MENA H1 2023 Banking Report

Building a better working world

Contents

About the report

This report analyzes the H1 2023 performance of 32 leading banks across the MENA region.
The report is based on detailed financial information including balance sheets, income statements and management disclosures. All information is sourced from publicly available financial statements of banks.

01 Executive summary

Digital innovation and transformation to shape the future banking landscape in the MENA region

Despite the fact that the COVID-19 pandemic has diminished in most countries, pressure on global growth still exists. The broader Gulf Cooperation Council (GCC) banking sector has seen a limited impact from the ongoing banking sector crisis in the US and Europe. The GCC banking sector has gone through a fundamental transformation and has been on a growth trajectory. This development is playing an increasingly important role in the region's overall economic growth.

The outlook for the GCC region has been strengthened by strong oil prices and the related improvement in non-oil activity, which has also supported the credit demand in the region. A look back into 2022 for GCC-listed banks shows an upward trend of 9.9% growth in total assets, 25.3% growth in net profit, 0.2% growth in return on equity and return on assets, 0.2% growth in net interest margin and 0.7% growth in share price. A few of the downward trends include a 0.3% decrease in capital adequacy ratio (CAR), a 1.0% decrease in cost-to-income ratio, a 1.2% decrease in return on equity (ROE), a 0.8% decrease in dividend payout ratio, an 11.2% decrease in net provision in loans, a 0.1% decrease in non-performing loan (NPL), which reflects a favorable approach to credit risk management, and a 0.3% decrease in average capital adequacy ratio.

The drive for lending growth is due to residential mortgage lending in Saudi Arabia, spike by retain lending and the oil sector in Kuwait, the government force for higher lending in Qatar and economic improvement in the UAE and Egypt. Though asset quality remains broadly unchanged during the year, it is anticipated to deteriorate slightly due to the expected slowdown of the GCC economies and higher interest rates. GCC banks will remain resilient in 2023 despite uncertainty. Risks include economic slowdown, exposure to riskier countries and liquidity shortages. Predictive analytics enhances financial decisions. Compliance enhances corporate values and governance.

In the future, the Middle East and North Africa (MENA) banking sector is expected to grow largely driven by the increasing demand for banking services and the growth of digital banking. Additionally, regulatory reforms such as the introduction of Basel IV, are expected to have a positive impact on the sector.

Economic conditions will improve as the oil price will likely sustain and enable the GCC governments to support the economy. On the other side, inflation is likely to subside due to higher interest rates.

Digital transformation is the future of the MENA banking sector. Artificial intelligence (AI) is reshaping the MENA financial services industry, bringing faster and personalized banking services through chatbots. Digital banking with a wider drive toward ecosystem models, mobile payments, open banking, blockchain and sustainable finance are prominent trends. Financial companies rely on digital firms for crucial IT systems and collaboration with FinTech firms, which provide comprehensive services. Tokenization and open banking are prioritized areas.

Open banking is another way to improve the customer experience, as the consumers will have full control over their finances providing them with a better range of products and services.

Lastly, most of the GCC states have stated net-zero commitments to evolve the economy's carbon intensity to enable sustainable finance which is important for energy transition.

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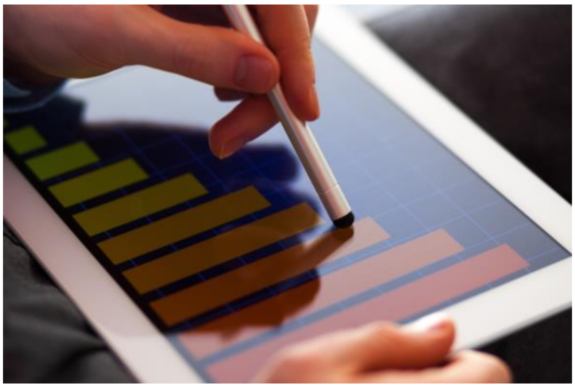

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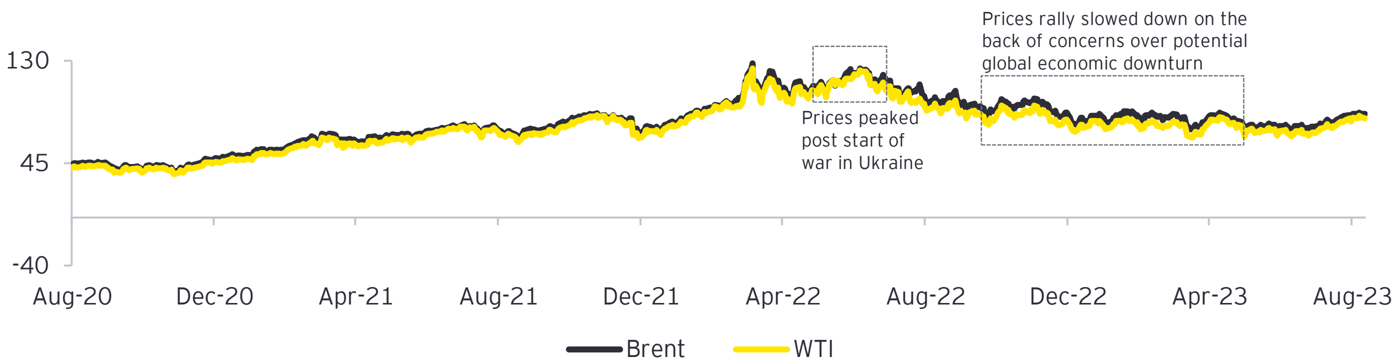
Macroeconomic overview

The MENA region has a rapidly growing banking sector, and many countries in the region are experiencing a period of economic growth and development. In recent years, regulators in the region have accelerated the pace of MENA economies' integration with the rest of the world, including reforming existing laws and infrastructure. The banking sector will also expand its list of regulations that require the incorporation of ESG considerations into the way it operates. MENA companies and investors, especially those based in the GCC region, are ramping up acquisitions and investments. Regional utilities and energy companies plan to significantly increase their investment in the global renewable and clean energy market, diversifying their profits and reducing their long-term dependence on fossil fuels. All Gulf countries have embarked on economic transformation plans to diversify their sources of income from hydrocarbons. The UAE has the most diverse economy in the region and Dubai is known as the regional center of tourism and trade.

The GCC economies recorded a 7.5% growth in GDP in 2022, the strongest year in terms of GDP growth in more than a decade.

