Draft

GCC Banking Sector

Overview of Banks' Non Performing Loans (NPLs)

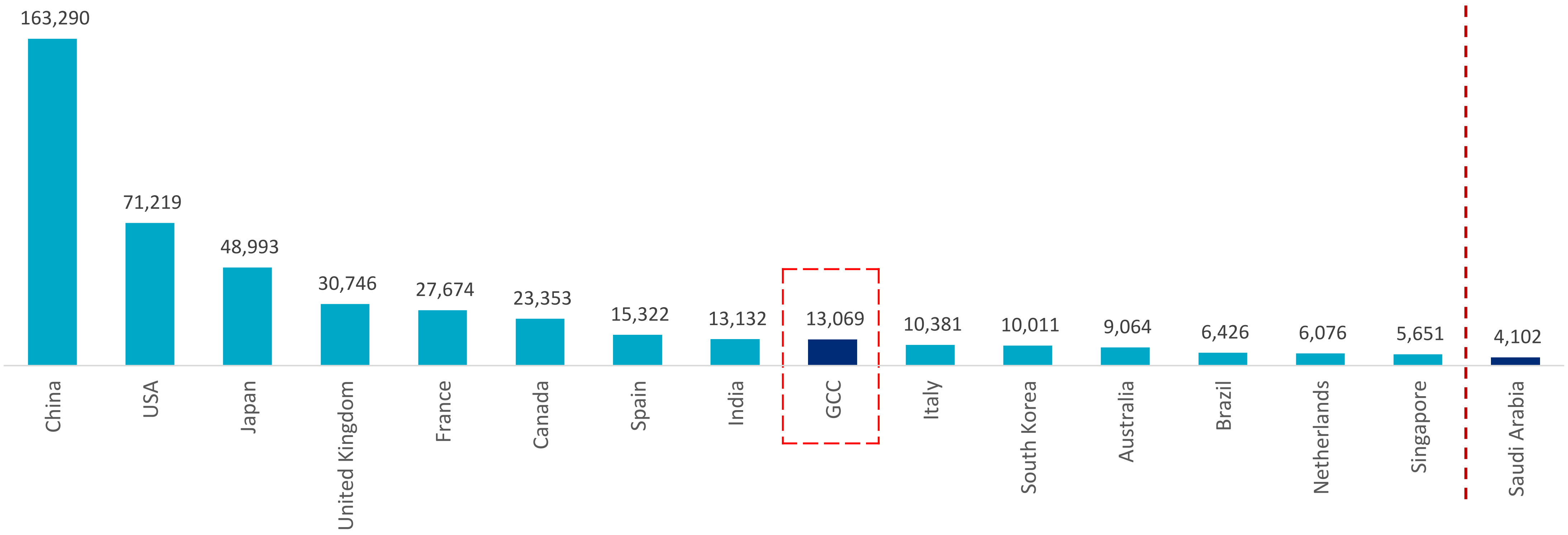
September 2024

Content

Global overview

GCC is the 9th largest banking market by asset size with a cumulative banking assets of SAR 13.1 TN

Top 15 geographies in the world with the largest asset size – 09/24 LTM (SAR in BN)



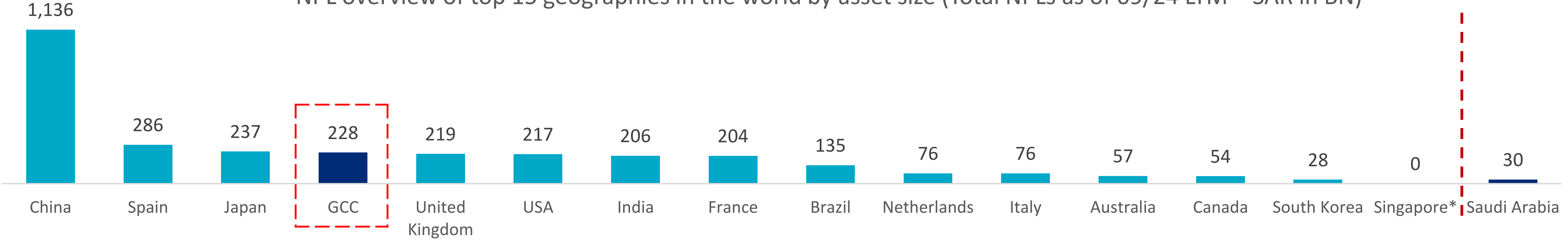
- GCC banks' combined total assets rank 9th in the list with total assets of SAR 13,069 BN as of 09/24 LTM. This represents a share of 2.5% in the world.
- KSA banks' combined total assets stand at SAR 4,102 BN.

