GCC Banking Sector
Overview of Banks' NPL

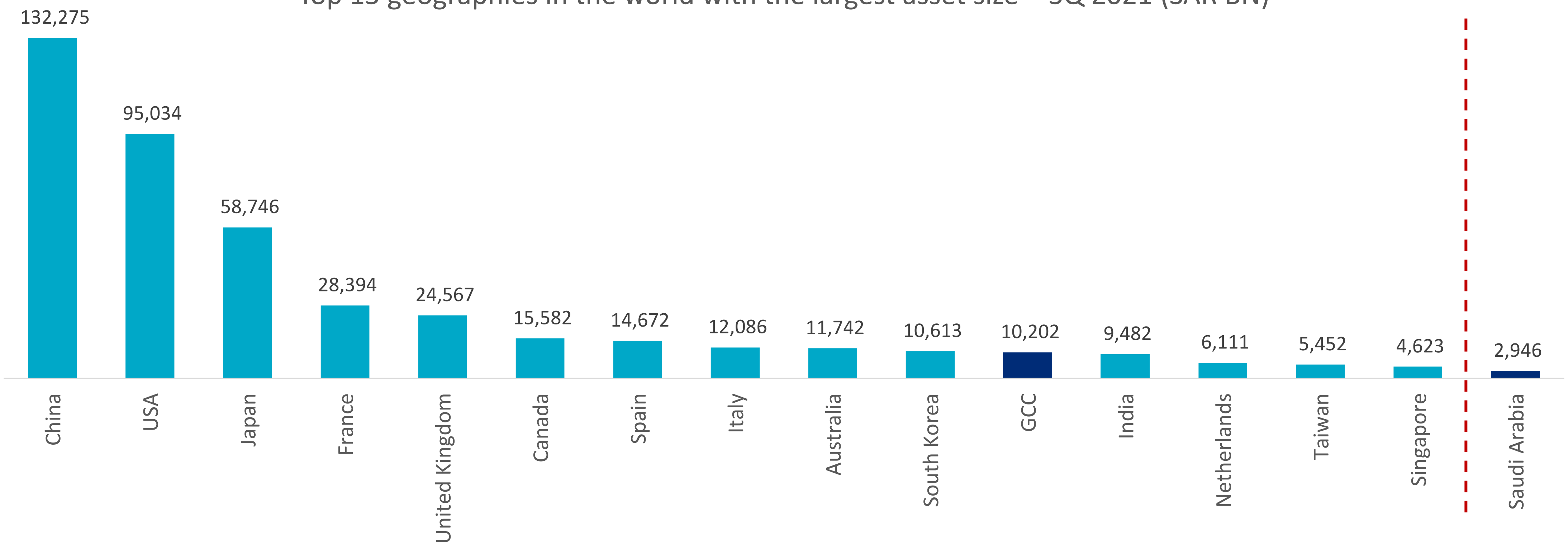
March 2022

Content

Global overview

GCC is the 11th largest banking market by asset size with a cumulative banking assets of SAR 10.2 TN

Top 15 geographies in the world with the largest asset size – 3Q 2021 (SAR BN)

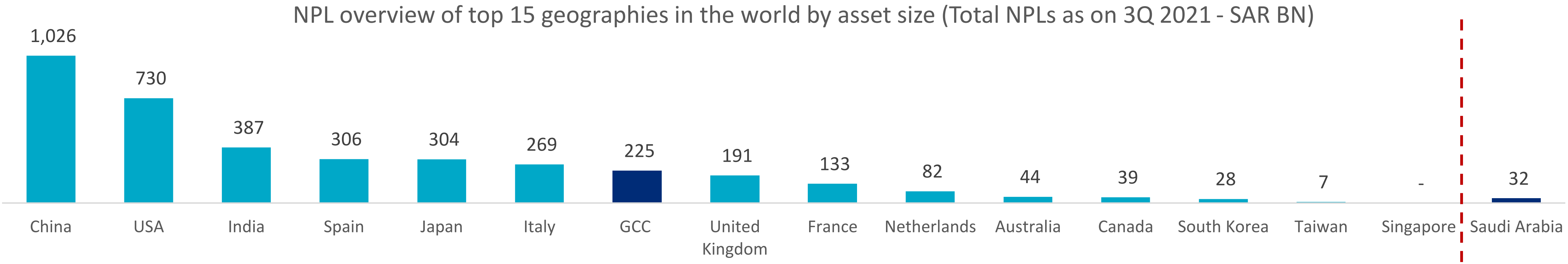


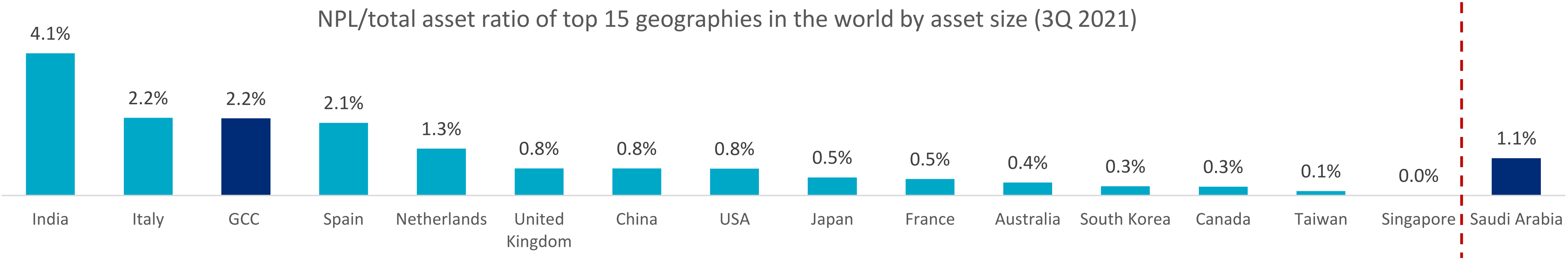
- GCC banks' combined total assets rank 11th in the list with total assets of SAR 10,202 BN as of 3Q 2021. This represents a share of 2.1% in the world
- KSA banks' combined total assets stand at SAR 2,946 BN, globally at 19th position, based on 3Q 2021 data

Only publicly listed banks have been considered to collate data for respective countries

Source: S&P Capital IQ

GCC banks' combined total non-performing loans (NPLs) rank 7th in the world





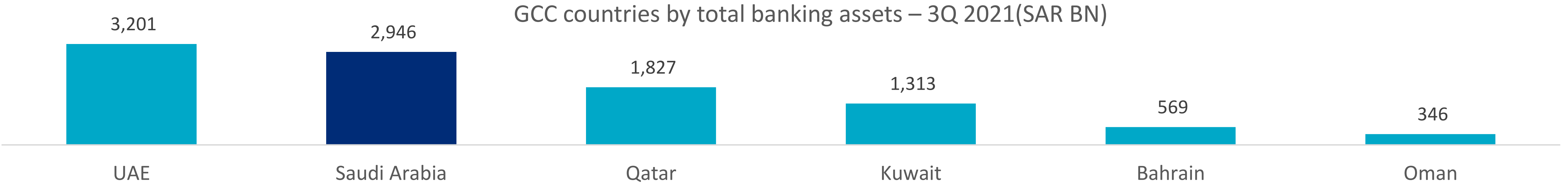
- GCC banks' combined total NPLs rank 7th in the list with total non-performing loans of SAR 225 BN as of 3Q 2021. This represents a share of 4.9% in the world
- GCC banks' NPL/total assets ratio is amongst the highest in the world after India at 4.1%. Global median NPL/total assets ratio is at 1.2%

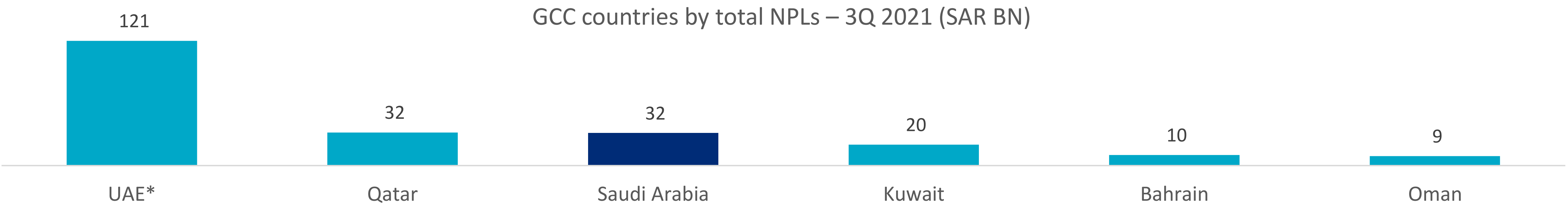
Only publicly listed banks have been considered to collate data for respective countries

Source: S&P Capital IQ

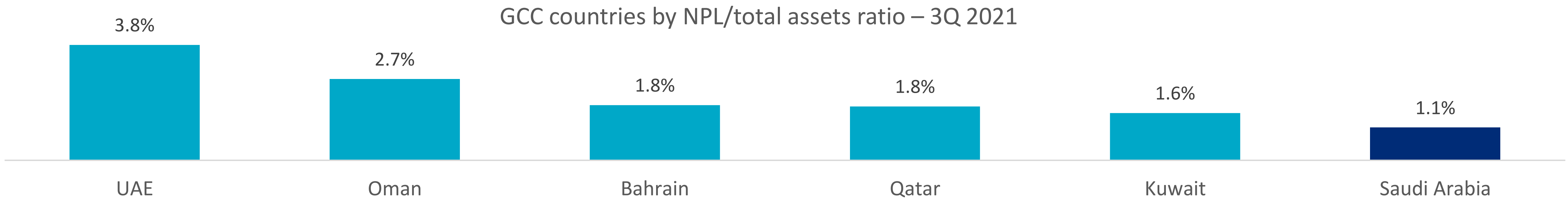
GCC overview

KSA is the 2nd largest banking market in GCC by total asset base but lowest in terms of NPL/total asset ratio





