

GCC banks withstand the pressures of the Covid pandemic

Banks in the GCC are coping well with the economic effects of Covid-19, with the vast majority continuing to report operating and net profits, and capital levels well in excess of international standards. There are exceptions, and a few banks that have been struggling in recent years continue to face difficulties; but the overall picture is of a region with healthy banks that are responding well to the challenges and opportunities thrown up by the Covid pandemic. However, longer-term threats lie on the horizon.

Arab Banker's Editor, Andrew Cunningham, reviews the GCC banking landscape.

There were 65 active commercial banks in the GCC at the end of 2020, and 54 of these reported net profits for the year. Fifty-nine showed total risk-adjusted capital ratios above 15%, and many had capital ratios significantly higher.

But there were signs of strain: among the 54 profitable banks, 42 showed lower profits than the previous year.

In some cases, performance was driven by particular circumstances that had little to do with the Covid pandemic. The biggest single net loss for 2020 was reported by Saudi British Bank, but this was due to a write-down of goodwill

following the bank's purchase of Al-Awwal Bank. Without this write-down, Saudi British would have reported healthy net profits similar to those it achieved in 2019. The bank's end-2020 capital ratio of 21.8% was one of the highest in region.

Problems that pre-date the pandemic continued to afflict the Sharjah banking system. Bank of Sharjah, Investbank and United Arab Bank all reported significant losses for the second year in succession, although Sharjah Islamic Bank remains profitable and well-capitalised. It has been clear for decades that four banks are too many for the small emirate of Sharjah, but the federal authorities have been unable to enforce consolidation against the wishes of the Sharjah authorities.

Only one of the 65 active banks had not published its end-2020 results on its website by the end of July: Abu Dhabi-based Al-Masraf. The bank is owned by the Emirates Investment Authority and Libyan Foreign Bank, with 42.3% each, and Banque Extérieure d'Algérie with 15.4%. It has been profitable in recent years.

The larger GCC banks were reporting their half-year results as *Arab Banker* was going to press in late July. Emirates NBD reported net profits below those for the first half of 2020, but higher than those for the second half. Allocations to loan-loss provisions were down, although the non-performing loan ratio was marginally higher at 6.3%. First Abu Dhabi Bank (FAB) reported first-half net profits 11% higher than in 2020 and a non-performing loan ratio of 3.9%. Qatar National Bank (QNB) also reported a rise in net profits compared to the first half of 2020, despite an increase in loan-loss provisions. FAB and QNB showed higher net loan balances at the end of June 2021



GCC banking mergers continue, but at slower pace

Merger and acquisition activity among GCC banks has slowed over the past year as banks have focused on responding to the Covid crisis, but it has not stopped. The merger between Saudi Arabia's National Commercial Bank (NCB) and Samba Financial Group, due for completion by the end of 2021, ranks among the most significant of the last decade.

Rationalisation of the Bahrain banking system has continued with Bank of Bahrain and Kuwait (BBK) expected to acquire Ithmaar Bank. This move follows the acquisition of Bahrain Islamic Bank (BIB) by National Bank of Bahrain (NBB). BBK and NBB have been stalwarts of Bahrain's domestic banking scene since the 1980s, surviving numerous economic and political crises in the region. The acquisition of Ithmaar and BIB removes from the Bahrain market two banks that have been struggling in recent years.

Unlike the Sharjah banks, mentioned in the main article, Qatari banks have recognised the perils of over-banking, despite Qatar having one of the richest and most vibrant economies in the region. Al-Khaliji Bank – one of the youngest of Qatar's nine domestic commercial banks – is merging with Masraf al-Rayan after failing to make an impact on the local banking scene. Two years ago, Barwa Bank – another of the more recently-licensed banks – merged with International Bank of Qatar to form Dukhan Bank.

The Omani banking system continues to look crowded, despite

the acquisition in 2019 of Alizz bank by Oman Arab Bank. The topography of Oman is different to that of countries such as Qatar, Kuwait and the individual emirates of the UAE. The country is large and the population widely spread, but even so, eight banks for a country with a population of 5 mn and a hydrocarbon-based economy with a gross domestic product of around \$75 bn looks excessive.