The oil sector has been key to the extraordinary performance of around a 10% increase in GDP performance in 2022, driven by increased output from the GCC's major producers. However, the global demand outlook has prompted the OPEC+ group to restore its 1.16 million barrels per day (mbpd) production quota, the biggest since 2020. Oil prices data is shown below:

Oil prices (US$ per barrel)



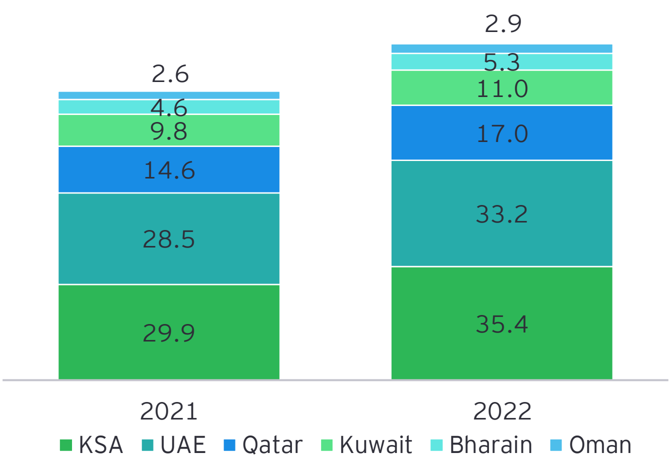
Source H1 data from IMF, S&P Global & EY Analysis

Oil prices are expected to fall from their 2022 highs, which underpins the downward revision to growth forecasts. Saudi Arabia, the world's largest oil exporter is expected to grow by 2.5% in 2023, slowing the fastest among the GCC countries to 8.7% in 2022. Non-oil activity will drive the GCC recovery in 2023, growing 4% on solid activity and moderate inflation.

Total bank revenue for GCC-listed banks continued to show strong growth during 2022. Revenue growth was broad-based across the GCC with all the country aggregates seeing double-digit growth. Saudi-listed banks reported the biggest increase in revenues with a growth of 18.4% or US$5.5b to reach US$35.4b in 2022, the highest in GCC. Yearly net interest income of the GCC region increased by 18.7% during 2022 to reach US$71.9b, while non-interest income witnessed a slightly smaller growth of 11.7% to reach US$32.9b during 2022.

In terms of profitability, the GCC banking sector has surpassed the pre-COVID-19 pandemic levels and reached new record levels in 2022. Gross profit in 2022 increased by 27.1% to US$44b. Earnings growth for 2022 was driven by higher gross banking income and lower loan loss reserves.

Rising interest rates to set a new record during 2022 (total bank revenue in US$b)



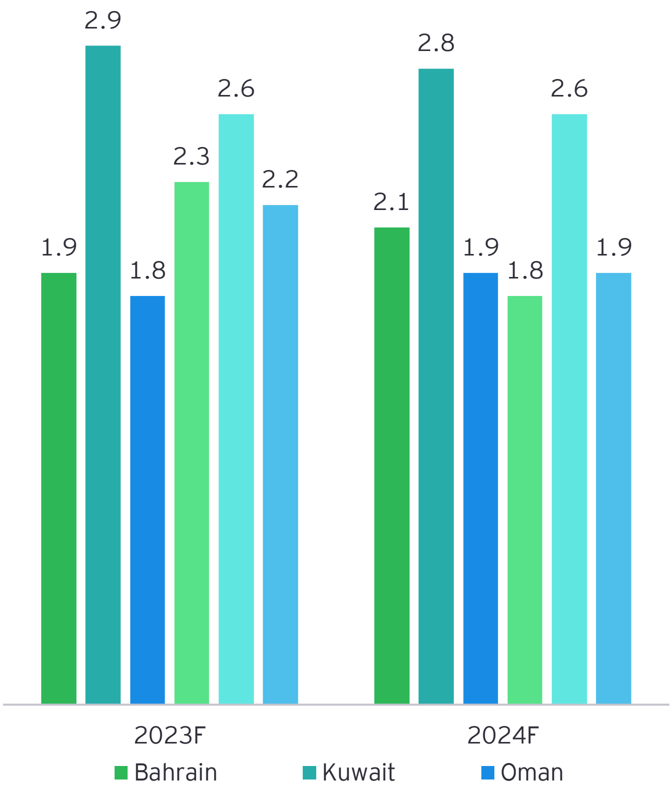
Macroeconomic overview (cont.)

GCC inflation is expected to fall in 2023

Economic growth, inflation and interest rates can affect the level of credit risk, influencing the ability of a borrower to repay loans and the value of collateral provided. When economic growth is high, banks tend to lend more and charge higher margins, which inevitably leads to stronger asset quality. Inflation in the GCC region averaged 5% to 6% in 2022, the highest in more than a decade, but far lower than many countries such as USA, UK, France, Germany and Italy.

Inflation in GCC countries has generally declined as global commodity prices have fallen, but several country-specific factors have also played a role. GCC inflation is expected to fall to 2.4% in 2023 and 2.0% in the medium term, down from 3.4% in 2022, making it difficult to predict it with certainty. However, inflation can directly affect the cost of accessing financial services such as borrowing, lending and deposits. Higher funding costs in the GCC region could impact non-oil recovery beyond 2022. A deeper study on inflation and its effects on C-suite executives identifies a few challenges, such as maintaining competitiveness in a changing regulatory landscape, addressing aging infrastructure, adapting to new payment technologies and improving operational efficiency. The solutions set forth for the C-suite executives are to stay up-to-date on regional and international regulatory developments and secure compliance, while still maintaining competitive offerings in the market. There is a need to guarantee their banks are updated with the necessary modernization to remain competitive in the market and be secure. They must be prepared to shift and deploy strategies to increase connectivity and digital payments, which will allow better competition and finally focus on improving the bank's operational efficiency and minimizing costs.

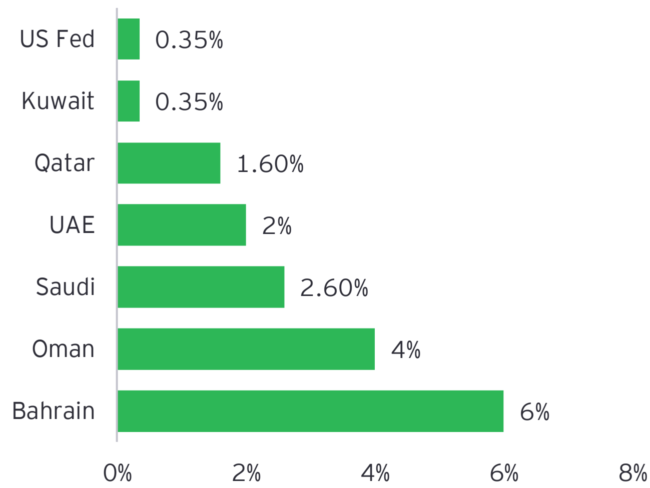
GCC inflation rates for 2023-24



The impact of interest rate hikes to be felt mostly in 2023

Similarly, the effects of interest rate changes in the banking sector due to inflation can vary depending on the region and the overall economic environment. GCC countries continue to raise interest rates, mirroring the US Fed rate hikes. The US Fed kicked off its stricter cycle in March 2022, with 475 bp in hikes so far due to concerns about the inflation outlook. To struggle against inflation, the Federal Funds Rate has raised eight times since March 2022, bringing it to a range between 4.5% and 4.75%. The central banks in the GCC also hiked the base interest rate following the US Federal Reserve rate movement, as their currencies were pegged to the US dollar. The GCC central bank expects to raise rates again to 5.1% by the end of 2023. In March 2023, the Saudi Central Bank (SAMA) lifted its repo and reverse repo rates by 25 bps each to 5.5% and 5%, respectively.