**UAE is one of the highest NPL markets in the region, and ranks 9th at global level in terms of NPL size*

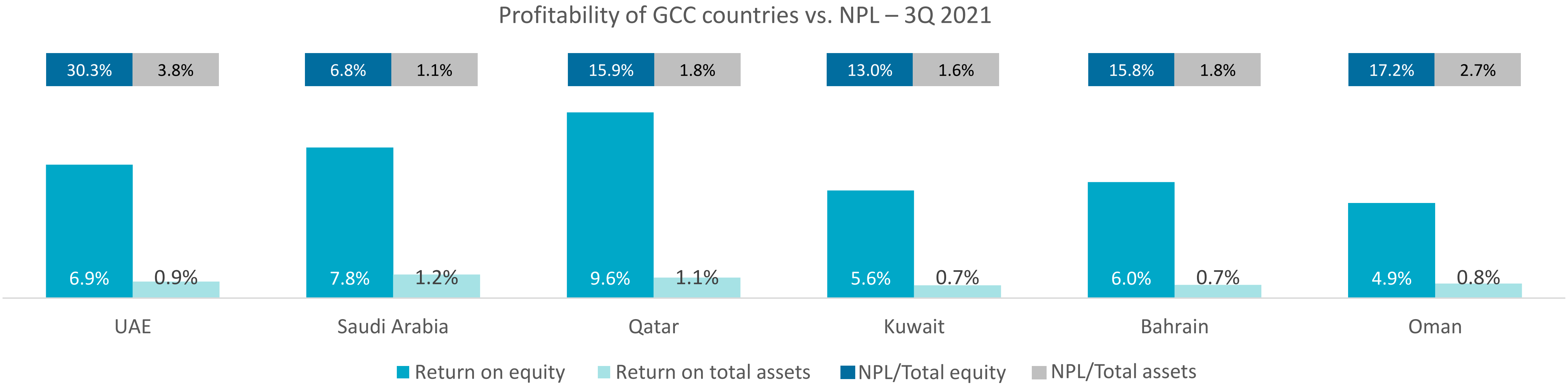


Only publicly listed banks have been considered to collate data for respective countries

Source: S&P Capital IQ

KSA banking market has the highest return on total assets and lowest NPL/total equity ratio

Country	Total Assets (SAR BN)	Total Equity (SAR BN)	Net Income (SAR BN)	Non Performing Loans (SAR BN)	NPL/ Total Assets	NPL/ Total Equity
United Arab Emirates	3,201.3	400.6	27.8	121.3	3.8%	30.3%
Saudi Arabia	2,945.9	465.2	36.4	31.6	1.1%	6.8%
Qatar	1,827.3	203.0	19.6	32.3	1.8%	15.9%
Kuwait	1,312.5	156.6	8.8	20.4	1.6%	13.0%
Bahrain	568.9	65.3	3.9	10.3	1.8%	15.8%
Oman	345.8	53.6	2.6	9.2	2.7%	17.2%
Total / *Median**	10,201.8	1,344.3	99.1	225.1	*1.8%*	*15.9%*



*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Note: 1. 3Q 2021 financials for publicly listed banks have been considered to collate data for respective countries;
Source: S&P Capital IQ

Country-wise overview

Banks in Saudi Arabia – Profitability overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
The Saudi National Bank	902.7	9.4	1.7%	10.4%
Al Rajhi Banking and Investment Corporation	582.7	10.7	2.7%	23.5%
Riyad Bank	318.7	4.4	1.9%	13.0%
The Saudi British Bank	269.6	2.8	1.4%	7.2%
Banque Saudi Fransi	213.3	2.5	1.6%	8.4%
Arab National Bank	182.3	1.7	1.3%	7.6%
Alinma Bank	166.8	2.1	1.7%	10.2%
Bank Albilad	111.6	1.3	1.6%	14.9%
The Saudi Investment Bank	99.6	0.8	1.0%	6.5%
Bank AlJazira	98.6	0.8	1.1%	8.3%
Total / *Median**	2,945.9	36.4	*1.6%*	*9.3%*

- The Saudi National Bank is the largest bank in KSA with total assets of SAR 903 BN as on 3Q 2021
- Al Rajhi Banking and Investment Corporation is the best performing bank in KSA in terms of return on assets and return on equity

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Saudi Arabia – NPL summary

Company Name	NPL (SAR BN)	Accumulated provisions (SAR BN)	NPL Coverage ratio	NPL/ Total Assets	NPL/ Total Equity	Impairments for the year[1] (SAR BN)	Impairments for the year/ Net Interest Income
The Saudi National Bank	8.1	10.9	134.5%	0.9%	5.0%	3.4	21.3%
Al Rajhi Banking and Investment Corporation	2.9	8.9	307.5%	0.5%	4.5%	1.8	11.7%
Riyad Bank	3.4	4.3	126.3%	1.1%	7.4%	0.6	9.9%
The Saudi British Bank	4.9	7.0	143.1%	1.8%	9.3%	0.0	1.0%
Banque Saudi Fransi	3.8	5.1	135.4%	1.8%	9.7%	0.9	21.1%
Arab National Bank	3.2	3.9	123.1%	1.7%	10.3%	0.8	22.9%
Alinma Bank	2.9	4.2	146.4%	1.7%	9.5%	1.0	25.1%
Bank Albilad	NA	2.7	NA	NA	NA	0.4	17.3%
The Saudi Investment Bank	1.1	1.9	178.3%	1.1%	6.5%	0.2	13.0%
Bank AlJazira	1.4	2.5	178.7%	1.4%	10.2%	0.5	24.1%
Total / *Median**	31.6	51.4	*143.1%*	*1.4%*	*9.3%*	9.6	*19.2%*

- In terms of non-performing loans to total assets, Al Rajhi Bank is the best performing bank in the region with the lowest ratio at 0.5% (median ratio at 1.4%)
- On an average, annual impairments made against bad loans are taking away 19% share from net interest income of banks, thus, denting bottom line

Note:
1. Impairments in the above table mean provision for loan losses recorded in the income statement. Provision for loan losses include impairment charge for expected credit losses, recoveries of written-off loans and impairment charge on off balance sheet items

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts

Source: S&P Capital IQ – 3Q-2021 Financials

Banks in United Arab Emirates – Profitability overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
First Abu Dhabi Bank	1,003.6	9.4	1.3%	11.3%
Emirates NBD Bank	713.9	7.4	1.4%	11.4%
Abu Dhabi Commercial Bank	441.2	3.9	1.2%	8.9%
Dubai Islamic Bank	295.5	3.1	1.4%	9.8%
Mashreq Bank	173.1	0.3	0.3%	2.1%
Abu Dhabi Islamic Bank	136.2	1.6	1.6%	10.9%
Commercial Bank of Dubai	110.0	1.1	1.4%	10.7%
Emirates Islamic Bank	67.6	0.8	1.6%	13.0%
Sharjah Islamic Bank	55.7	0.5	1.1%	8.0%
The National Bank of Ras Al-Khaimah	55.6	0.5	1.3%	8.9%
National Bank of Fujairah	41.6	0.1	0.3%	2.1%
Bank Of Sharjah	39.3	-1.3	-4.6%	-50.0%
Ajman Bank	22.0	0.1	0.6%	4.7%
Commercial Bank International	17.9	0.0	-0.3%	-2.5%
United Arab Bank	14.6	0.0	0.4%	4.0%
National Bank of Umm Al-Qaiwain	13.6	0.2	1.9%	5.4%
Total / *Median**	3,201.3	27.8	*1.2%*	*8.4%*

- First Abu Dhabi Bank is the largest bank in UAE with total assets of SAR 1,004 BN as on 3Q 2021
- Emirates Islamic Bank is the best performing bank in UAE in terms of return on equity and National Bank of Umm Al-Qaiwain has the highest return on assets

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Source: S&P Capital IQ – 3Q-2021 Financials

Banks in United Arab Emirates – NPL summary

Company Name	NPL (SAR BN)	Accumulated provisions (SAR BN)	NPL Coverage ratio	NPL/ Total Assets	NPL/ Total Equity	Impairments for the year[1] (SAR BN)	Impairments for the year/ Net Interest Income
First Abu Dhabi Bank	22.1	13.1	59.5%	2.2%	19.8%	2.0	22.8%
Emirates NBD Bank	29.9	37.8	126.8%	4.2%	34.2%	3.8	29.6%
Abu Dhabi Commercial Bank	15.6	10.3	65.9%	3.5%	26.3%	2.0	29.1%
Dubai Islamic Bank	13.1	9.3	71.0%	4.4%	31.5%	1.9	36.8%
Mashreq Bank	5.6	6.6	118.5%	3.2%	27.1%	2.1	91.0%
Abu Dhabi Islamic Bank	8.2	4.8	58.6%	6.0%	40.3%	0.7	24.4%
Commercial Bank of Dubai	6.1	4.1	67.3%	5.5%	44.9%	0.7	43.8%
Emirates Islamic Bank	4.0	4.3	107.7%	5.9%	45.2%	0.2	14.9%
Sharjah Islamic Bank	1.5	1.4	94.0%	2.7%	19.2%	0.2	24.0%
The National Bank of Ras Al-Khaimah	1.6	2.1	130.3%	2.9%	19.1%	0.9	53.5%
National Bank of Fujairah	3.0	2.2	74.2%	7.1%	50.9%	0.7	92.5%
Bank Of Sharjah	3.3	2.1	64.5%	8.3%	85.3%	0.1	21.1%
Ajman Bank	2.8	0.8	30.4%	12.7%	105.1%	0.2	49.8%
Commercial Bank International	2.3	1.1	50.5%	12.7%	91.1%	0.2	79.0%
United Arab Bank	1.7	1.2	71.1%	11.5%	109.3%	0.1	47.0%
National Bank of Umm Al-Qaiwain	0.7	0.3	43.4%	5.4%	14.5%	0.0	4.2%
Total / *Median**	121.3	101.7	*69.2%*	*5.4%*	*37.2%*	15.7	*33.2%*

- In terms of non-performing loans to total assets, First Abu Dhabi Bank is the best performing bank in the region with the lowest ratio at 2.2% (median ratio at 5.4%)
- On an average, annual impairments made against bad loans are taking away 33% share from net interest income of banks, thus, denting bottom line

Note:
1. Impairments in the above table mean provision for loan losses recorded in the income statement. Provision for loan losses include impairment charge for expected credit losses, recoveries of written-off loans and impairment charge on off balance sheet items

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Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Qatar – Profitability overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
Qatar National Bank	1,116.8	10.6	1.3%	13.9%
Qatar Islamic Bank	191.7	2.6	1.9%	14.0%
The Commercial Bank	170.3	2.2	1.8%	12.1%
Masraf Al Rayan	128.5	1.8	1.9%	15.5%
Doha Bank	106.6	0.9	1.1%	8.4%
Qatar International Islamic Bank	60.6	0.9	1.9%	13.3%
Ahli Bank	50.1	0.5	1.5%	10.1%
Qatar First Bank	2.7	0.1	2.8%	17.4%
Total / *Median**	1,827.3	19.6	*1.8%*	*13.6%*

