger institutions. Weaker banks in Dubai were merged into stronger banks which then rode the spectacular rise of Dubai's economy during the late 1990s and 2000s.

It is easy to forget how precarious GCC banking was 40 years ago. When oil prices collapsed to less than \$10/B in 1986, having been around \$35/B a few years before, GCC economies were devastated and business activity ground to a halt.

Saudi Arabia's National Commercial Bank published no annual accounts for three years in a row during the late 1980s because it could not reach agreement with its auditors on the recognition of bad debts owing from prominent local individuals. Several banks in Abu Dhabi and Dubai had lent vast amounts to local businessmen in the early 1980s and had no chance of enforcing payment through the courts when money dried up a few years later. During the Sharjah banking crisis of the early 1990s, which was the result of over-expansion and then low oil prices, the sacked British CEO of a local bank was briefly put under house arrest.

Today, nearly all GCC banks have strong management teams, clear strategies and solid balance sheets. All are suffering as a result of the Covid-19 crisis and the fall in oil prices that began earlier this year; but there is no expectation that large swathes of the GCC banking system will become technically insolvent and rely on regulatory forbearance to avoid closure.

Supervisors in the GCC enforce international banking standards, such as the Basel capital and liquidity ratios, and the banks themselves disclose significant amounts of information to investors through their 'Pillar 3' reports.

Islamic banking is now a prominent part of GCC banking

One of the biggest changes over the past 40 years has been the rise of 'Islamic' banks. Dubai Islamic Bank, Kuwait Finance House and Qatar Islamic Bank were pioneers; but in the early 1980s, Islamic banking in the Middle East was dominated by two sprawling groups – Dallah al-Baraka and Dar al-Maal al-Islami. Both were owned by Saudi businessmen (Salih Kamel and Prince Mohammed al-Faysal),

Biggest banks in the GCC, where are they now?

The table on page 38 lists the biggest banks in the GCC at the end of 1988. Many no longer feature in today's rankings. In most cases, this is because they were acquired by or merged into other institutions to create stronger banks that still exist. Saudi Cairo Bank, which was acquired by United Saudi Commercial Bank, which itself was then acquired by Saudi American Bank, is a good example. Samba Financial Group, as it is now called, remains one of the premier banking groups in the region.

Some banks simply changed their name: the confusingly named Bank of Oman (which had always been based in Dubai) was re-named Mashreqbank in the early 1990s. However, some banks from the 1980s, including some that had been quite prominent in the early days of GCC banking, were wound down after years of poor results: Al Bahrain Arab African Bank is one example.

The overall picture is one of resilience. Twenty of the 25 biggest-50 banks from 1988 are still operating under the same name. Four of the other five continue to exist in different guises. Only the ill-fated Arlabank – created in the 1980s to recycle Gulf petrodollars into Latin America – no longer operates.

National Bank of Dubai merged with Emirates Bank International to create Emirates NBD in 2007.

National Bank of Abu Dhabi merged with First Gulf Bank (which did not exist in 1988) to create First Abu Dhabi Bank in 2017.

Bank of Kuwait and the Middle East was acquired by Ahli United Bank in 2001.

Saudi Cairo Bank was acquired by United Saudi Commercial Bank in the late 1980s (see below).

Emirates Bank International merged with National Bank of Dubai in the early 1990s.

Arab Bank for Investment and Foreign Trade has been renamed AlMasraf.

Bank of Credit and Commerce (Emirates) was part of the Bank of Credit and Commerce International (BCCI) group that was closed by regulators in 1991.

Kuwait Asia Bank was a Bahrain offshore bank, majority owned by Kuwaiti institutions, that went into decline in the late 1980s and was wound down in the early 1990s.

Middle East Bank was acquired by Emirates Bank International in 1988.

United Saudi Commercial Bank was acquired by Saudi American Bank in the early 1990s.

Bahraini Saudi Bank was acquired by Al-Salam Bank in 2009.

Gulf Riyad Bank was a Bahrain offshore bank owned by Riyad Bank and Credit Lyonnais. It was wound down in the early 1990s.

Al Bahrain Arab African Bank was a Bahrain offshore bank largely owned by Kuwaiti institutions. It went into voluntary liquidation in 1990s.

Oman International Bank was acquired by HSBC Oman in 2012.

Bank of Oman Bahrain and Kuwait was acquired by another Omani bank in the early 1990s, but its exact fate has been lost in the mists of time.