Central banks raised the interest rates as inflation bites



Source: EY Analysis

Sector insights

In 2023, the total banking market in the MENA region is expected to reach US$2.8t, with the top five markets (Saudi Arabia, UAE, Qatar, Kuwait and Egypt) accounting for more than 70% of the total market. The MENA region is forecasted to become one of the world's fastest-growing banking markets, with a compound annual growth rate (CAGR) of 9.8% from 2020 to 2023. Key highlights in the MENA banking sector are provided below.

30%	12.2%	6.18%	0.2%
Increase in net profits	Increase in assets	Increase in returns on equity	Increase in net interest margin

Kingdom of Saudi Arabia (KSA) banking sector

The 2022 financial results for the KSA banking sector reflect strong industry performance with an increase in net profit of approximately 28% as compared with 2021 and a total asset growth of 11.5%. The trajectory of loan and deposit volumes has closely mirrored the movement in oil prices, reflecting a changing economy. Additionally, the KSA is accelerating the transformation of its economy in line with its ambitious Saudi Vision 2030 initiative, proceeding full steam ahead with the development of a number of mega-projects, modernization initiatives and development plans. Overall, loan volumes grew at a 9.6% CAGR, while deposits grew at 6.8%, resulting in a loan-to-deposit ratio (LDR) growth from 77% to 101%. The SAMA announces the launch of Basel III final reforms official implementation by Saudi banks as of 1 January 2023, which comes in line with the internationally agreed timeline set by the Basel Committee on Banking Supervision (BCBS), the global standard-setter for the prudential regulations of banks.

UAE banking sector

This publication has analyzed the top 10 banks and found that they are expected to experience significant growth in 2022 and beyond. This growth will be driven by technological advancements and an anticipated improvement in the global economic landscape. The 2022 financial results indicate an increase of 31% in their net profits and total assets, increasing by 10.6% y-o-y, driven by strong growth in deposits, loans and advances, and due to an increase in net interest income, on account of higher interest benchmark rates and lower impairment charges, compared to FY21. The substantial investment of approximately AED131b in technology initiatives by the UAE banking sector is fueling the growth of digitally empowered customers, encompassing both individuals and businesses, who depend on banking services to fulfil their financial requirements. The banking sector is expected to benefit further from the recent introduction of a host of regulatory measures, aimed at strengthening the country's overall financial industry along with the Central Bank of the United Arab Emirates (CBUAE) vision to be among the top central banks globally in promoting monetary and financial stability and supporting the UAE's competitiveness, and the mission of enhancing monetary management, financial stability, and protecting consumers through effective supervision of licensed financial institutions, prudent management of reserves, robust financial infrastructure, and the adoption of digital technologies.

Sector insights (cont.)

Qatar banking sector

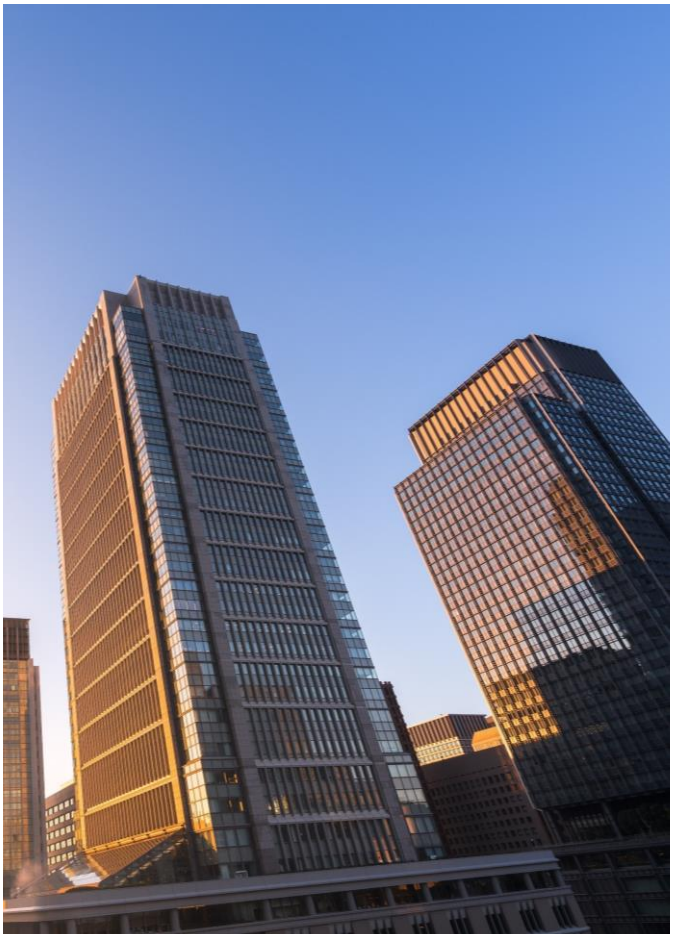
The banking sector in Qatar, compared with 2021, has a consolidated net profit of QAR2.8b up by 22%, which is mainly driven by an improvement in operating income, a strong fiscal condition and a positive outlook for gas prices. The financial situation seems better due to the high prices of liquefied natural gas (LNG), which is positive for the country in the long term. The government of Qatar has implemented numerous measures to stimulate the economy, including an ambitious infrastructure investment program, and these investments are expected to lead to increased demand for banking services. Additionally, the banking sector will benefit from the country's commitment to fiscal discipline and its goal of becoming a regional financial hub. The government is also committed to improving the regulations governing the banking sector, by introducing regulations to maintain the security of customer data. In terms of technology, the banking sector of Qatar is expected to continue to adopt the latest innovations, such as AI and blockchain technologies, to enhance customer experience. Additionally, the sector is likely to benefit from the increasing use of mobile banking and other digital services.

Kuwait banking sector

There are promising indicators of steady financial growth in Kuwait, considering the banking sector in the country is fresh off the COVID-19 pandemic crisis. It is expected that accelerated innovation plans, technology focus and continued government investment will witness further growth in the future. Credit growth will remain soft and below pre-COVID-19 pandemic levels in most countries. Further, due to the possibility of a recession in certain regions, global economic growth is expected to slow down in 2023. The indirect or cumulative effect could be felt in Kuwait, resulting in reduced economic activity and thereby reducing the demand for credit.

Egypt banking sector

The banking sector in Egypt is expected to continue its growth in 2023, with the launch of several new initiatives intended to stimulate economic growth and improve industry performance. It is stated that the banking sector in Egypt tripled during the past five years, between 2017 and 2022, as the volume of the sector’s combined assets increased from EGP4.587t to EGP10.511t, achieving a growth rate of 130%. The increase is taking into account the positive economic climate and the atmosphere of confidence secured by the financial and monetary policies of the Egyptian government and the Central Bank of Egypt (CBE), to expand their activities. The other cause also includes the adoption of effective measures in risk management and diversification of credit portfolios, which led to an improvement in the quality of assets of Egyptian banks, as the ratio of NPL to total loans to the banking sector as a whole decreased from 5.5% to 3.2%. The ratio of loan provisions to NPL is reduced from 99.1% to 92.1%. In addition, the CBE has launched a number of initiatives to boost the sector's performance, such as the introduction of a new credit bureau and the establishment of a nationwide e-payment system.