- Qatar National Bank is the largest bank in Qatar with total assets of SAR 1,117 BN as on 3Q 2021
- Amongst Qatari banks having above SAR 100 BN total asset size, Masraf Al Rayan is the best performing bank in terms of return on assets and return on equity

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Qatar – NPL summary

Company Name	NPL (SAR BN)	Accumulated provisions (SAR BN)	NPL Coverage ratio	NPL/ Total Assets	NPL/ Total Equity	Impairments for the year[1] (SAR BN)	Impairments for the year/ Net Interest Income
Qatar National Bank	18.9	25.4	134.2%	1.7%	18.1%	4.7	26.8%
Qatar Islamic Bank	1.9	4.8	258.6%	1.0%	7.3%	1.2	40.9%
The Commercial Bank	4.3	4.0	92.5%	2.5%	16.8%	0.6	20.3%
Masraf Al Rayan	1.3	1.2	89.6%	1.0%	8.6%	0.2	13.7%
Doha Bank	4.1	2.8	67.0%	3.9%	27.6%	0.8	42.5%
Qatar International Islamic Bank	1.0	1.0	106.2%	1.6%	11.1%	0.2	20.3%
Ahli Bank	0.8	1.2	146.1%	1.6%	10.6%	0.3	29.8%
Qatar First Bank	NA	0.4	NA	NA	NA	0.0	NM
Total / *Median**	32.3	40.8	*106.2%*	*1.6%*	*11.1%*	8.0	*26.8%*

- In terms of non-performing loans to total assets, Qatar Islamic Bank is the best performing bank in the region with the lowest ratio at 1.0% (median ratio at 1.6%)
- On an average, annual impairments made against bad loans are taking away 27% share from net interest income of banks, thus, denting bottom line

Note:
1. Impairments in the above table mean provision for loan losses recorded in the income statement. Provision for loan losses include impairment charge for expected credit losses, recoveries of written-off loans and impairment charge on off balance sheet items

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Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Oman – Profitability overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
Bank Muscat	125.2	1.4	1.5%	9.0%
Bank Dhofar	43.2	0.3	0.9%	5.4%
Sohar International Bank	39.3	0.2	0.8%	5.6%
National Bank of Oman	38.3	0.2	0.8%	5.8%
Oman Arab Bank	33.3	0.1	0.4%	3.1%
Ahli Bank	29.9	0.2	1.0%	6.9%
HSBC Bank Oman	23.2	0.1	0.8%	5.6%
Bank Nizwa	13.5	0.1	0.9%	6.1%
Total / *Median**	345.8	2.6	*0.9%*	*5.7%*

- Bank Muscat is the largest bank in Oman with total assets of SAR 125 BN as on 3Q 2021
- Bank Muscat is also the best performing bank in Oman in terms of return on assets and return on equity

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Oman – NPL summary

Company Name	NPL (SAR BN)	Accumulated provisions (SAR BN)	NPL Coverage ratio	NPL/ Total Assets	NPL/ Total Equity	Impairments for the year[1] (SAR BN)	Impairments for the year/ Net Interest Income
Bank Muscat	3.4	4.5	132.2%	2.7%	16.6%	0.4	17.0%
Bank Dhofar	1.7	1.3	74.5%	4.0%	24.8%	0.1	17.8%
Sohar International Bank	1.6	1.2	73.9%	4.2%	28.4%	0.2	29.1%
National Bank of Oman	NA	1.4	NA	NA	NA	0.2	25.9%
Oman Arab Bank	1.3	1.1	85.0%	3.9%	24.8%	0.2	43.6%
Ahli Bank	0.7	0.7	94.2%	2.5%	18.0%	0.1	23.6%
HSBC Bank Oman	0.4	0.4	98.5%	1.8%	12.6%	-0.1	NM
Bank Nizwa	NA	0.1	NA	NA	NA	0.1	NA
Total / *Median**	9.2	10.7	*89.6%*	*3.3%*	*21.4%*	1.2	*24.8%*

- In terms of non-performing loans to total assets, HSBC Bank Oman is the best performing bank in the region with the lowest ratio at 1.8% (median ratio at 3.3%)
- On an average, annual impairments made against bad loans are taking away 25% share from net interest income of banks, thus, denting bottom line

Note:
1. Impairments in the above table mean provision for loan losses recorded in the income statement. Provision for loan losses include impairment charge for expected credit losses, recoveries of written-off loans and impairment charge on off balance sheet items

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Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Kuwait – Profitability overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
National Bank of Kuwait	404.3	3.3	1.1%	8.4%
Kuwait Finance House	273.3	2.6	1.3%	12.8%
Kuwait Projects Company Holding	125.3	0.3	0.3%	3.4%
Boubyan Bank	90.9	0.4	0.6%	6.1%
Burgan Bank	86.6	0.5	0.8%	6.5%
Gulf Bank	78.7	0.3	0.6%	5.7%
Al Ahli Bank of Kuwait	65.0	0.3	0.6%	4.7%
Ahli United Bank	55.7	0.3	0.8%	6.0%
Commercial Bank of Kuwait	52.2	0.5	1.3%	7.3%
Warba Bank	44.6	0.1	0.3%	4.4%
Kuwait International Bank	35.8	0.0	0.2%	1.5%
Total / *Median**	1,312.5	8.8	*0.6%*	*6.0%*

- National Bank of Kuwait is the largest bank in Kuwait with total assets of SAR 404 BN as on 3Q 2021
- Kuwait Finance House is the best performing bank in Kuwait in terms of return on assets and return on equity

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Kuwait – NPL summary

Company Name	NPL (SAR BN)	Accumulated provisions (SAR BN)	NPL Coverage ratio	NPL/ Total Assets	NPL/ Total Equity	Impairments for the year[1] (SAR BN)	Impairments for the year/ Net Interest Income
National Bank of Kuwait	3.8	8.0	212.1%	0.9%	7.0%	1.4	22.8%
Kuwait Finance House	5.6	8.1	143.4%	2.1%	19.5%	1.5	26.7%
Kuwait Projects Company Holding	4.0	2.9	72.5%	3.2%	35.4%	0.6	75.9%
Boubyan Bank	0.7	2.1	292.5%	0.8%	7.7%	0.5	30.7%
Burgan Bank	2.8	NA	NA	3.2%	25.6%	0.6	51.0%
Gulf Bank	0.8	3.5	413.5%	1.1%	10.3%	0.5	38.1%
Al Ahli Bank of Kuwait	1.1	3.2	292.3%	1.7%	14.4%	0.4	40.4%
Ahli United Bank	0.8	1.7	201.6%	1.5%	9.7%	0.2	23.7%
Commercial Bank of Kuwait	NA	2.0	NA	NA	NA	0.3	40.7%
Warba Bank	NA	0.7	NA	NA	NA	0.4	102.5%
Kuwait International Bank	0.7	0.9	119.4%	2.0%	16.5%	0.2	46.3%
Total / *Median**	20.4	32.9	*206.8%*	*1.7%*	*14.4%*	6.5	*40.4%*

- In terms of non-performing loans to total assets, Boubyan Bank is the best performing bank in the region with the lowest ratio at 0.8% (median ratio at 1.7%)
- On an average, annual impairments made against bad loans are taking away 40% share from net interest income of banks, thus, denting bottom line

Note:

1. Impairments in the above table mean provision for loan losses recorded in the income statement. Provision for loan losses include impairment charge for expected credit losses, recoveries of written-off loans and impairment charge on off balance sheet items

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts

Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Bahrain – Profitability overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
Ahli United Bank	155.8	1.8	1.6%	11.6%
Arab Banking Corporation	128.9	0.4	0.4%	3.2%
Al Baraka Banking Group	107.1	0.5	0.7%	8.9%
National Bank of Bahrain	45.3	0.5	1.4%	11.8%
Bank of Bahrain and Kuwait	36.4	0.4	1.5%	10.4%
Ithmaar Holding	33.6	0.1	0.2%	7.2%
Al Salam Bank	25.7	0.2	0.9%	7.4%
Bahrain Islamic Bank	13.0	0.0	0.4%	4.1%
United Gulf Holding Company	12.6	0.0	0.2%	1.1%
Khaleeji Commercial Bank	10.4	0.1	1.1%	7.6%
Total / *Median**	568.9	3.9	*0.8%*	*7.5%*

- Ahli United Bank is the largest bank in Bahrain with total assets of SAR 156 BN as on 3Q 2021
- Ahli United Bank and National Bank of Bahrain are the best performing banks in Bahrain in terms of return on assets and return on equity respectively

*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts
Source: S&P Capital IQ – 3Q-2021 Financials

Banks in Bahrain – NPL summary

Company Name	NPL (SAR BN)	Accumulated provisions (SAR BN)	NPL Coverage ratio	NPL/ Total Assets	NPL/ Total Equity	Impairments for the year[1] (SAR BN)	Impairments for the year/ Net Interest Income
Ahli United Bank	2.1	3.8	181.5%	1.4%	9.4%	0.3	12.8%
Arab Banking Corporation	3.5	3.6	103.1%	2.7%	22.0%	0.3	18.6%
Al Baraka Banking Group	NA	NA	NA	NA	NA	0.4	26.0%
National Bank of Bahrain	1.2	0.9	75.9%	2.5%	22.0%	0.1	7.2%
Bank of Bahrain and Kuwait	0.9	1.0	101.7%	2.6%	17.7%	0.0	2.7%
Ithmaar Holding	1.2	1.4	114.8%	3.5%	109.9%	0.0	NM
Al Salam Bank	0.3	0.5	142.0%	1.3%	11.4%	0.1	20.2%
Bahrain Islamic Bank	0.7	0.3	49.0%	5.0%	52.9%	0.0	13.3%
United Gulf Holding Company	NA	NA	NA	NA	NA	0.0	NM
Khaleeji Commercial Bank	0.4	0.2	48.3%	4.1%	27.4%	0.0	114.5%
Total / *Median**	10.3	11.6	*102.4%*	*2.6%*	*22.0%*	1.3	*16.0%*

- In terms of non-performing loans to total assets, Al Salam Bank is the best performing bank in the region with the lowest ratio at 1.3% (median ratio at 2.6%)
- On an average, annual impairments made against bad loans are taking away 16% share from net interest income of banks, thus, denting bottom line