The merger between Saudi Arabia's National Commercial Bank – the Kingdom's oldest bank – and Samba Financial Group brings together two banks that have been performing well in recent years and are merging from positions of strength to create a national and regional champion. Saudi National Bank (SNB) will be the largest in the GCC. (See page 10 for more details.) The creation of SNB follows consolidation in both Abu Dhabi and Dubai: First Abu Dhabi Bank was created through the merger of National Bank of Abu Dhabi and First Gulf Bank, and Abu Dhabi Commercial Bank absorbed both Union National Bank and al-Hilal. At a smaller level, Dubai Islamic Bank acquired Noor Bank.

Only the Kuwaiti banking system appears immune to the desire either to create regional champions or mop up the stragglers. The emirate has 10 banks, including Boubyan, which is a subsidiary of National Bank of Kuwait. Apart from Ahli United Bank's acquisition of Bank of Kuwait and the Middle East in the early 2000s, and NBK's acquisition of Boubyan in 2009, there has not been a single corporate merger or acquisition in the Kuwaiti banking system for at least 35 years.

than at the end of December 2020. National Bank of Kuwait reported higher profits for the first half compared to 2020, and a bigger loan portfolio compared to the end of December 2020.

GCC banks have benefitted from a range of programmes introduced by their governments to protect businesses and citizens from the economic effects of the Covid pandemic. These measures can be divided into three parts: support for the economy, direct support for banks' balance sheets, and accounting forbearance.

Support for the economy has included direct payments to citizens, reductions or postponements of taxes due, and guaranteed loan programmes under which banks can extend credit to businesses in the knowledge that the credit risk is being taken by their government. Balance sheet support has included the placement of low-cost deposits with banks, either as liquidity support, or in order to compensate them for foregoing interest on loans from affected borrowers. Accounting forbearance has included allowing banks not to treat certain missed interest payments as 'Significant Increases in Credit Risk' (SICR), and so avoid the increases in loan-loss provisions that SICRs entail.

In all of these areas, the measures taken in the GCC (and elsewhere in the Middle East) are similar to those in Western Europe and Asia, and the outcome has been the same: banks generally reporting lower profitability, but not suffering any existential crises.

Of course, many factors could change this picture in the year ahead if the Covid pandemic continues; but GCC economies, banks and societies are better placed to withstand a long pandemic than their peers in the West. Many businesses are staffed by expatriate workers, who leave the country if they lose their jobs, removing the issue of unemployment to their home nations. Many indigenous citizens work in government jobs, which will not be

abolished, however long the pandemic lasts. Governments in the GCC have the financial resources to continue supporting their banks, their small businesses and their citizens. GCC governments are accustomed to supporting their banks when they face liquidity difficulties (for example, when oil prices are low) and it is unthinkable that they will not continue to do so.

The bigger threat to GCC banks lies – as it always has done – in the price of oil. Historically this has been a short or medium-term issue, but the global policy agenda around climate change is now also making it a long-term issue. (See Gerald Butt's article on Covid-19 and Climate Change on pages 46–47.)

The first Covid lockdown in March 2020 coincided with an astonishing collapse in the price of oil that was initially driven by divisions among the major oil-producing nations, and then by fears that the global economy would enter a deep recession as a result of the pandemic. At the time, many bankers were more concerned about the oil price than about Covid.

Agreements between the oil producers and the revival of global economic demand have underpinned a steady rise in oil prices during 2021. The average price of ICE Brent was \$66.23/b in the year to 22 July, compared to \$43.21 for the whole of 2020, according to figures published by *Middle East Economic Survey*.

Over the longer term, far more significant challenges lie in the global move away from hydrocarbons, which will reduce demand for oil and gas. All GCC governments have limited political leeway to make the economic and social reforms that would make their budgets and current accounts less dependent on oil and gas revenues, but the accelerating climate change agenda is shortening the time they have to make the adjustments needed. For the sake of their banking systems, as well as their budgets, GCC governments need to move more quickly. ■