1. New regulations and regulatory changes

With global developments and increasing impact of technology, regulators are expected to increase oversight through improved reporting.

The regulatory landscape in the region requires further development, particularly in terms of operational requirements and key regulations for banks. The GCC aims to make significant advancements in line with its national vision. The increasing focus on digitalization and the introduction of new technologies in the banking sector has prompted regulators to step up their efforts. The evolving regulatory environment is expected to open the door for tighter controls, better compliance and significant cost increases. Banks need to innovate more efficiently to keep up with the pace of change and build good governance and controls. Basel IV regulations, anti-money laundering (AML), financial crime, know your customer (eKYC), cybersecurity, open banking and digital currencies are expected to gain regulatory attention over the next few years.

Basel IV, also known as Basel 3.1, refers to the completion of the Basel 3 reform package. Basel IV will raise the capital requirements for undercapitalized banks, and the Basel Committee on Banking Supervision (BCBS) has proposed concrete measures to achieve this goal. Basel IV was due to enter into force on 1 January 2022, but due to the COVID-19 pandemic, the start date has been postponed to 1 January 2023. SAMA has already announced that all Saudi banks will start implementing the final Basel III reforms from 1 January 2023. SAMA also carried out Basel III pilot programs in the H2 2022.

Addressing open banking and FinTech is also a top priority for regulators. A regulatory sandbox is a framework introduced by regulators to allow FinTech start-ups and other innovators to conduct real-world experiments in a controlled environment. SAMA permitted new innovators to operate under its Regulatory Sandbox in support of implementing the Fintech Strategy to make the KSA one of the leading countries for FinTech. The Central Bank of Bahrain (CBB) recently revised its regulatory sandbox framework and will introduce several new FinTech regulations.

The Central Bank of Kuwait (CBK) has approved open banking and buy-later products to be tested in a regulated sandbox environment for local market launch. Additionally, SAMA is striving to enhance financial inclusion by promoting buy-later initiatives in Saudi.

As technology progresses, regulations require banks to enhance cybersecurity measures and risk management practices to maintain the overall stability and resilience of the financial system. GCC banks are effectively managing their cyber risk with increased investment in infrastructure and systems, central banks are playing an active role against cyberaddiction by setting standards and governance, CBB has changed the reporting requirements for cybersecurity incidents based on the Operational Risk Management Module (Module OM) of his CBB Rulebook Volumes 1 and 2 for traditional and Islamic banks. Recently, the CBUAE established a Networking and Cybersecurity Operations Centre to protect the local financial system from cyber attacks.

Many banks within the GCC are involved in transformation programs. For example, the CBUAE recently announced the Financial Infrastructure Transformation (FIT) program, which outlines nine major initiatives to facilitate digital transactions, foster innovation, collaboration and competition.

Qatar has also launched its FinTech strategy, which includes the establishment of a pioneering infrastructure including advanced regulatory rules, prioritizing innovation for financial and insurance technology sector growth, as well as empowering companies to enhance their performance by using financial technology solutions. The Qatar Financial Centre Regulatory Authority (QFCRA) has introduced a new regulatory framework for listed derivatives after consulting with investors and market participants.

2. Banking technologies and digital innovations

Accelerated to move toward a cashless society leading to the launch of diverse digital products and services

The financial services industry continues to undergo transformation due to technological advancements, with AI expected to accelerate the pace and scope of change. This integration has revolutionized the banking sector, enabling financial institutions to offer faster, more efficient and personalized services to customers. AI-powered chatbots, computer programs that mimic human conversations, have emerged as a prominent trend in the banking industry. Recent years have witnessed several trends in banking driven by technological advances and evolving consumer behavior. These include digital banking, mobile payments, open banking, blockchain technology and sustainable finance. Financial companies now rely more on digital firms to host crucial IT systems such as cloud-based services, big data, machine learning, AI and other developments. Collaborating with FinTech firms brings numerous opportunities to convey the impression that customers can access a comprehensive range of services within a single platform. Tokenization and open banking are two areas deserving increased attention.

Abu Dhabi Global Market (ADGM) is implementing new modifications in this space for investors in virtual assets and digital assets, meeting the global demand from the industry. Being an international financial center, ADGM is introducing a comprehensive and tailor-made regulatory framework specifically designed for overseeing activities involving virtual assets, covering various entities such as multilateral trading facilities, brokers, custodians, asset managers and other intermediaries. The Financial Services Regulatory Authority (FSRA) is responsible for regulating virtual asset activities within the ADGM jurisdiction. The broad framework provided by ADGM creates a favorable business environment for prominent players in the virtual asset industry. Most importantly, ADGM's regulatory framework for virtual assets and digital assets addresses a wide range of risks, including market abuse, financial crime, consumer protection, technology governance, custody and exchange operations.

What is driving the evolution of tokenization?

MENA regulations are favoring tokenization of assets, payment cards, etc., aiming to transition toward a cashless society. Tokenization involves the replacement of a client's bank and asset details with algorithm-generated codes known as "tokens," which help to enhance privacy and security. These tokenized services can be accessed through mobile applications, and there are plans underway to integrate these features into smartwatches. In today's digitally connected and globalized world, financial institutions are facing significant pressure to reduce costs and optimize their business operations. Many institutions are embracing digital solutions and emerging technologies to create new revenue streams and improve their existing legacy systems.

While some digital solutions can be easily adopted within existing regulatory frameworks, others require a deeper understanding of the underlying technology and its associated implications. Tokenization converts (real-world or virtual) asset rights into a unique digital representation, and this process holds promise as it bridges the gap between real-world assets and their digital trading, storage and transfer in the digital world.