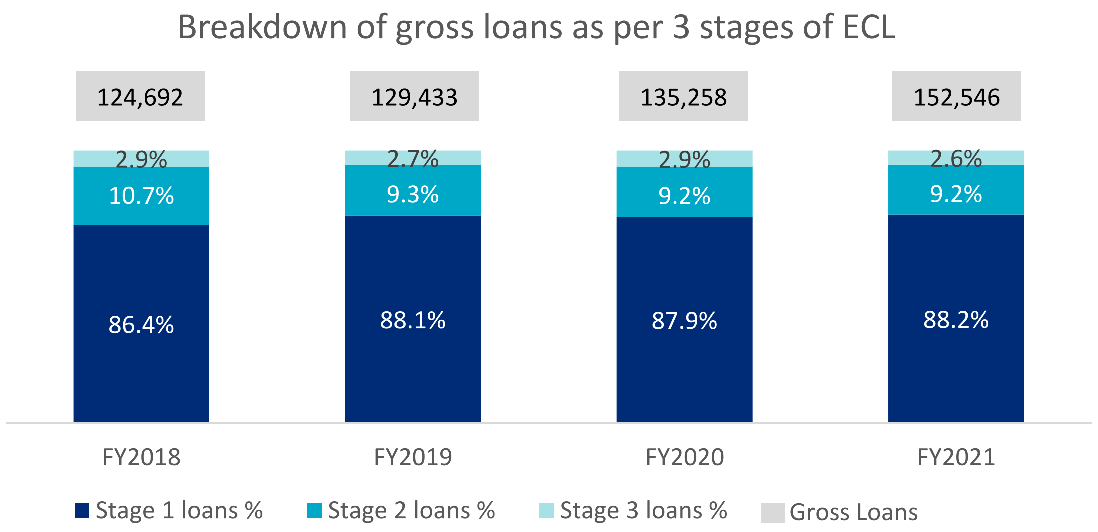
Note:
1. Impairments in the above table mean provision for loan losses recorded in the income statement. Provision for loan losses include impairment charge for expected credit losses, recoveries of written-off loans and impairment charge on off balance sheet items

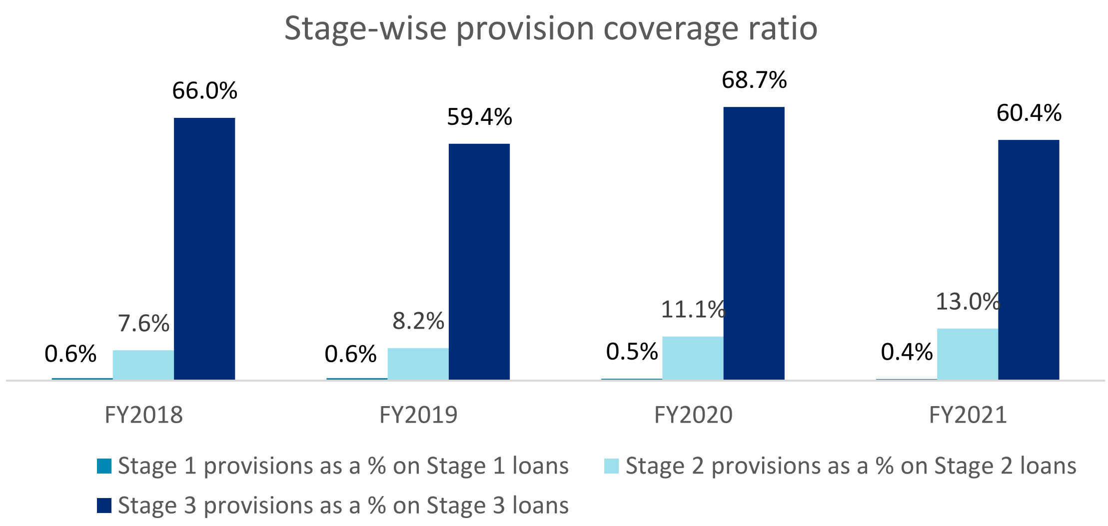
*Median ratios will be different from the ratios calculated in the global comparison section, as those ratios are calculated on total amounts

Source: S&P Capital IQ – 3Q-2021 Financials

Banque Saudi Fransi

Asset quality analysis – Breakdown of gross loans into ECL stages and their provisions indicate similar composition of Stage 1,2,3 loans; while the gross loan book has increased by 22% since FY 2018





IFRS 9 details on the asset quality norms and how banks must classify their gross loan book into different stages

Gross loans are classified as 12 month ECL (Stage 1), Lifetime ECL not credit impaired (Stage 2) and Lifetime ECL credit impaired (Stage 3), where ECL stands for Expected Credit Loss (Please refer appendix for more information)

Essentially, stage 1 loans are performing loans with timely repayments, stage 2 loans are loans which are showing early signs of stress and may slip into stage 3 category, and stage 3 loans are predominantly NPLs, restructured loans

- While the gross loan book has increased by 22% over the last 3 years, the composition of the three stages of gross loans has remained largely stable with stage 3 loans, remaining below 3%

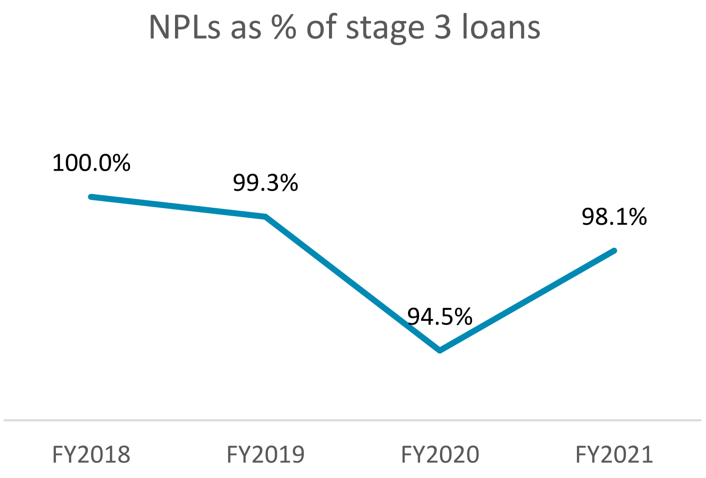
As per IFRS 9, the bank is required to estimate provisioning requirement on these 3 stages of loans, which is a function of probability of default and loss-given default (please refer appendix for an illustration)

Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

- Provisions on stage 1 loans has been gradually declining (0.6% in FY2018 to 0.4% in FY2021)
- But the provisions on stage 2 loans has been consistently rising from 7.6% in FY2018 to 13.0% in FY2021 indicating higher expected credit losses
- Stage 3 loan provisions range from 59.4% to 68.7% during the period of FY2018-FY2021

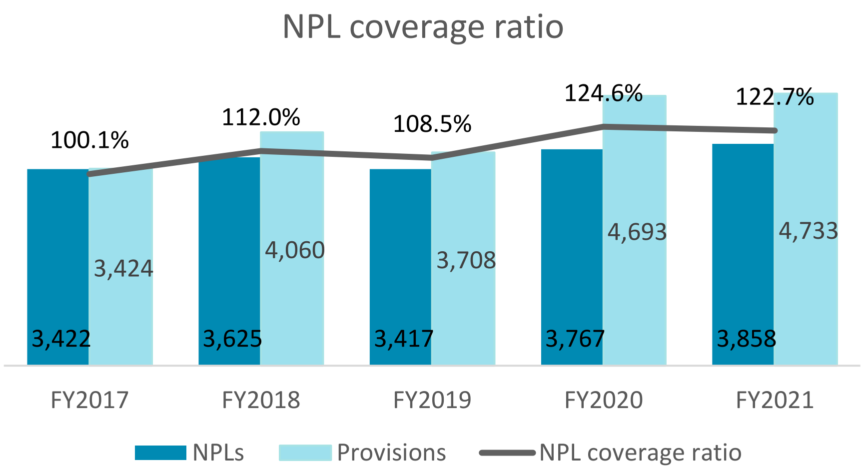
Source: Annual report

Asset quality analysis – NPL coverage ratio has increased steadily since FY 2017 however NPLs account for ~10% of book equity and effective management can unlock shareholder value



Stage 3 loans include non-performing loans, impaired restructured loans and certain other risky exposures not included as NPLs

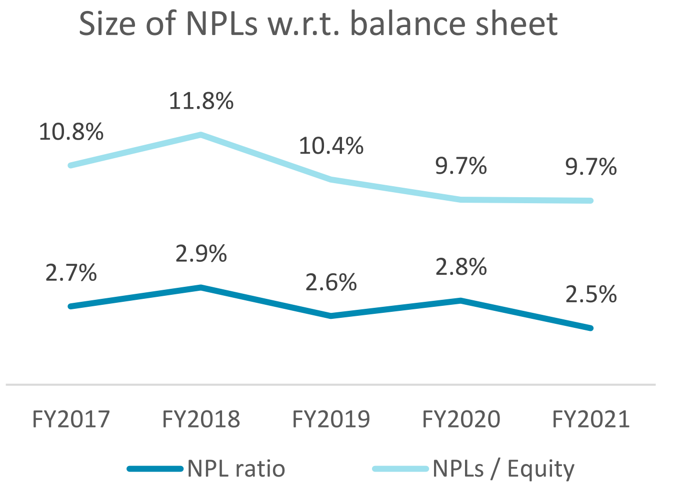
- There are no NPLs in stage 1 and stage 2 loans
- Non-performing loans are a major subset of stage 3 loans; evident from +90% share of stage 3 loans historically



Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- Increasing NPL coverage ratio indicates improved coverage of NPLs through higher provisioning
- Detailed assessment of NPLs to be carried to distinguish the impact of increased stage 2 provisioning versus eventual requirement under stage 3 NPLs

(for more information on NPLs as per IFRS 9, please refer appendix)