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GCC Banks, End 1988 Equity and Assets

		Equity (\$mn)	Assets (\$mn)	
1	Arab Banking Corporation	Bahrain	1,441	19,127
2	Riyad Bank	Saudi Arabia	1,153	8,588
3	National Bank of Kuwait	Kuwait	908	12,326
4	National Bank of Dubai	UAE-Dubai	863	6,022
5	National Commercial Bank	Saudi Arabia	853	21,098
6	Gulf International Bank	Bahrain	726	9,203
7	Gulf Bank	Kuwait	699	6,727
8	Commercial Bank of Kuwait	Kuwait	553	6,333
9	Burgan Bank	Kuwait	544	4,274
10	AlAhli Bank of Kuwait	Kuwait	500	6,216
11	National Bank of Abu Dhabi	UAE-Abu Dhabi	453	6,699
12	Bank of Kuwait & the Middle East	Kuwait	450	3,769
13	Saudi American Bank	Saudi Arabia	436	6,414
14	Arab National Bank	Saudi Arabia	429	3,617
15	Abu Dhabi Commercial Bank	UAE-Abu Dhabi	353	2,529
16	Qatar National Bank	Qatar	299	2,969
17	Saudi French Bank	Saudi Arabia	280	4,682
18	Bahrain International Bank	Bahrain	207	372
19	Arlabank	Bahrain	198	1,362
20	Bank of Bahrain and Kuwait	Bahrain	189	2,027
21	Bank of Oman	UAE-Dubai	188	2,871
22	Saudi British Bank	Saudi Arabia	171	3,039
23	National Bank of Bahrain (end-1987)	Bahrain	169	1,446
24	Al-Rajhi	Saudi Arabia	163	4,012
25	Saudi Cairo Bank	Saudi Arabia	162	2,064
26	Emirates Bank International	UAE-Dubai	160	1,583
27	Kuwait Finance House	Kuwait	159	3,962
28	Saudi Hollandi Bank	Saudi Arabia	158	2,596
29	Bahrain Middle East Bank	Bahrain	142	514
30	Arab Bank for Investment & Foreign Trade	UAE-Abu Dhabi	115	1,002
31	National Bank of Sharjah	UAE-Sharjah	110	740
32	Bank of Credit and Commerce	UAE-Dubai	107	1,458
33	Kuwait Asia Bank	Bahrain	88	309
34	Bank al-Jazira	Saudi Arabia	82	1,316
35	National Bank of Umm al-Qaiwain	UAE-Umm al-Qaiwain	78	145
36	Commercial Bank of Dubai	Dubai	74	332
37	Middle East Bank	UAE-Dubai	69	921
38	Investment Bank for Trade and Finance	UAE-Abu Dhabi	67	607
39	AlUbf Arab International Bank	Bahrain	66	846
40	Doha Bank	Qatar	65	526
41	United Saudi Commercial Bank	Saudi Arabia	60	1,156
42	National Bank of Oman	Oman	59	931
43	Saudi Investment Bank	Saudi Arabia	56	1,258
44	Bahraini Saudi Bank	Bahrain	55	233
45	First Gulf Bank of Ajman	UAE-Ajman	55	113
46	Gulf Riyadh Bank	Bahrain	53	808
47	United Arab Bank	UAE-Abu Dhabi	48	287
48	National Bank of Fujairah	UAE-Fujairah	43	106
49	Al-Ahli Commercial Bank	Bahrain	42	438
50	Bank of Sharjah	UAE-Sharjah	40	200
51	Al-Bahrain Arab African Bank	Bahrain	35	766
52	Commercial Bank of Qatar	Qatar	35	227
53	Oman International Bank	Oman	31	426
54	Bank of Oman, Bahrain and Kuwait	Oman	30	259
55	Qatar Islamic Bank	Qatar	20	355
56	Oman Arab Bank	Oman	20	278

This table is based on data that appeared in Middle East Economic Digest in 1989.

but neither was able to obtain a license to conduct banking business in Saudi Arabia and their banking operations elsewhere in the GCC were small in scale.

Overt Islamic banking in Saudi Arabia did not begin until Al-Rajhi was forced to convert its currency exchange operations into a bank in 1987, and so bring under the control of the Saudi Arabian Monetary Agency the deposit-taking business that it had effectively been running alongside its exchange business.

Today, about one third of GCC commercial banks operate on a wholly Islamic basis, and all others offer Shari'ah-compliant products alongside their conventional ones. All new banking licenses issued by central banks in the GCC over the past 15 years have been for the creation of Islamic banks; no new conventional banks have been licensed except in cases where conventional banks merged. Islamic finance is no longer a niche market. It is woven into the fabric of Gulf finance.