2. Banking technologies and digital innovations (cont'd)

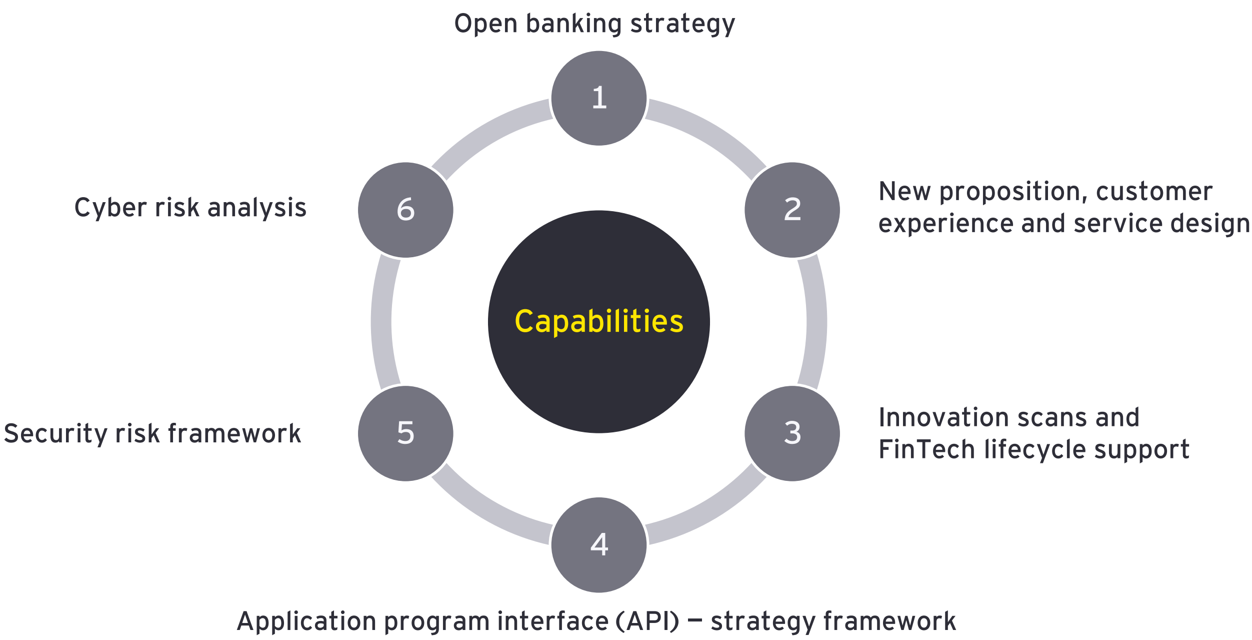
Open banking

The MENA region is witnessing a significant shift toward open banking, supported by progressive leaders and regulators. Account information and payment initiation services form the core of open banking. Open banking is a disruptive force in the financial services industry. It will change how consumers engage with their banks and financial service providers, introduce new channels and promote innovation and competition in financial products. In the MENA region, the financial sector is actively embracing and accelerating the trend toward becoming global FinTech hubs. Countries in the region are making active efforts to solidify their positions in this regard. Over the past three years, the region has undergone a remarkable financial transformation, driven by the implementation of innovative and exciting open banking frameworks across multiple countries. The MENA region's open banking market is primarily guided by regulation, supported by forward-thinking regulators who continuously learn from other markets and foster the growth of FinTech. With demographic advantages, a long-standing entrepreneurial culture, a business-friendly environment and impressive internet connectivity, the MENA region is well-suited to capitalize on the potential of open banking. Financial institutions in the region perceive open banking as an opportunity rather than a threat and recognize its significant potential.

The SAMA introduced the open banking framework, enabling secure data sharing and fostering innovation and competition. SAMA has launched the open banking lab based on the open banking framework and providing a testing environment for banks and FinTechs to develop and certify their open banking services. SAMA is also set to introduce the Payment Initiation Services (PIS) framework, reinforcing the country's commitment to fostering FinTech innovation and expansion. Similarly, there are notable advancements underway in other countries like Egypt, Oman and Kuwait. The CBE and Oman have proactively set up regulatory testing environments, allowing FinTech innovators to safely and securely test their offerings. Additionally, the Central Bank of Kuwait has issued regulatory guidelines to encourage the exploration of new FinTech solutions. These testing environments pave the way for the development of customized frameworks that cater to the specific requirements of each country's financial landscape.

Our recommendation is to maintain a trusted open banking ecosystem that uses a clear customer-centric business strategy, rapid innovation cycles, enhanced security, new business and operating models, and flexible technology integration. Open banking is expected to drive new competitive dynamics as financial service firms will need to monitor these trends and review the appropriateness and sustainability of ongoing business strategies. New data and payment capabilities, through open banking, have the potential to trigger industry-level digital transformation, unlocking innovation and driving competition.

Our capabilities include:



3. Rising need for ESG framework

The ESG framework is becoming increasingly important in the MENA banking sector as climate change has quickly become a top priority and organizations recognize the need to become more socially responsible and address key sustainability issues. Looking over a five-year horizon, 67% of CROs cited climate risk as the most important concern for their organizations, well ahead of tech-driven disruption (42%), IT obsolescence (42%) and data integrity (42%). The implication is that the latter risks seem more manageable for CROs, compared with environmental risks, which include both physical threats and the disruptions caused by the transition to a greener economy.

While climate risk is primarily viewed as an external threat, financial institutions also view it through the lens of ESG initiatives, which extend from reporting requirements to new product development. Financial institutions across the region are starting to implement ESG strategies as any form of financial service that incentivizes the integration of long-term ESG criteria into business decisions, with the goal of providing more equitable, sustainable and inclusive benefits to companies, communities and society. Financial institutions see infrastructure financing, sustainability-linked corporate loans, and green and social bonds as the product offerings with the most potential for ESG-related growth. For example, introducing new green finance instruments, developing highest profile manifestation of sustainable products and services, and increasing ESG disclosures. A diverse range of ESG products and services are now available, including bonds (of many types), green retail products (e.g., green mortgages, credit cards) and insurance products.

The governance of ESG is evolving quickly and the discussion has expanded to consider how sustainable finance is at the heart of the bank's long-term strategy and aligned with purpose and community engagement. At the same time, developing policies and practices that promote diversity and inclusion, as well as better corporate governance is in the works. These measures include appointing independent directors and developing codes of conduct and ethical standards.

Increasing awareness about the risks, as well as regulatory pressure on banks to analyze the effects of climate change on their strategies, operations and customers is pushing them to enhance the risk management coverage of climate. Financial institutions are also increasing their transparency and disclosure of environmental and social risks and impacts by analyzing the impact of climate change on material credit exposures, embedding it into the enterprise risk taxonomy and developing policies for the most impacted businesses so that they are better prepared to manage and mitigate these risks in the future.

In addition, banks are taking steps to reduce their environmental impact, such as installing solar panels, investing in renewable energy, and transitioning to paperless banking.

Source ref: IIF Survey v3.

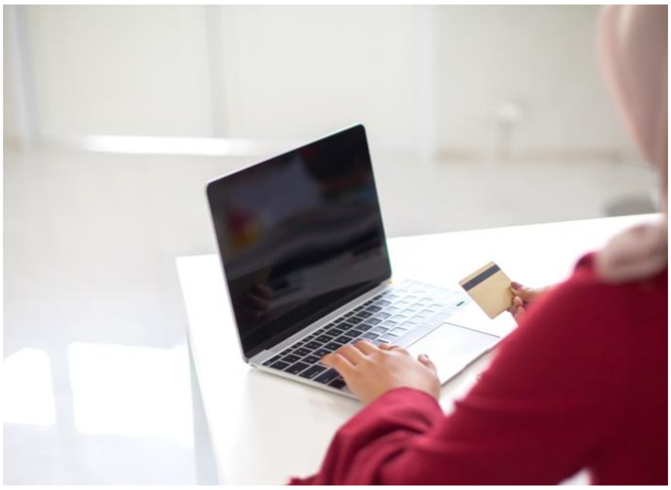
4. Model validation and risk management

Model validation, a crucial part of model risk management (MRM), verifies that models are functioning correctly. The CBUAE recently published the Model Management Standards (MMS), a significant milestone for MRM. The introduction of MMS has brought increased attention to MRM in the Middle East region. Banks are required to identify any discrepancies with the MMS and create a remediation plan, if needed to maintain compliance. Banks use models to adhere to various accounting and regulatory standards. There are three main themes, which are highlighted in this edition for model validation and risk management.