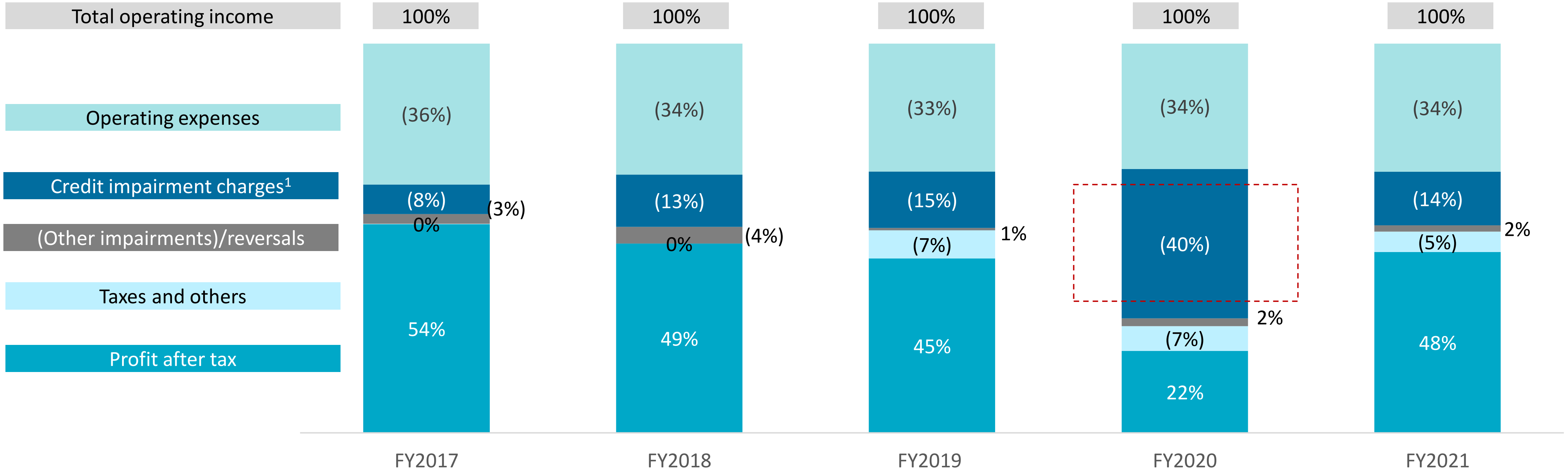


NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been ~10% of book value of equity and can unlock potential shareholder value through effective management

Source: Annual report

Impairment charges have significant impact on profitability



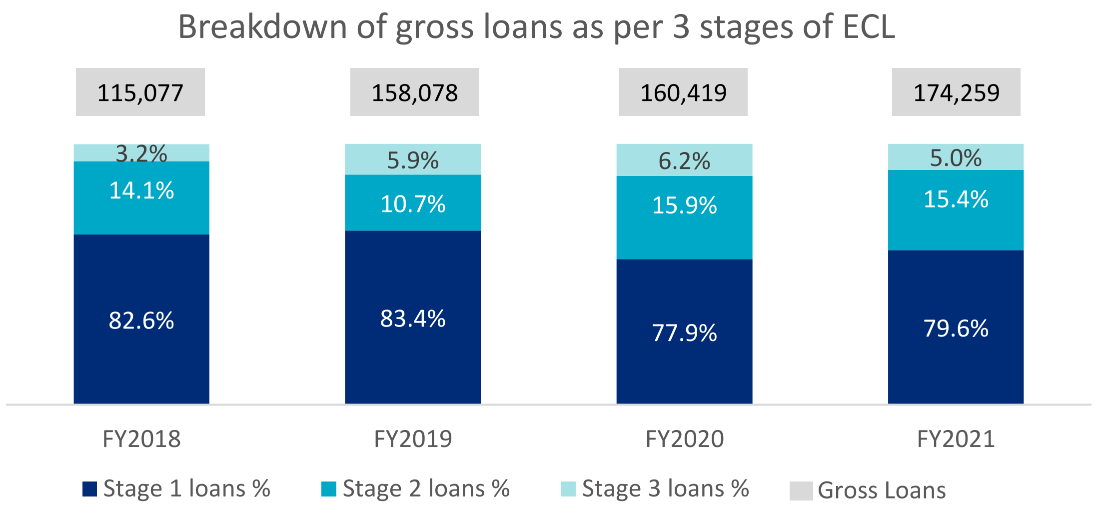
	FY2017	FY2018	FY2019	FY2020	FY2021
Credit costs[2]	0.4%	0.8%	0.8%	2.2%	0.7%
Return on average equity[3]	11.5%	10.6%	9.8%	4.3%	8.8%

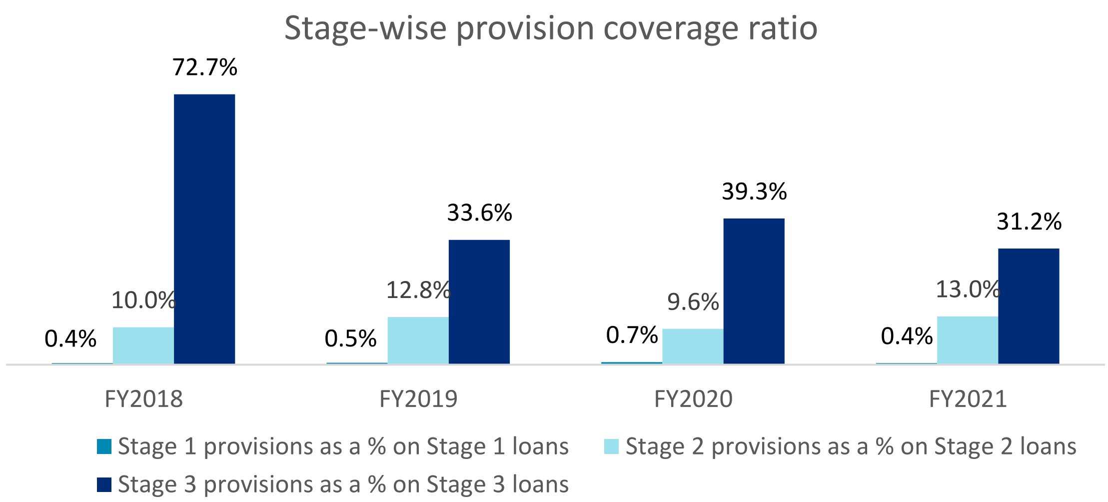
- With the evolution of stringent asset quality norms, there has been significant impact of annual credit provisions on profitability and on the bottom-line
- High NPLs lead to high credit costs impacting shareholder return, as the banks are mandated to create adequate provisions on bad loans

Note: 1. Credit impairment charges mean impairment charges for expected credit losses recorded in income statement, in simple words, this is the provisions made during the year on expected credit losses; 2. Credit cost is calculated as credit impairment charges for the year / Average net loans; 3. Return on average equity is calculated as PAT / average equity (ROAE)
Source: Annual report

The Saudi British Bank

Asset quality analysis – Breakdown of gross loans into ECL stages and their provisions indicate rise in share of stage 3 loans; while gross loan book has increased by 51% since FY 2018





IFRS 9 details on the asset quality norms and how banks must classify their gross loan book into different stages

Gross loans are classified as 12 month ECL (Stage 1), Lifetime ECL not credit impaired (Stage 2) and Lifetime ECL credit impaired (Stage 3), where ECL stands for Expected Credit Loss (Please refer appendix for more information)

Essentially, stage 1 loans are performing loans with timely repayments, stage 2 loans are loans which are showing early signs of stress and may slip into stage 3 category, and stage 3 loans are predominantly NPLs, restructured loans

- The gross loan book has increased by 51% over the last 3 years
- Stage 2 loans have remained largely stable. However, stage 1 loans have declined and stage 3 loans have increased in the total mix by FY2021

As per IFRS 9, the bank is required to estimate provisioning requirement on these 3 stages of loans, which is a function of probability of default and loss-given default (please refer appendix for an illustration)

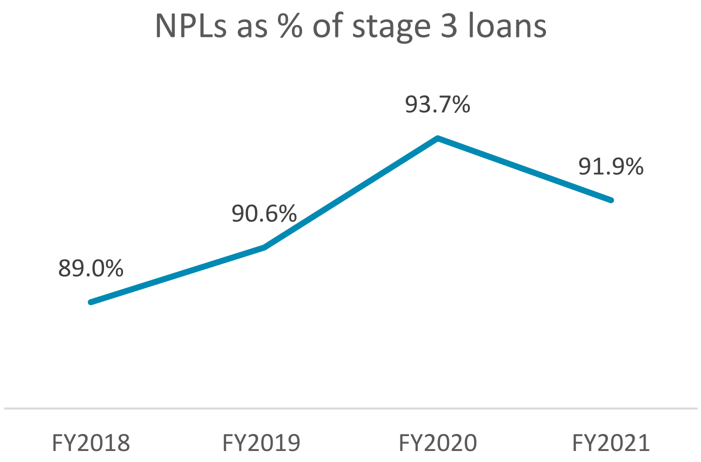
Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

- Provisions on stage 1 loans have remained stable during FY2018 - FY2021
- Provisions on stage 2 loans has been fluctuating during the same period, but has increased in FY2021 compared to FY2018
- Dip in stage 3 provisions in FY2019 is due to very low provisioning on POCI[1]

Note: 1. POCI means Purchased or originated credit impaired. For SABB, POCI includes NPLs acquired through the merger with Alawwal Bank in 2017. POCI are credit impaired loans which should be part of non-performing loans, hence, for accurate representation, POCI has been included in NPLs and consequently in Stage 3 loans. Provisions on POCI is part of Stage 3 provisions

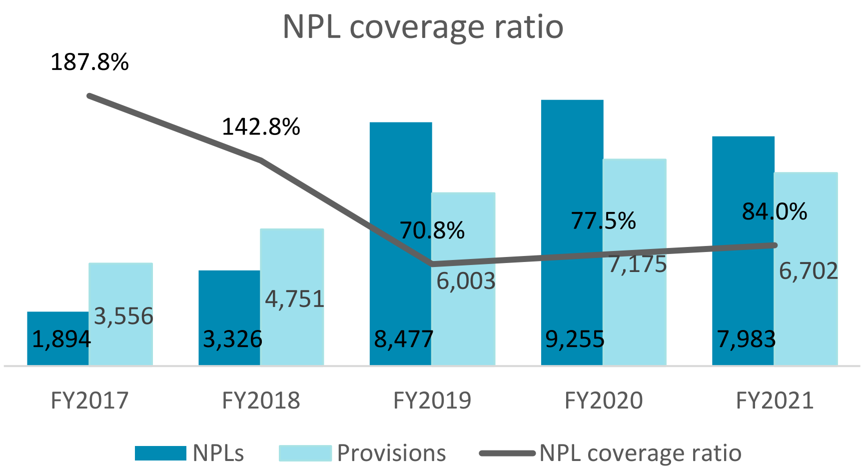
Source: Annual report

Asset quality analysis – NPL coverage ratio is below 100% in recent years and NPLs account for +15% of book equity; effective management can unlock shareholder value



Stage 3 loans include non-performing loans, impaired restructured loans and certain other risky exposures not included as NPLs