Largest 50 GCC commercial banks, ranked by equity size (end-2020)*

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) | 29,691.5 | 250,261.5 | 105,283.7 | 147,283.1 | 2,873.5 | 16.5 |
| 2 | Qatar National Bank | Qatar | 26,873.9 | 284,269.2 | 200,731.4 | 204,875.4 | 3,350.9 | 19.1 |
| 3 | Emirates NBD | UAE (Dubai) | 23,041.6 | 190,090.3 | 120,777.0 | 126,401.5 | 1,896.6 | 18.5 |
| 4 | National Commercial Bank | Saudi Arabia | 21,389.1 | 159,840.3 | 92,448.6 | 111,036.7 | 3,082.5 | 20.3 |
| 5 | Al-Rajhi Bank | Saudi Arabia | 15,497.1 | 125,010.6 | 84,183.6 | 102,027.3 | 2,825.3 | 19.1 |
| 6 | Abu Dhabi Commercial Bank | UAE (Abu Dhabi) | 15,412.6 | 111,958.5 | 65,073.4 | 68,455.4 | 1,037.2 | 17.2 |
| 7 | National Bank of Kuwait | Kuwait | 13,622.9 | 97,761.0 | 57,583.7 | 56,267.5 | 851.0 | 18.4 |
| 8 | Saudi British Bank | Saudi Arabia | 13,535.4 | 73,714.9 | 40,861.8 | 50,425.6 | -1,111.3 | 21.8 |
| 9 | Samba Financial Group | Saudi Arabia | 12,812.5 | 79,179.5 | 41,603.3 | 55,384.1 | 1,121.0 | 19.5 |
| 10 | Riyad Bank | Saudi Arabia | 11,827.1 | 82,683.9 | 51,022.0 | 54,139.8 | 1,257.2 | 19.1 |
| 11 | Dubai Islamic Bank | UAE (Dubai) | 11,744.5 | 78,846.7 | 53,558.7 | 56,073.7 | 860.4 | 18.5 |
| 12 | Banque Saudi Fransi | Saudi Arabia | 10,302.1 | 51,749.1 | 34,814.7 | 33,893.9 | 412.3 | 21.6 |
| 13 | Arab National Bank | Saudi Arabia | 7,937.0 | 48,102.0 | 30,227.8 | 34,491.3 | 551.7 | 22.0 |
| 14 | Kuwait Finance House | Kuwait | 6,913.0 | 70,735.9 | 35,355.9 | 50,389.2 | 606.0 | 17.5 |
| 15 | Al-Inma Bank | Saudi Arabia | 6,513.9 | 41,830.7 | 29,649.9 | 31,852.1 | 524.2 | 19.0 |
| 16 | Qatar Islamic Bank | Qatar | 6,435.8 | 48,354.5 | 33,022.6 | 32,765.1 | 838.7 | 19.4 |
| 17 | Commercial Bank of Qatar | Qatar | 6,148.6 | 42,599.7 | 26,817.5 | 21,018.8 | 360.9 | 17.8 |
| 18 | Mashreqbank | UAE (Dubai) | 5,497.3 | 43,166.1 | 19,478.5 | 24,033.5 | -328.2 | 16.0 |
| 19 | Bank Muscat | Oman | 5,324.5 | 32,447.8 | 23,286.0 | 21,826.4 | 425.7 | 20.8 |
| 20 | Abu Dhabi Islamic Bank | UAE (Abu Dhabi) | 5,217.8 | 34,804.5 | 22,712.5 | 27,577.6 | 436.8 | 19.4 |
| 21 | Ahli United Bank | Bahrain | 5,036.3 | 40,071.2 | 20,719.9 | 25,182.6 | 452.2 | 16.1 |
| 22 | Bank ABC | Bahrain | 4,144.0 | 30,407.0 | 15,656.0 | 17,173.0 | -75.0 | 17.5 |
| 23 | Saudi Investment Bank | Saudi Arabia | 4,088.0 | 26,633.9 | 14,685.3 | 16,037.1 | 261.2 | 21.2 |
| 24 | Masraf al-Rayyan | Qatar | 4,046.8 | 33,589.0 | 23,845.9 | 19,113.1 | 604.7 | 20.3 |
| 25 | Doha Bank | Qatar | 3,825.7 | 28,715.0 | 18,151.4 | 15,268.2 | 195.0 | 19.8 |