1. Emphasis on data

Data is becoming a key focus and CBUAE requires banks to have a unified data source, obtain high-quality data, maintain data accuracy in model development and validation which is agreed upon by all the stakeholders, empowering the risk managers in banks to obtain good quality data and also enabling business stakeholders to validate the data accuracy.

Based on the recent MMSG model management standing guidance, CBUAE requires tiering of the models into two models – tier 1 and tier 2, based on the materiality to reduce dependency on external providers without having a proper understanding of the third-party norms, e.g., Moody's.

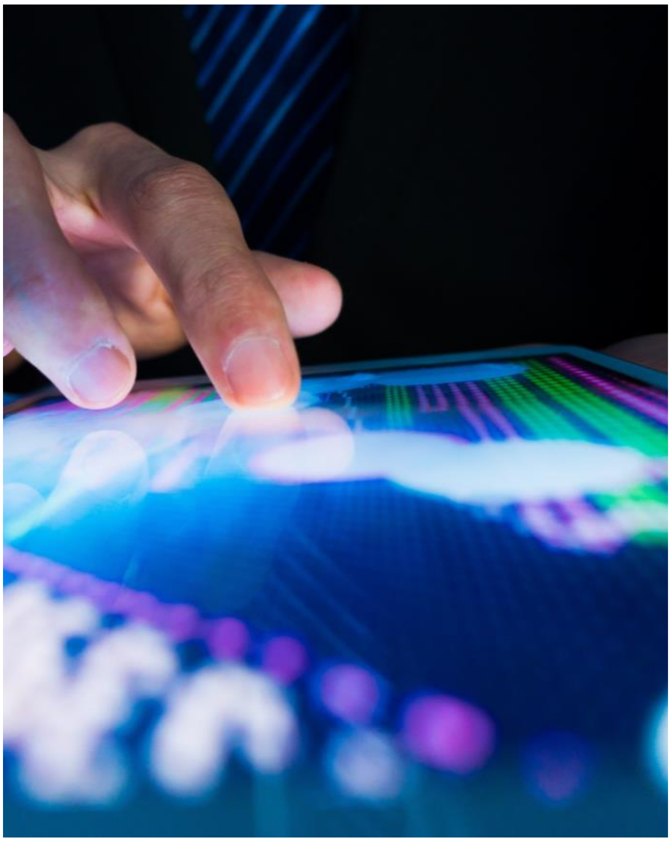


2. Decrease in reliance on third-party models

Institutions need to fully understand how models work and reduce dependency on external providers in the development and validation of models to consistently maintain on using the same data and numbers. In order to reduce the reliance on third-party models, data requires to be prescriptive and developed based on the characteristics of the models, and these developed models need emphasis on the time in which the institutions will need to have a clear path on how to navigate, fully understanding on how the models are working and what their shortcomings are.

3. Emphasis on model governance

There is a greater emphasis on strengthening model governance policies as central banks have a clear vision on independent model function and validation. Independent validation must be applied to all types of models, including statistical, deterministic and expert-based models, regardless of whether they were internally developed or acquired from a third-party provider. It is crucial that the validation scope encompasses both qualitative and quantitative validation, as these approaches are interdependent and should not be treated in isolation. Both validation methods complement each other and must be considered together. Banks must prioritize improving model validation measures according to the European Central Bank's (ECB) updated guide on internal models and targeted review of internal models (TRIM) CCR findings.



Unlocking the digital transformation for the future of MENA banking: **2023 and beyond**

03 Banking performance

Section summary

20.22% ROE

Industry median – post-tax profit upon equity

H1 2023: up by 6.18%

34.18% Operating income

The median y-o-y percentage change in operating income

H1 2023: up by 18.8%

30.39% Operating expense

The median y-o-y percentage change in operating expense

H1 2023: up by 10.89%

34.80% Cost-to-income ratio

Ratio of operating expenses to operating income

H1 2023: up by 0.19%

13.50% Total asset growth

The median y-o-y percentage change in total asset growth

H1 2023: up by 4.56%

4.06% NPLs

The median y-o-y percentage change in NPLs

H1 2023 : decreased by 2.90%

14.35% Deposits

The median y-o-y percentage change in total deposits

H1 2023: up by 6.08%

148.72% LDR

Ratio of total loans to total deposits

H1 2023: up by 5.43%

04 FY23 outlook

Section summary

Anticipating the future: What will banks focus on?

- Effective NPL management: Expectations for NPLs are to remain at the current levels in 2023 by adopting a selective approach of lending. Banks will have to closely manage their non-performing portfolios through write-offs and proactive credit risk management.
- Regulatory oversight: Enhanced reporting of global developments and increased use of technology will continue to enhance the regulations on the banking sector. Another focus for this year and ahead is the implementation of Basel IV regulations, financial crime, know your customer (eKYC), open banking, digital currencies, AML and cybersecurity.
- Embracing digital banking: Invest and pursue digital banking solutions to meet the needs of customers. This includes leveraging the latest digital technologies, such as AI and machine learning, to automate processes, reduce operational costs and manage customer banking needs.
- Strengthening risk management: Invest in risk management processes, technologies and systems to confirm that they are well-positioned to withstand potential financial risks and remain compliant with regulatory requirements.
- Improving customer service: Invest in developing customer service initiatives designed to improve customer experience. This includes introducing chatbots, leveraging the latest customer analytics and developing customer loyalty programs.
- Focus on ESG: ESG matters will continue to gain further prominence in 2023 and beyond. Central banks, investors and customers are likely to drive these efforts as they look to mandate common ESG reporting across the banking sector.
- Banking in the metaverse: Virtual experiences are now common for consumers, and banks can benefit from the accessibility of virtual banking to drive significant growth. The banking sector has promising opportunities for innovative growth in 2023.
- Empowerment of back-office operations: Investing in front-to-back modernization and leveraging cloud migration and robotic process automation can help businesses establish connections between customer-facing operations and back-end servicing effectively minimizing inefficiencies.

05 Annexure

Name of the bank	Acronym
First Abu Dhabi Bank	FAB
Qatar National Bank	QNB
Saudi National Bank	SNB
Emirates NBD Bank	ENBD
Al Rajhi Bank	Al Rajhi
Abu Dhabi Commercial Bank	ADCB
Kuwait Finance House	KFH
National Bank of Kuwait	NBK
Riyad Bank	Riyad Bank
Saudi British Bank	SABB
Dubai Islamic Bank	DIB
Banque Saudi Fransi	BSF
Arab National Bank	ANB
Alinma Bank	Alinma Bank
Mashreq Bank	MASQ
Qatar Islamic Bank	QIB
Abu Dhabi Islamic Bank	ADIB
The Commercial Bank of Qatar	CBQ
Masraf Al Rayan	MAR
Bank Albilad	Bank Albilad
Saudi Investment Bank	SIB
Bank Aljazira	Bank Aljazira
Commercial Bank of Dubai	CBD
Boubyan Bank	Boubyan Bank
Commercial International Bank	COMI
Al Ahli Bank of Kuwait	ABK
National Bank of Ras Al Khaimah	RAKBANK
Sharjah Islamic Bank	SIB
Warba Bank	Warba Bank
Commercial Bank of Kuwait	CBK
National Bank of Fujairah	NBF
Kuwait International Bank	KIB