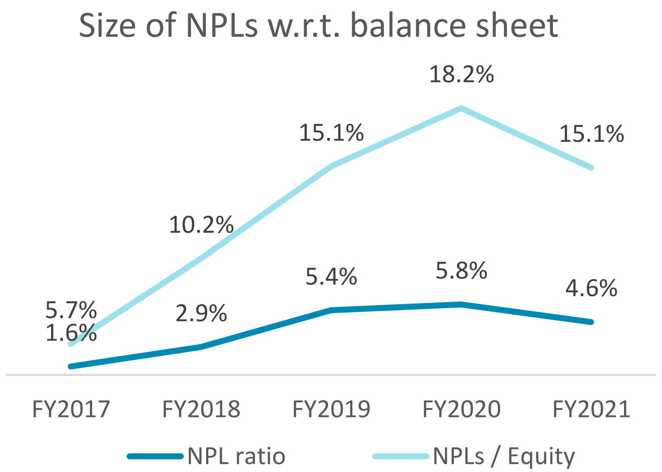
- Non-performing loans are a major subset of stage 3 loans; evident from ~90% share of Stage 3 loans historically



Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- POCI[1] is considered to be part of NPLs. Provisions on POCI made by the bank is part of stage 3 provisions
- In FY2019, the increase in total provisions is much lower than the rise in NPLs

(for more information on NPLs as per IFRS 9, please refer appendix)



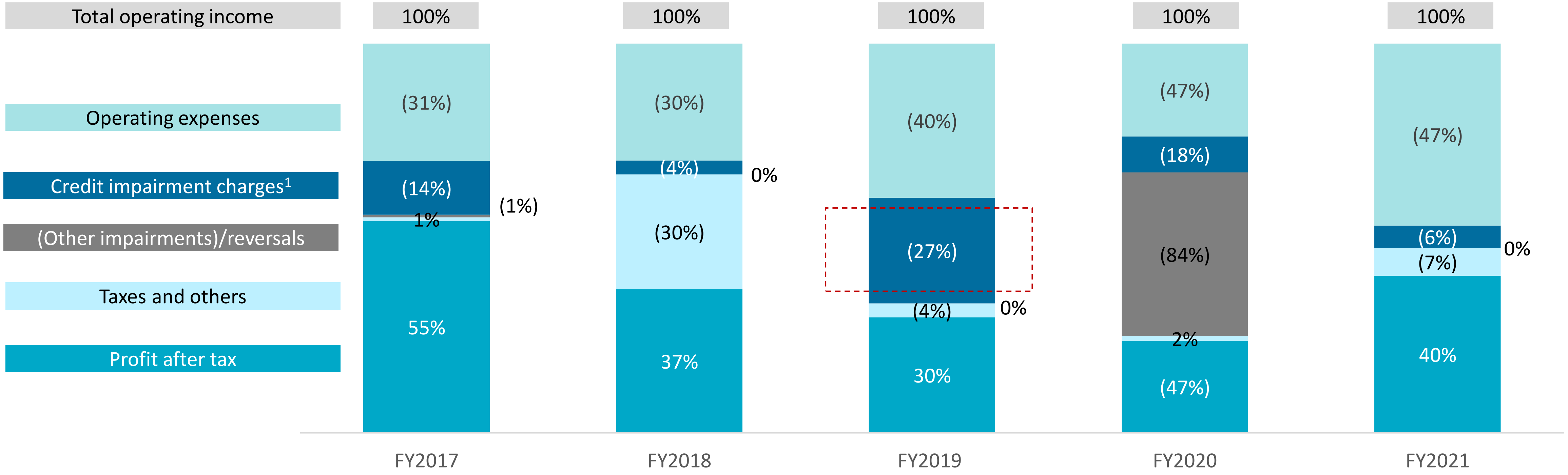
NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been ~15% of book value of equity and can unlock potential shareholder value through effective management

Note: 1. POCI means Purchased or originated credit impaired. For SABB, POCI includes NPLs acquired through the merger with Alawwal Bank in 2017. POCI are credit impaired loans which should be part of non-performing loans, hence, for accurate representation, POCI has been included in NPLs and consequently in Stage 3 loans. Provisions on POCI is part of Stage 3 provisions

Source: Annual report

Impairment charges have significant impact on profitability



	FY2017	FY2018	FY2019	FY2020	FY2021
Credit costs[2]	0.8%	0.2%	1.9%	1.1%	0.3%
Return on average equity[3]	12.2%	8.2%	6.2%	NM	6.2%

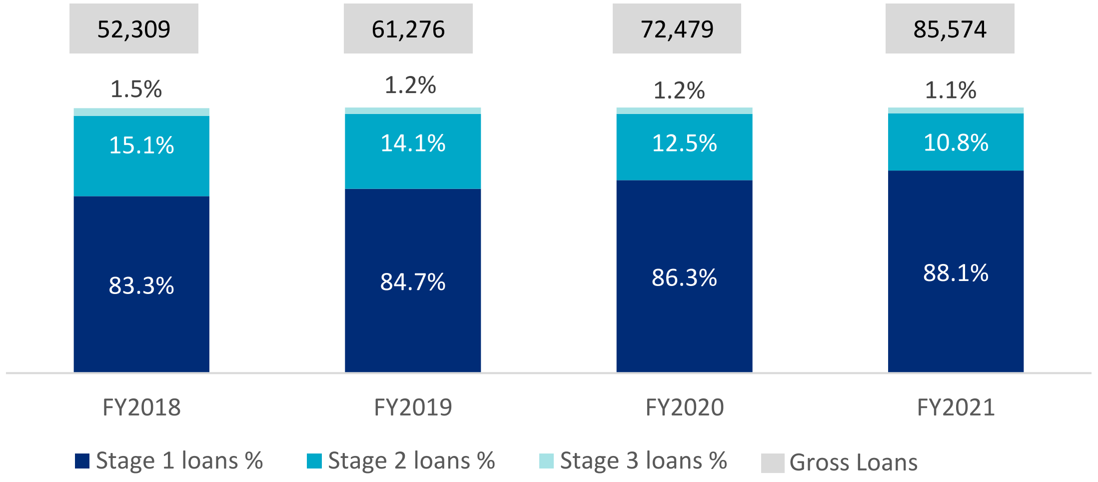
- With the evolution of stringent asset quality norms, there has been significant impact of annual credit provisions on profitability and on the bottom-line. However, the bank has not created adequate provisions on bad loans as is evident by the low coverage ratio (earlier slide)
- In FY2019, provisions consume 27% of total operating income, leading to low return on equity compared to prior years

Note: 1. Credit impairment charges mean impairment charges for expected credit losses recorded in income statement, in simple words, this is the provisions made during the year on expected credit losses;
2. Credit cost is calculated as credit impairment charges for the year / Average net loans; 3. Return on average equity is calculated as PAT / average equity (ROAE)
Source: Annual report

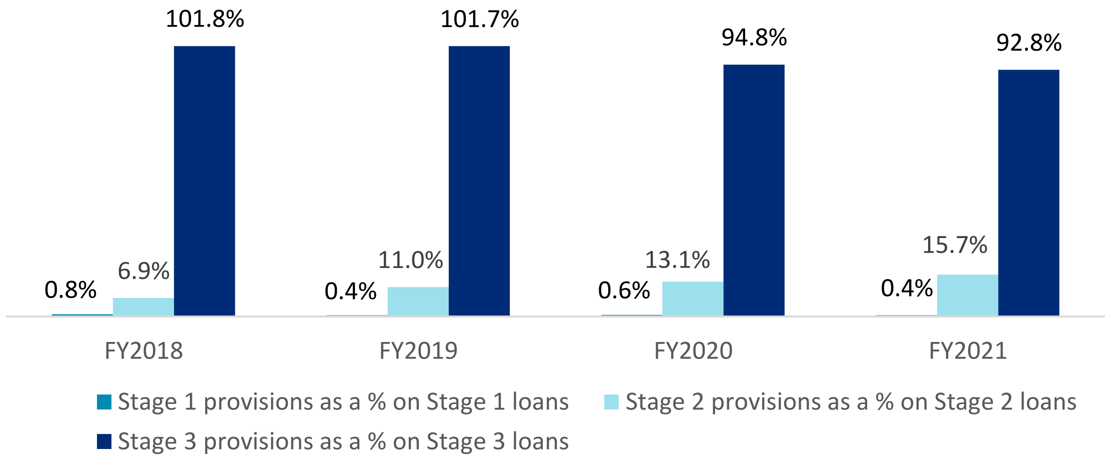
Bank Albilad

Asset quality analysis – Breakdown of gross loans into ECL stages and their provisions indicate rise in share of stage 1 loans; while gross loan book has increased by 64% since FY 2018

Breakdown of gross loans as per 3 stages of ECL



Stage-wise provision coverage ratio



IFRS 9 details on the asset quality norms and how banks must classify their gross loan book into different stages

Gross loans are classified as 12 month ECL (Stage 1), Lifetime ECL not credit impaired (Stage 2) and Lifetime ECL credit impaired (Stage 3), where ECL stands for Expected Credit Loss (Please refer appendix for more information)

Essentially, stage 1 loans are performing loans with timely repayments, stage 2 loans are loans which are showing early signs of stress and may slip into stage 3 category, and stage 3 loans are predominantly NPLs, restructured loans

- The gross loan book has increased by 64% over the last 3 years
- Share of stage 1 loans has increased, while share of stage 2 and stage 3 loans have declined in the total mix by FY2021

As per IFRS 9, the bank is required to estimate provisioning requirement on these 3 stages of loans, which is a function of probability of default and loss-given default (please refer appendix for an illustration)

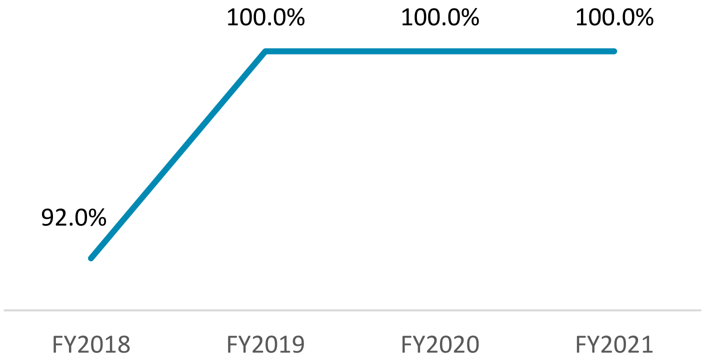
Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

- Provisions on stage 1 loans has fluctuated during FY2018 - FY2021, however, in FY2021 it is low compared to FY2018
- Provisions on stage 2 loans has been gradually rising from 6.9% in FY2018 to 15.7% in FY2021 indicating higher expected credit losses
- Provisions on stage 3 loans have gradually decreased from 101.8% in FY2018 to 92.8% in FY2021 indicating lower expected credit losses

Source: Annual report

Asset quality analysis – NPL coverage ratio has increased steadily since FY 2017 however NPLs account for ~ 8% of book equity and effective management can unlock shareholder value