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

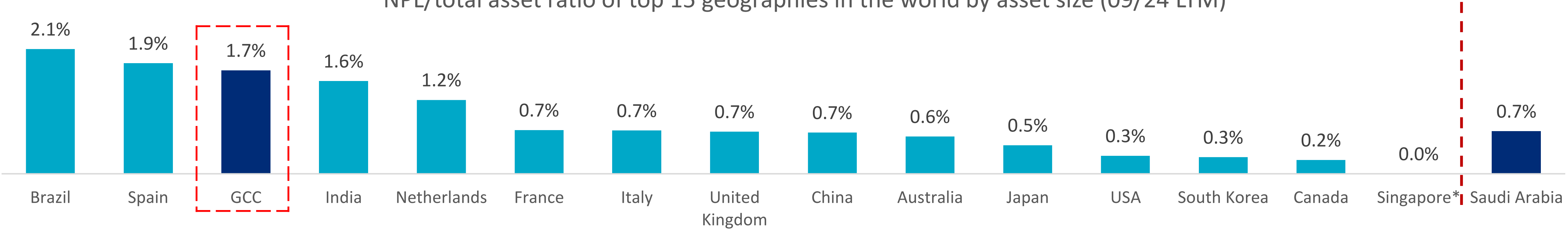
Source: S&P Capital IQ

GCC banks' combined total non-performing loans (NPLs) rank 4th in the world

NPL overview of top 15 geographies in the world by asset size (Total NPLs as of 09/24 LTM – SAR in BN)



NPL/total asset ratio of top 15 geographies in the world by asset size (09/24 LTM)



- GCC banks' combined total NPLs ranks 4th in the list with total non-performing loans of SAR 228 BN as of 09/24 LTM. This represents a share of 6.0% in the world.
- GCC banks' NPL/total assets ratio ranks 3rd in the list with a ratio of 1.7%.

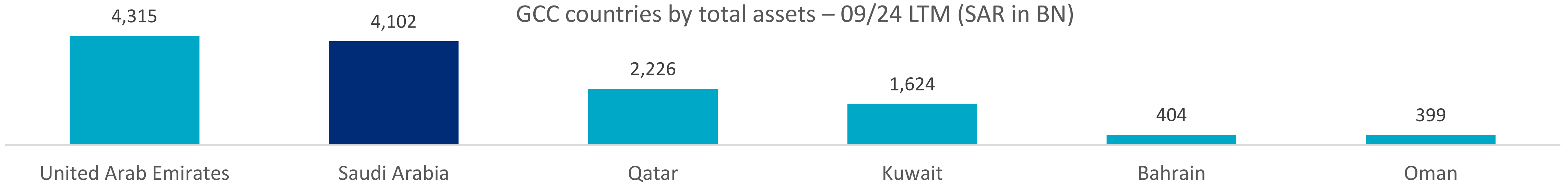
Only publicly listed banks have been considered to collate data for respective countries