Ratings

Name of the bank	Fitch	Moody's	S&P
FAB	AA-	AA2	AA-
QNB	A+	AA3	A+
SNB	A-	A1	A-
ENBD	A+	A1	-
Al Rajhi	A-	A1	A-
ADCB	A+	AA3	A
KFH	A	A1	-
NBK	A+	A1	A
Riyad Bank	A-	A1	A-
SABB	-	-	-
DIB	A	A2	-
BSF	A-	A1	A-
ANB	A-	A1	A-
Alinma Bank	A-	-	-
MASQ	A	A3	-
QIB	A-	AA3	-
ADIB	A+	A1	-
CBQ	-	A3	-
MAR	-	AA3	-
Bank Albilad	-	A2	-
SIB	A-	A2	BBB
Bank Aljazira	A-	A3	-
CBD	A-	A3	-
Boubyan Bank	A	A1	A
COMI	B-	B2	B
ABK	A	A1	-
RAKBANK	BBB+	A3	-
SIB	BBB+	BAA1	A-
Warba Bank	A	BAA1	-
CBK	A	A2	-
NBF	-	A3	BBB+
KIB	A	-	-

Data tables

Net profit amount (US$m)			
Name of the bank	**H1 2021**	**H1 2022**	**H1 2023**
ENBD	663.82	945.03	1681.10
SNB	625.29	1239.06	1354.21
FAB	777.11	784.57	1137.02
Al Rajhi	973.27	1149.74	1120.53
QNB	935.23	1050.44	1005.26
KFH	169.33	222.53	555.68
Riyad Bank	408.13	435.02	535.22
ADCB	378.57	425.30	521.86
MASQ	11.45	215.03	514.67
NBK	248.16	393.16	457.71
DIB	272.11	361.42	424.25
SABB	248.00	292.33	418.45
Alinma Bank	191.78	249.78	330.78
ADIB	135.27	195.99	315.47
BSF	207.82	225.99	289.82
QIB	228.23	259.25	283.50
ANB	127.66	191.08	266.22
COMI	103.19	113.51	258.24
CBQ	195.62	214.73	216.81
CBD	94.77	117.48	175.58
Bank Albilad	112.35	137.97	158.19
CBK	61.96	70.39	143.06
RAKBANK	51.57	83.84	121.39
SIB	77.71	86.59	119.83
MAR	153.52	138.29	102.52
SIB	33.83	47.22	70.61
Bank Aljazira	67.82	69.61	70.36
Boubyan Bank	28.55	45.41	68.12
NBF	9.23	24.35	48.63
ABK	25.95	32.76	42.50
Warba Bank	10.70	16.54	19.46
KIB	3.89	2.27	8.11
NBE	0.00	0.00	0.00

Data tables (cont'd)

Total assets (US$m)			
Name of the bank	H1 2021	H1 2022	H1 2023
QNB	287543.79	303561.19	324555.17
FAB	254784.64	281415.74	309442.22
ENBD	187321.33	191872.69	271646.22
SNB	242033.72	258787.76	268963.93
Al Rajhi	147457.58	191640.33	211820.48
ADCB	112398.33	128545.06	140751.14
KFH	69895.66	73928.16	120091.77
NBK	102437.82	111209.65	117057.10
Riyad Bank	85661.90	96647.47	105093.61
SABB	73693.69	81685.56	90426.48
DIB	79321.17	76198.94	80935.82
BSF	57053.75	62442.06	66343.91
Alinma Bank	44295.28	49847.89	61263.11
ANB	49106.68	56653.56	58315.57
MASQ	46645.96	50933.88	56960.20
QIB	49632.45	52013.72	49506.47
ADIB	35264.30	38324.91	49184.96
CBQ	43767.59	47626.14	43422.13
MAR	33765.93	45533.99	43326.31
Bank Albilad	29066.07	32807.89	36559.16
Bank Aljazira	25891.95	30971.86	33599.80
SIB	26570.54	29915.43	33370.52
Boubyan Bank	22529.21	24770.42	26029.38
COMI	15167.60	16923.57	25744.09
ABK	15585.64	0.00	20381.75
RAKBANK	14664.29	16404.74	19403.47
SIB	14674.82	15138.23	16486.55
Warba Bank	11501.90	0.00	15332.29
CBK	13429.75	14026.95	13777.82
NBF	11084.88	11802.94	12922.52
KIB	9370.98	11403.28	11047.43
CBD	30447.01	31734.88	0.00
NBE	0.00	0.00	0.00

Data tables (cont'd)

Loans (net) (US$m)			
Name of the bank	H1 2021	H1 2022	H1 2023
QNB	199533.81	204736.41	216822.58
Al Rajhi	105379.87	140319.19	156351.65
SNB	135852.39	144770.92	156019.31
FAB	107632.31	123799.62	130285.34
ENBD	118321.18	114746.60	118783.29
ADCB	68708.95	72206.86	80565.30
Riyad Bank	55280.48	64705.64	71050.50
NBK	60021.56	65326.63	69950.49
KFH	35963.17	39617.75	61985.09
SABB	43589.88	47577.86	53641.17
DIB	52458.19	52476.96	51165.41
BSF	38287.89	43098.70	45817.68
Alinma Bank	32298.10	35422.03	43678.74
ANB	31814.10	38624.93	40189.99
QIB	34302.02	34223.28	32283.39
ADIB	22691.61	24917.33	30388.42
MAR	24530.77	31836.67	29861.41
Bank Albilad	21365.10	24625.59	26690.53
MASQ	20866.09	24212.49	25638.17
CBQ	25853.55	25461.46	23619.17
SIB	15221.14	16859.18	20872.27
Bank Aljazira	15363.19	17721.67	20234.26
Boubyan Bank	16713.87	18649.83	19768.33
ABK	10038.25	0.00	13886.49
RAKBANK	8387.15	9174.95	12032.15
Warba Bank	8048.12	0.00	11201.19
SIB	7908.81	7784.21	8526.01
KIB	6889.72	8452.31	8021.19
CBK	7647.17	7656.58	7934.26
NBF	6824.47	7485.67	7817.61
COMI	4268.64	5558.41	7142.07
CBD	20175.29	21475.72	0.00
NBE	0.00	0.00	0.00

Data tables (cont'd)