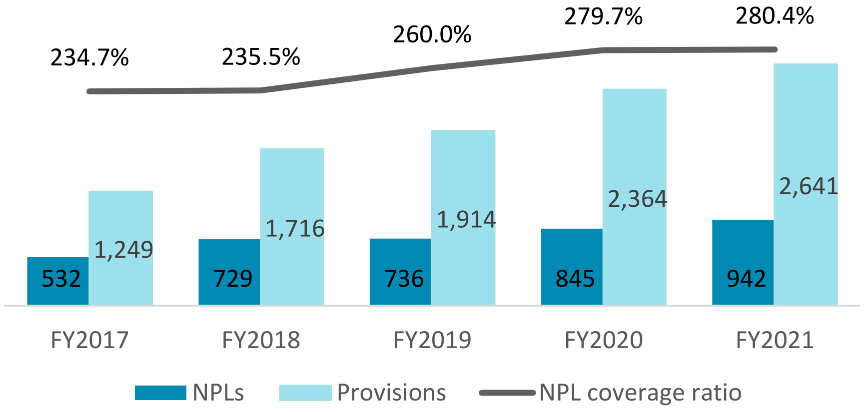
NPLs as % of stage 3 loans



Stage 3 loans include non-performing loans, impaired restructured loans and certain other risky exposures not included as NPLs

- There are no NPLs in stage 1 and stage 2 loans
- Non-performing loans are a major subset of stage 3 loans; evident from majorly 100% share of stage 3 loans historically

NPL coverage ratio

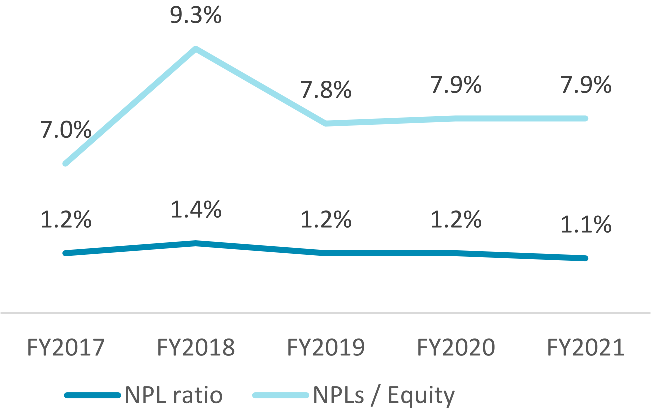


Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- Increasing NPL coverage ratio indicates improved coverage of NPLs through higher provisioning
- Detailed assessment of NPLs to be carried to distinguish the impact of increased Stage 2 provisioning versus eventual requirement under Stage 3 NPLs

(for more information on NPLs as per IFRS 9, please refer appendix)

Size of NPLs w.r.t. balance sheet

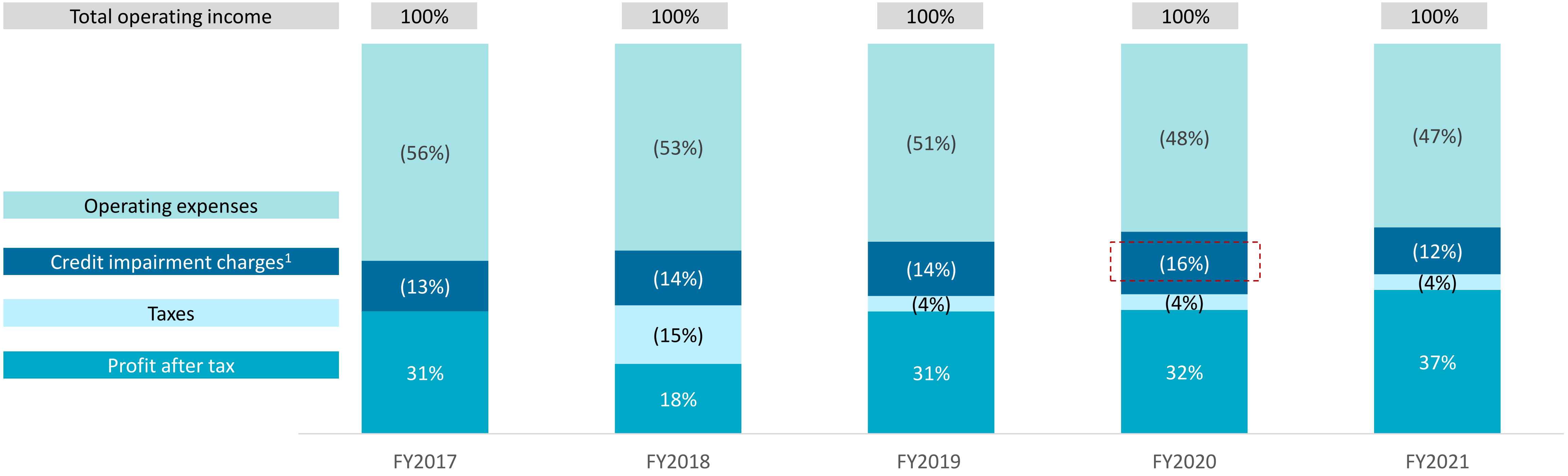


NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been in the range of 7.0% - 9.3% of book value of equity and can unlock potential shareholder value through effective management

Source: Annual report

Impairment charges have significant impact on profitability



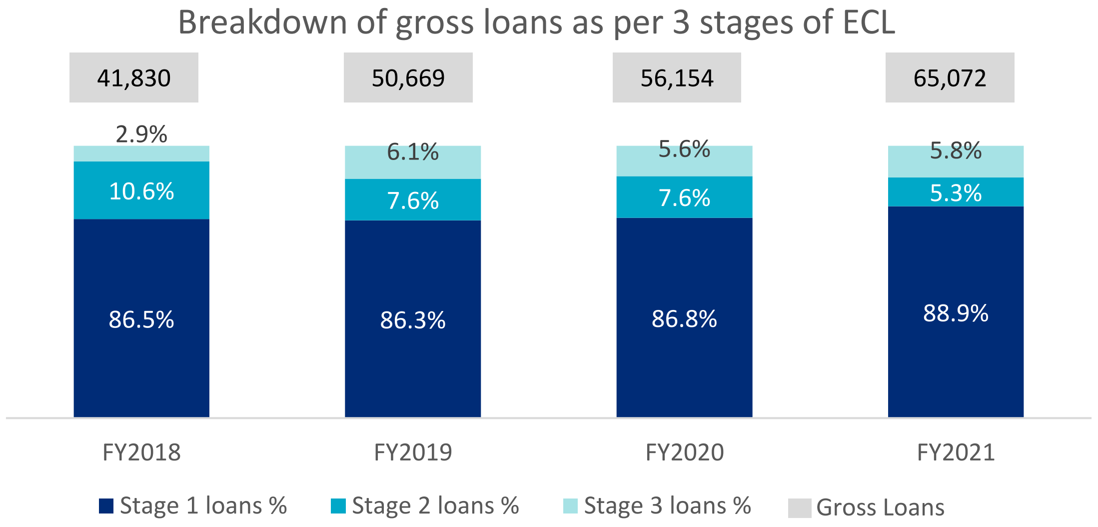
	FY2017	FY2018	FY2019	FY2020	FY2021
Credit costs[2]	1.0%	1.0%	1.0%	1.1%	0.7%
Return on average equity[3]	12.7%	7.9%	14.4%	13.4%	14.8%

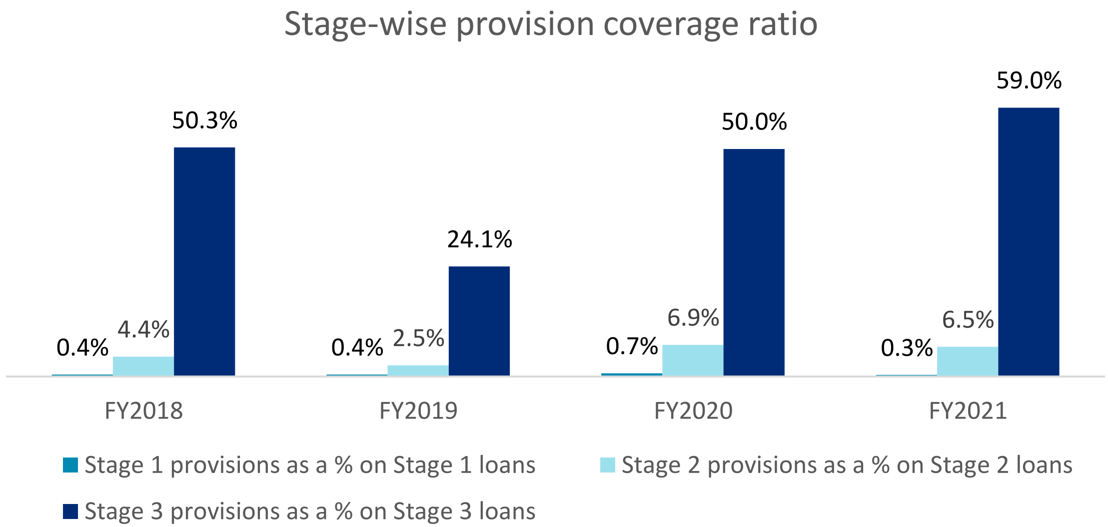
- With the evolution of stringent asset quality norms, there has been significant impact of annual credit provisions on profitability and on the bottom-line
- High NPLs lead to high credit costs impacting shareholder return, as the banks are mandated to create adequate provisions on bad loans

Note: 1. Credit impairment charges mean impairment charges for expected credit losses recorded in income statement, in simple words, this is the provisions made during the year on expected credit losses;
2. Credit cost is calculated as credit impairment charges for the year / Average net loans; 3. Return on average equity is calculated as PAT / average equity (ROAE)
Source: Annual report

AL Jazira Bank

Asset quality analysis – Breakdown of gross loans into ECL stages and their provisions indicate rise in share of stage 3 loans; while gross loan book has increased by 56% since FY 2018





IFRS 9 details on the asset quality norms and how banks must classify their gross loan book into different stages

Gross loans are classified as 12 month ECL (Stage 1), Lifetime ECL not credit impaired (Stage 2) and Lifetime ECL credit impaired (Stage 3), where ECL stands for Expected Credit Loss (Please refer appendix for more information)

Essentially, stage 1 loans are performing loans with timely repayments, stage 2 loans are loans which are showing early signs of stress and may slip into stage 3 category, and stage 3 loans are predominantly NPLs, restructured loans

- The gross loan book has increased by 56% over the last 3 years
- Share of stage 1 loans and stage 3 loans have increased, while share of stage 2 loans have declined in the total mix by FY2021