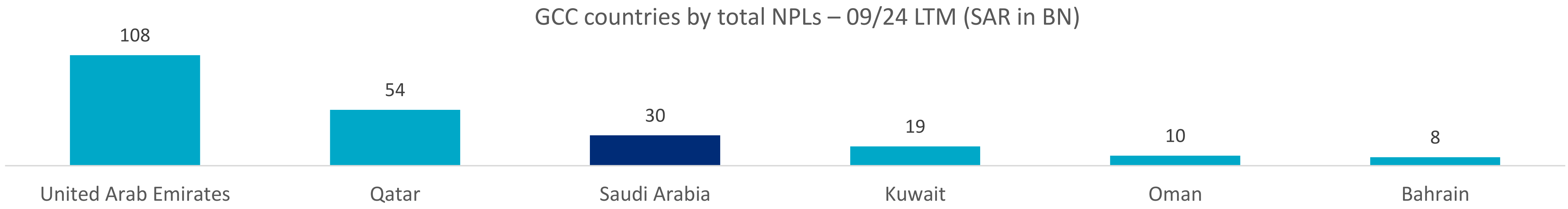
*Singapore's NPL data is not available

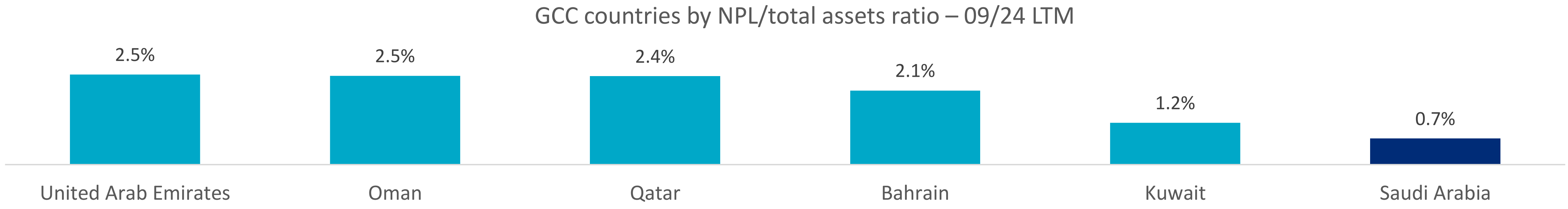
Source: S&P Capital IQ

GCC overview

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





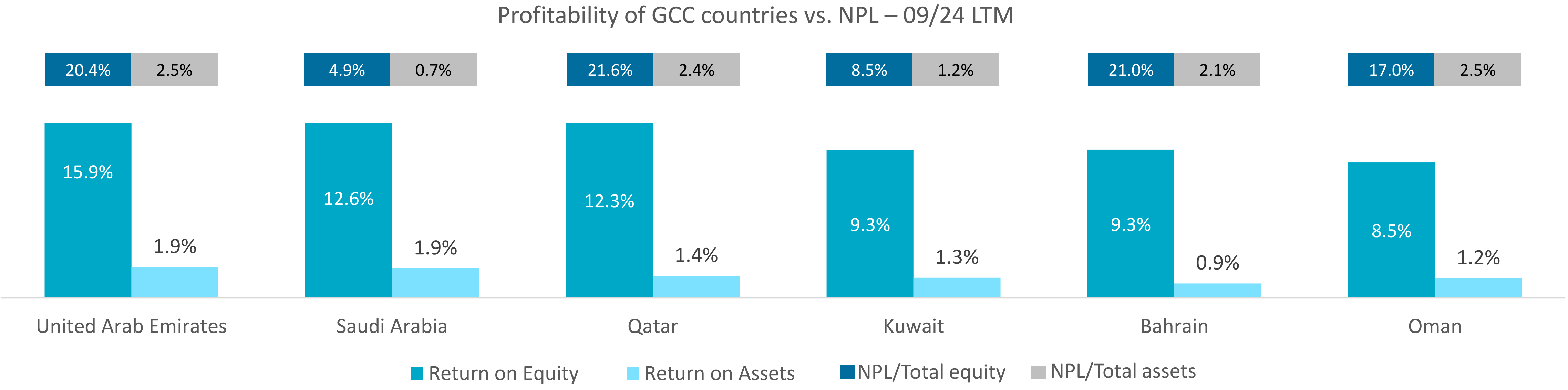


Only publicly listed banks have been considered to collate data for respective countries