Deposit (US$m)			
Name of the bank	H1 2021	H1 2022	H1 2023
QNB	207074.83	214596.08	225849.09
FAB	170472.06	195863.75	221251.53
Al Rajhi	124629.68	160782.00	176109.23
SNB	158796.42	160113.08	162596.48
ENBD	123629.30	126326.82	150081.47
ADCB	69250.09	81656.91	88970.37
Riyad Bank	66305.47	76765.13	82727.62
NBK	60990.19	77998.93	82451.83
DIB	79321.17	76198.94	80935.82
KFH	51177.06	51904.35	74422.53
SABB	50443.64	56011.77	60138.13
Alinma Bank	34813.53	37975.20	50009.16
BSF	41111.42	47153.69	47250.14
ANB	38062.33	43218.58	45373.01
ADIB	28910.95	31547.31	41343.59
MASQ	25766.88	29520.37	34230.20
Bank Albilad	23409.35	26867.94	30108.46
Bank Aljazira	19086.52	23377.60	24862.01
COMI	12521.95	13960.91	22064.23
SIB	18346.91	21065.00	21391.21
CBQ	22260.31	24320.30	20496.67
Boubyan Bank	17573.18	18314.41	19959.72
RAKBANK	10162.94	10938.35	13638.56
ABK	10638.69	0.00	13061.24
Warba Bank	9441.37	0.00	12900.99
SIB	9447.89	10088.36	11376.42
NBF	8053.99	8596.50	9417.49
CBK	6632.80	6701.90	7348.41
KIB	5838.37	7524.23	6222.45
QIB	4827.68	4620.81	4129.60
MAR	2284.79	2577.99	2522.61
CBD	21551.35	22903.26	0.00
NBE	0.00	0.00	0.00

Macroeconomic indicators

KSA

The economy of Saudi Arabia is expected to continue its growth trajectory in 2023, supported by government-led reforms and continued investments in the energy sector. The country is expected to benefit from lower global oil prices and increased investment in the non-oil sectors, such as tourism and manufacturing.

In H1 2023, Saudi Arabia's GDP grew 1.1% from a year earlier, dropping from the previous quarter's 3.8% growth mainly due to the oil sector drop, while inflation is expected to remain modest at 2.7%. In order to maintain budget surpluses over the medium term, it is anticipated that the budget will generate an excess of about 0.4% of GDP in FY 2023.

The exchange rate of the Saudi riyal (SAR) is expected to remain relatively stable, with the US$ and SAR exchange rate forecasted to remain around 3.75 in 2023. This is supported by the country's large foreign reserves, which are projected to reach US$812b by the end of 2023.

The country's unemployment rate is expected to reduce in 2023, with an estimated rate of 4.8%. This is slightly lower than the 5.8% rate in 2022.

Overall, the economic outlook in 2023 is expected to be somewhat better than 2022. The country is committed to diversifying its economy and attracting foreign investment, which should help drive economic growth and create new jobs.

GDP (nominal)	US$1128b	▲
Government expenditure percentage of GDP	29.59	▲
Consumer price index (CPI)	108.75	▲
Inflation	0.33	▲
Domestic demand	US$100,769.20	▲
Industrial production index	74.500	▲
Government investment (nominal)	US$51.2b	▲

UAE

The UAE's economic outlook in 2023 is expected to remain positive, with the country's economy projected to continue to expand. The UAE is expected to benefit greatly from its vast oil reserves, which account for over 90% of its exports and government revenues. The government has taken a number of steps to diversify the country's economy and reduce its dependence on oil. This includes investing in renewable energy, technology, tourism and other industries.

The country is expected to benefit from its strategic location, which allows it to serve as a gateway to the Middle East, Africa and Asia. The country is also expected to benefit from the growth of its non-oil sector, which is projected to account for over 60% of GDP by 2023.

Inflation is expected to remain low, as the government takes measures to keep the cost of living stable. The country is also expected to benefit from increased investment from foreign businesses, as a result of its growing economy.

Overall, the UAE is expected to continue to experience strong economic growth in 2023, supported by its diversified economy, strong government leadership, and strategic location.

GDP (nominal)	US$498.98b	▲
Government expenditure percentage of GDP	4.34%	▲
Consumer price index (CPI)	105.12	▲
Inflation	-1.6%	▼
Domestic demand	US$179.2b	▲
Industrial production index	Not available	
Government investment (nominal)	US$17.17b	▲

Macroeconomic indicators (cont.)

Qatar

Qatar's economy is expected to remain strong in 2023. The country is expected to continue to benefit from its large natural gas reserves, which are estimated to provide nearly 80% of its GDP.

In 2022, Qatar's GDP was estimated at US$186.5b, with a growth rate of 3.2%. In 2023, GDP is expected to increase to US$219.5b, with a growth rate of 2.7% from the previous quarter. This growth is largely attributed to the country's large natural gas reserves and higher oil prices.

Inflation is raised to 3.1% in 2023 compared to 1.2% in 2022. Unemployment is expected to remain low, with an estimated rate of 1.3% in 2023 compared to 1.2% in 2022.

Qatar's exports are expected to remain strong in 2023, with an estimated value of US$75.4b compared to US$73.7b in 2022. Imports are also expected to remain strong, with an estimated value of US$47.2b in 2023 compared to US$45.7b in 2022.

Overall, Qatar's economy is expected to remain strong in 2023, with continued growth in both exports and imports and low rates of inflation and unemployment.

GDP (nominal)	US$219b	▲
Government expenditure percentage of GDP	14.73%	▲
Consumer price index (CPI)	105.55	▲
Inflation	-2%	▼
Domestic demand	US$181b	▲
Industrial production index	103.5	▲
Government investment (nominal)	US$17.53b	▲

Kuwait

The economic outlook of Kuwait in 2023 is expected to be largely positive compared to 2022. Kuwait is projected to have a GDP of US$232.21b, representing a 3.2% annual growth from the previous year.

The country is expected to continue its steady economic growth with the implementation of reforms and new projects. The government has been working on diversifying its economy and reducing its dependence on oil and gas. This has led to increased investment in sectors such as finance, technology, health care and education.

The unemployment rate is forecasted to remain low at around 2.5%, while inflation is expected to remain stable at around 3.5% in the coming year, although it may increase slightly.

The government has also been encouraging foreign investment in the country, with a number of incentives for investors. This includes tax breaks, subsidies for businesses, and improved access to financing.

Overall, Kuwait is expected to experience steady economic growth in 2023, with an improved outlook compared to 2022.

GDP (nominal)	US$164.71b	▲
Government expenditure percentage of GDP	50.67%	▲
Consumer price index (CPI)	129	▲
Inflation	-0.67%	▲
Domestic demand	US$66.99b	▲
Industrial production index	Not available	
Government investment (nominal)	Not available	

Macroeconomic indicators (cont.)

Egypt

Egypt's economic growth is expected to remain strong in 2023. GDP growth is projected to be slightly higher than in 2022, estimated at 4.2%. This is due to increased investment and a more diversified economic base. The unemployment rate is expected to remain at a record low of 7.0% and inflation increased at 3% in June 2023 from the previous month. The current account deficit is expected to increase slightly to 4.2% of GDP, but remittances are expected to remain a key source of external financing.

The government is also expected to continue its fiscal consolidation efforts, with the fiscal deficit expected to decrease to 8.2% of GDP in 2023 from 9.2% in 2022. This is due to a combination of expenditure cuts and revenue increases.

The Egyptian pound (EGP) is expected to remain stable against the US dollar in 2023, as the CBE is expected to keep its monetary policy loose to support economic growth.

GDP (nominal)	US$420.31b	▲
Government expenditure percentage of GDP	26.3%	▲
Consumer price index (CPI)	165	▲
Inflation	4.8%	▲
Domestic demand	US$1,826.99b	▲
Industrial production index (IPP)	116.28	▲
Government investment (nominal)	Not available	

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