| 26 | Commercial Bank of Dubai | UAE (Dubai) | 3,527.3 | 26,511.7 | 17,778.2 | 18,993.2 | 305.0 | 16.7 |
| 27 | Dukhan Bank (ex Barwa/IBQ) | Qatar | 3,190.4 | 23,932.7 | 16,234.2 | 14,943.1 | 157.1 | 16.4 |
| 28 | Bank al-Jazira | Saudi Arabia | 3,030.3 | 24,555.2 | 14,388.6 | 18,132.9 | 9.0 | 23.6 |
| 29 | Gulf International Bank | Bahrain | 3,012.5 | 29,550.1 | 10,433.5 | 19,577.9 | -308.0 | 17.2 |
| 30 | Burgan Bank | Kuwait | 2,894.3 | 23,376.9 | 14,294.0 | 13,459.4 | 112.2 | 18.1 |
| 31 | Bank al-Bilad | Saudi Arabia | 2,861.2 | 25,529.8 | 18,695.9 | 19,079.3 | 359.6 | 18.0 |
| 32 | Qatar Intl. Islamic Bank | Qatar | 2,308.4 | 17,004.2 | 11,235.8 | 10,081.6 | 260.1 | 16.6 |
| 33 | Commercial Bank of Kuwait | Kuwait | 2,279.1 | 14,437.8 | 7,497.5 | 7,792.9 | 0.2 | 17.8 |
| 34 | National Bank of Ras al-Kheimah | UAE (Ras al-Kh.) | 2,136.2 | 14,370.1 | 8,180.3 | 10,060.0 | 137.6 | 18.6 |
| 35 | Gulf Bank | Kuwait | 2,096.8 | 20,108.9 | 13,542.0 | 13,269.6 | 94.7 | 18.3 |
| 36 | Al Khaliji Commercial Bank | Qatar | 2,085.7 | 15,667.4 | 9,402.9 | 8,531.0 | 189.4 | 19.4 |
| 37 | Sharjah Islamic Bank | UAE (Sharjah) | 2,081.9 | 14,595.6 | 7,969.9 | 9,151.6 | 110.5 | 20.7 |
| 38 | Boubyan Bank | Kuwait | 2,061.6 | 21,176.1 | 15,867.2 | 16,802.8 | 110.2 | 16.9 |
| 39 | Al Ahli Bank of Kuwait | Kuwait | 1,944.2 | 15,963.9 | 10,254.3 | 11,466.2 | -228.6 | 18.7 |
| 40 | Bank Dhofar | Oman | 1,813.1 | 11,091.4 | 8,508.1 | 7,455.3 | 79.7 | 17.6 |
| 41 | Ahli Bank of Qatar | Qatar | 1,740.3 | 13,188.6 | 9,294.1 | 7,471.5 | 188.6 | 16.9 |
| 42 | Ahli United Bank, Kuwait | Kuwait | 1,655.4 | 14,375.9 | 10,243.1 | 9,896.0 | 97.7 | 15.7 |
| 43 | National Bank of Fujairah | UAE (Fujairah) | 1,544.6 | 10,857.2 | 6,765.1 | 8,105.4 | -129.7 | 19.2 |
| 44 | National Bank of Bahrain | Bahrain | 1,396.0 | 11,568.7 | 5,764.2 | 8,181.2 | 134.5 | 22.3 |
| 45 | Sohar International Bank | Oman | 1,385.3 | 9,384.9 | 6,522.8 | 5,814.3 | 52.1 | 19.1 |
| 46 | National Bank of Oman | Oman | 1,381.4 | 9,464.8 | 7,524.3 | 6,584.5 | 47.2 | 16.4 |
| 47 | Bank of Bahrain and Kuwait | Bahrain | 1,370.7 | 10,028.3 | 4,149.0 | 5,780.0 | 140.3 | 21.8 |
| 48 | National Bank of Umm al-Qaiwain | UAE (Umm al-Q.) | 1,279.1 | 3,688.6 | 2,080.3 | 2,239.7 | 57.7 | 40.3 |
| 49 | Kuwait International Bank | Kuwait | 1,159.0 | 9,216.4 | 6,510.3 | 5,410.9 | 0.3 | 17.5 |
| 50 | Oman Arab Bank | Oman | 1,124.5 | 8,598.0 | 6,866.7 | 7,178.8 | 37.0 | 15.10 |

*Includes GCC commercial banks that are licensed by their central bank. Source for data is publicly available financial statements.