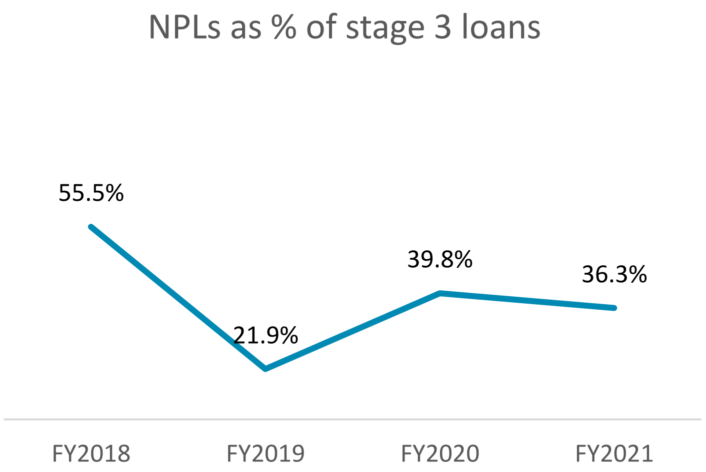
As per IFRS 9, the bank is required to estimate provisioning requirement on these 3 stages of loans, which is a function of probability of default and loss-given default (please refer appendix for an illustration)

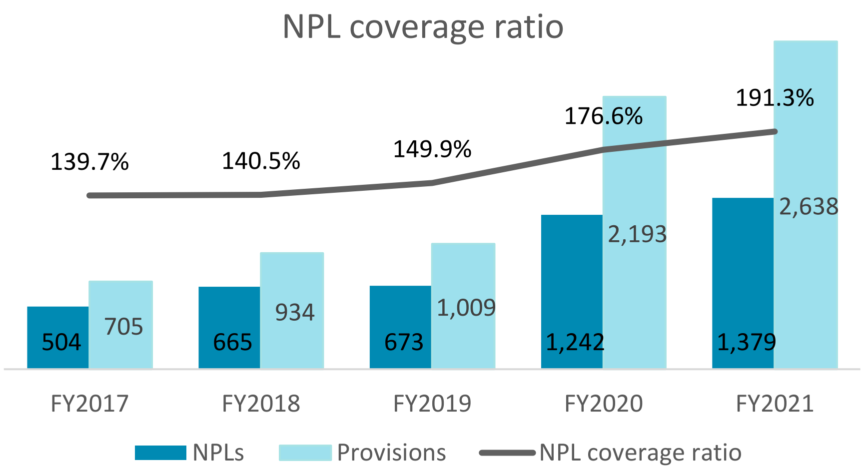
Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

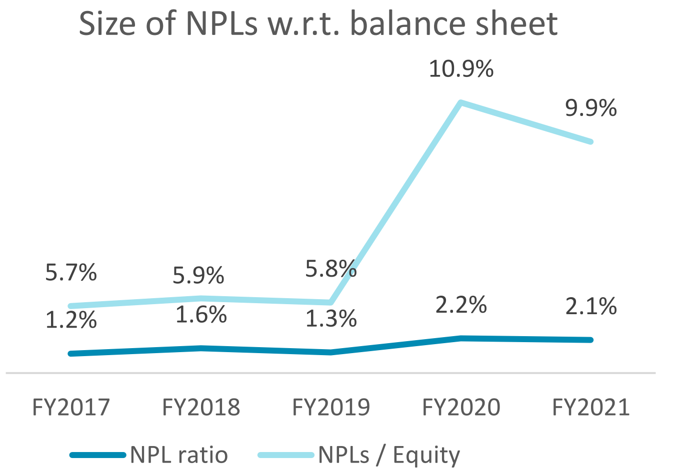
- Stage 1 provisions have largely remained stable during FY2018-FY2021
- Provisions on stage 2 loans has increased from 4.4% in FY2018 to 6.5% in FY2021 indicating higher expected credit losses
- Similarly, provisions on stage 3 loans has increased from 50.3% in FY2018 to 59.0% in FY2021 indicating higher expected credit losses

Source: Annual report

Asset quality analysis – NPL coverage ratio has increased steadily since FY 2017 however NPLs account for ~ 10% of book equity and effective management can unlock shareholder value







Stage 3 loans include non-performing loans, impaired restructured loans and certain other risky exposures not included as NPLs

- There are no NPLs in stage 1 and stage 2 loans
- NPLs as a percentage of stage 3 loans range from 22% to 56% during the historical period
- This indicates stage 3 loans have a high share of impaired restructured loans and other risky exposures

Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- Increasing NPL coverage ratio indicates improved coverage of NPLs through higher provisioning
- Detailed assessment of NPLs to be carried to distinguish the impact of increased Stage 2 provisioning versus eventual requirement under Stage 3 NPLs

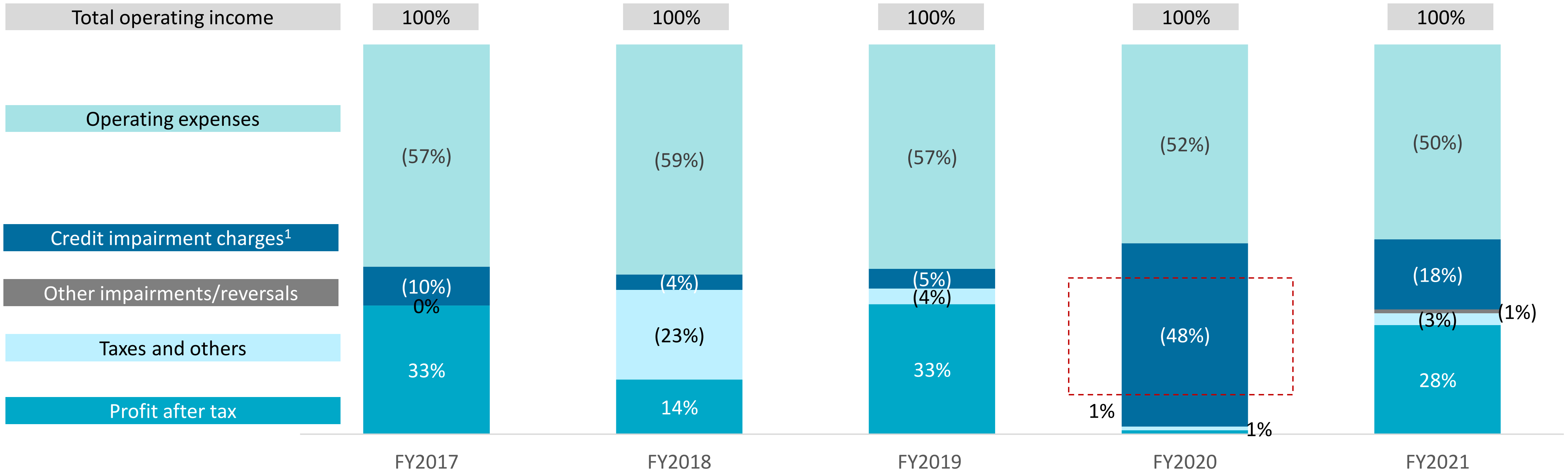
(for more information on NPLs as per IFRS 9, please refer appendix)

NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been at ~10% of book value of equity and can unlock potential shareholder value through effective management

Source: Annual report

Impairment charges have significant impact on profitability



	FY2017	FY2018	FY2019	FY2020	FY2021
Credit costs[2]	0.7%	0.3%	0.3%	3.0%	1.1%
Return on average equity[3]	10.1%	3.8%	8.7%	0.3%	8.0%

- With the evolution of stringent asset quality norms, there has been significant impact of annual credit provisions on profitability and on the bottom-line
- High NPLs lead to high credit costs impacting shareholder return, as the banks are mandated to create adequate provisions on bad loans

Note: 1. Credit impairment charges mean impairment charges for expected credit losses recorded in income statement, in simple words, this is the provisions made during the year on expected credit losses; 2. Credit cost is calculated as credit impairment charges for the year / Average net loans; 3. Return on average equity is calculated as PAT / average equity (ROAE)
Source: Annual report

Appendix

Three-stage model for classifying gross advances in terms of asset quality

Impairment of loans is recognized – on an individual or collective basis – in three stages under IFRS 9:

Stage 1

When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognized (12-month ECL) and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing loans with no significant increase in credit risk since their initial recognition

Stage 2

If a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognized

Stage 3

If the loan's credit risk increases to the point where it is considered credit-impaired, lifetime ECLs are recognized, as in Stage 2. Difference between stage 2 and stage 3 is in recording of interest revenue, difference in probability of default rates assumed and other differences in calculation of ECL

Source: FSI Connect, PWC report

Expected credit losses (ECL) methodology

- IFRS 9 establishes a new model for recognition and measurement of impairments in loans—the so-called "expected credit losses" model
- Expected credit losses are calculated by:

  (a) identifying scenarios in which a loan defaults;

  (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen;

  (c) multiplying that loss by the probability of the default happening; and

  (d) summing the results of all such possible default events. Because every loan has at least some probability of defaulting in the future, every loan has an expected credit loss associated with it—from the moment of its origination or acquisition

Expected Credit Losses – A simple illustration

Methodology	
(A)Loan amount*	1,000
(B) Estimated cash flows if default occurs	100
(C) Cash shortfall subsequent to default (A – B)	900
(D) Probability of default	1%
Expected Credit Loss (ECL) – (C X D)	9

*Estimated future cash flows at initial recognition assuming borrower pays as anticipated, discounted at the loan's effective interest rate
Source: PWC report

Non-performing loans as per IFRS 9

- IFRS 9, which came into force on 1 January 2018, classifies credit exposures into Stage 1 (non-impaired, no significant increase in credit risk), Stage 2 (non-impaired, but with a significant increase in credit risk) and Stage 3 (impaired)
- Stage 3 loans include non-performing loans, impaired restructured loans and certain other risky exposures not included as NPLs
- ‘Lifetime expected credit losses’ are defined as: “the expected credit losses that result from all possible default events over the expected life of the financial instrument”
- IFRS 9 does not define the term ‘default’, but instead requires each entity to do so. The definition has to be consistent with that used for internal credit risk management purposes for the relevant financial instrument, and has to consider qualitative indicators – e.g. breaches of covenants – when appropriate
- The aim of IFRS was to craft a standard which is more forward-looking and its application will help in foreseeing bad loans
- However, the standard contains a rebuttable presumption of 90 days past due for default. The implied meaning of this presumption is that a default does not occur later than when a financial asset is 90 days past due. The definition of default should be applied consistently, unless information that becomes available indicates that another default definition is more appropriate for a particular financial instrument

Source: Deloitte report, IFRS 9 document