Source: S&P Capital IQ

KSA banking market has the 2nd highest return on total assets and the 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	4,315.0	527.3	84.0	107.5	2.5%	20.4%
Saudi Arabia	4,101.7	604.1	76.0	29.5	0.7%	4.9%
Qatar	2,225.8	251.2	30.9	54.4	2.4%	21.6%
Kuwait	1,623.8	221.5	20.6	18.8	1.2%	8.5%
Bahrain	404.2	39.4	3.7	8.3	2.1%	21.0%
Oman	398.7	57.8	4.9	9.8	2.5%	17.0%
Total / *Median**	13,069.1	1,701.4	220.1	228.3	*2.2%*	*18.7%*



Note: Financials for publicly listed banks have been considered to collate data for the respective countries for 09/24 LTM
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	1,124.6	20.5	1.9%	11.6%
Al Rajhi Banking and Investment Corporation	902.6	18.4	2.2%	16.7%
Riyad Bank	433.4	9.0	2.2%	15.0%
Saudi Awwal Bank	395.3	7.8	2.1%	13.0%
Banque Saudi Fransi	287.7	4.3	1.6%	10.0%
Alinma Bank	267.0	5.6	2.3%	15.1%
Arab National Bank	241.0	4.7	2.0%	13.3%
Bank Albilad	153.7	2.6	1.8%	17.1%
The Saudi Investment Bank	151.2	1.9	1.3%	11.0%
Bank AlJazira	145.2	1.2	0.9%	7.3%
Total / *Median**	4,101.7	76.0	*2.0%*	*13.1%*

- The Saudi National Bank is the largest bank in KSA, with total assets of SAR 1,125 BN as of 09/24 LTM.
- Alinma Bank is the best performing bank in KSA in terms of return on assets, and Bank Albilad is the best in terms of 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 – 09/24 LTM

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 year1 (SAR BN)	Impairments for the year/ Net Interest Income
The Saudi National Bank	7.5	11.2	149.9%	0.7%	4.1%	1.4	5.1%
Al Rajhi Banking and Investment Corporation	5.2	8.6	165.2%	0.6%	4.4%	2.0	8.4%
Riyad Bank	3.7	5.4	144.9%	0.9%	5.9%	1.6	12.6%
Saudi Awwal Bank	3.7	6.5	177.3%	0.9%	5.7%	0.5	5.0%
Banque Saudi Fransi	1.7	3.3	193.1%	0.6%	3.7%	1.1	14.8%
Alinma Bank	1.6	3.8	245.2%	0.6%	3.8%	1.1	13.1%
Arab National Bank	2.2	3.2	144.5%	0.9%	6.1%	0.4	5.2%
Bank Albilad	1.4	2.8	203.0%	0.9%	8.5%	0.2	5.5%
The Saudi Investment Bank	1.4	2.1	154.7%	0.9%	7.7%	0.3	9.4%
Bank AlJazira	1.2	2.4	197.9%	0.9%	7.1%	0.3	11.6%
Total / *Median**	29.5	49.3	*171.3%*	*0.9%*	*5.8%*	9.0	*8.9%*

- 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 0.6% (median ratio at 0.9%).
- Median impairments made against bad loans are taking away 8.9% 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 – 09/24 LTM