Another recent development has been the creation of 'offshore' banking centres such as the Dubai International Financial Centre (DIFC), the Qatar Financial Centre (QFC) and the Abu Dhabi Global Market (ADGM).

All of these centres are essentially 'work-arounds' to entice international firms to implant offices and staff without being exposed to cumbersome local licensing procedures or relying on antiquated and uncertain court systems. The DIFC led the way, enabling financial and service firms to conduct a limited amount of local business while using the DIFC as a regional hub, and in the process bringing employment and spending to the local economy. The QFC was created to compete with the DIFC but has yet to establish itself as a regional centre in the way its rival has. The ADGM is a product of Abu Dhabi's desire to take a more assertive stance within the UAE federation and create business infrastructure that is more reflective of its stupendous wealth.

Crucial to all three centres have been the legal and regulatory carve-outs that isolate member firms from local laws and regulations. That is why Riyadh's King Abdullah Financial District has so far failed to make a mark – it is essentially a real estate development, operating under the same legal and regulatory regime as the rest of the Kingdom.

Expansion into the wider Middle East

The past three years have seen roughly one third of all commercial banks in the region engaged in mergers or acquisitions. Unlike the banking shake-out of the 1990s, banks now being acquired, or finding themselves the junior partner in a merger, are not insolvent or failing. In nearly every case they have been profitable and adequately capitalised, but unlikely to be able to build market shares and grow on their own.

As GCC banks developed their international business in the 1970s and 1980s, many opened branches or representative offices in London, which remains the principal overseas centre for GCC banking. Many also opened offices in New York. Today, only a handful of GCC banks are present there – the risks associated with the US legal system are deemed too great, especially given the balance of pro-Israeli and anti-Arab sentiment that pervades much, though of course not all, US society.

Over the past 20 years, economic and financial reform across the whole of the Middle East has opened up

opportunities to build regional business franchises in ways that were not previously possible or desirable. In the past, many Middle Eastern regulators were reluctant to grant access to other banks from the Middle East (although they often courted Western banks). Now, such regulators are much more open to banks from within the region establishing branches or taking large holdings in local banks.

Furthermore, opportunities to conduct profitable banking business are far greater now in countries such as Egypt, Turkey, Jordan and Tunisia (and, until 2011, in Libya). GCC banks often see greater opportunities and fewer risks in these regional markets than in the global financial centres. For example, Bahrain's Bank-ABC spent the first few years of its existence establishing offices in London, New York and Singapore, and investing in banks in Brazil, Hong Kong, Thailand and Spain. Today, it has one of the biggest Middle East networks of any Arab bank, and a more focussed international presence.

GCC banks are now far more prominent among the larger international banks than before, though it is difficult to tell how far this is due to the expansion of GCC banks rather than the shrinking of global banks since the global financial crisis.

When *The Banker* magazine published its list of the 1,000 biggest banks in the world in 1990 (based on banks' most recently published capital funds), the highest placed bank from the GCC was Arab Banking Corporation at 171. Only one other bank joined ABC in the top 200 – Riyad Bank. Thirty-one GCC banks were listed in the top 1,000 (including two of the Three Ks, which were investment houses not banks).

The *Banker's* 2020 edition listed 13 GCC banks in the top 200 and 60 in the top 1,000.

Facing the future

So, what will GCC banks look like 40 years from now?

The answer will be driven by the strength and dynamism of the GCC economies. That, in turn, will be driven by the ability of GCC governments to become less reliant on oil revenues. Once Covid-19 is conquered, the environmentalist agenda will reassert itself. It is inconceivable that the global economy will be as reliant on oil and gas in 40 years' time as it is today.

If GCC governments are unable to transition to new economic models and ensure that their political and social structures are aligned with those new models, the GCC states will start to resemble economies such as Jordan and Morocco – reasonably prosperous, but not super rich, and certainly not among the top business priorities for the global investment community.

But the demise of the Gulf states has often been predicted over the past 40 years, and the GCC has always proved its detractors wrong. GCC economies, and their banks, survived crushing declines in oil revenues in the 1980s and more recently in 2015 and 2016. Their governments were touched by the Arab Spring of 2011, but none was in any danger of being overthrown.

GCC banks are stronger now than at any point in the past 40 years. It would be unwise to bet against them. ■

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