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	1,254.8	17.4	1.4%	13.6%
Emirates NBD Bank	975.6	23.5	2.6%	20.2%
Abu Dhabi Commercial Bank	651.8	9.5	1.6%	13.4%
Dubai Islamic Bank	335.9	7.8	2.4%	16.1%
Mashreq Bank	259.6	8.9	3.7%	27.5%
Abu Dhabi Islamic	227.1	6.3	3.0%	23.7%
Commercial Bank of Dubai	143.1	3.0	2.2%	18.6%
Emirates Islamic Bank	108.8	3.0	3.1%	23.8%
The National Bank of Ras Al-Khaimah	85.6	2.2	2.7%	19.9%
Sharjah Islamic Bank	76.3	1.0	1.4%	11.8%
National Bank of Fujairah	59.7	0.9	1.6%	12.0%
Bank of Sharjah	41.6	0.1	0.4%	3.8%
Ajman Bank	24.9	0.0	NA	NA
Commercial Bank International	21.4	0.3	1.3%	8.8%
United Arab Bank	20.4	0.3	1.5%	10.9%
National Bank of Umm Al-Qaiwain	16.9	0.5	3.3%	9.1%
Invest Bank	11.2	-0.6	-5.1%	-27.3%
Total / *Median**	4,315.0	84.0	*1.9%*	*13.5%*

- First Abu Dhabi Bank is the largest bank in UAE with total assets of SAR 1,255 BN as of 09/24 LTM.
- Mashreq Bank is the best performing bank in UAE in terms of return on equity and 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 – 09/24 LTM

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 year1 (SAR BN)	Impairments for the year/ Net Interest Income
First Abu Dhabi Bank	29.2	14.5	49.4%	2.3%	22.2%	3.8	19.5%
Emirates NBD Bank	21.1	31.6	149.3%	2.2%	16.8%	0.0	0.1%
Abu Dhabi Commercial Bank	10.1	9.9	98.3%	1.5%	13.4%	3.1	23.2%
Dubai Islamic Bank	10.7	8.3	78.2%	3.2%	21.3%	0.7	7.4%
Mashreq Bank	2.3	2.7	116.8%	0.9%	6.5%	-1.0	NM
Abu Dhabi Islamic	6.2	4.6	72.9%	2.7%	22.6%	0.7	8.7%
Commercial Bank of Dubai	6.0	5.6	94.2%	4.2%	35.0%	0.8	22.1%
Emirates Islamic Bank	3.5	4.8	135.3%	3.2%	24.5%	0.5	12.2%
The National Bank of Ras Al-Khaimah	1.2	2.8	233.8%	1.4%	10.1%	0.8	20.9%
Sharjah Islamic Bank	2.0	1.7	85.0%	2.6%	22.6%	0.2	15.8%
National Bank of Fujairah	1.8	2.0	114.6%	3.0%	21.7%	0.8	41.7%
Bank of Sharjah	2.1	1.8	83.2%	5.1%	55.5%	0.0	NM
Ajman Bank	NA	0.7	NA	NA	NA	0.5	105.2%
Commercial Bank International	2.4	0.8	34.9%	11.2%	76.2%	0.0	0.1%
United Arab Bank	0.6	0.6	99.3%	2.9%	22.6%	0.0	NM
National Bank of Umm Al-Qaiwain	0.3	0.2	56.5%	1.9%	5.4%	0.0	6.1%
Invest Bank	7.9	5.4	68.4%	70.5%	433.9%	0.5	358.2%
Total / *Median**	107.5	97.9	*89.6%*	*2.8%*	*22.4%*	11.4	*17.7%*

- In terms of non-performing loans to total assets, Mashreq Bank is the best performing bank in UAE with the lowest ratio at 0.9% (median ratio at 2.8%).
- Median impairments made against bad loans are taking away 17.7% 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 – 09/24 LTM

Banks in Qatar – Profitability Overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
Qatar National Bank	1,317.2	17.1	1.3%	15.0%
Qatar Islamic Bank	203.4	4.6	2.3%	14.9%
Masraf Al Rayan	170.7	1.6	0.9%	6.1%
The Commercial Bank	168.1	3.1	1.9%	12.0%
Dukhan Bank	120.2	1.4	1.2%	9.2%
Doha Bank	113.2	0.9	0.8%	5.7%
Ahli Bank	63.4	0.9	1.0%	10.0%
Qatar International Islamic Bank	61.8	1.3	2.0%	13.1%
Lesha Bank	7.8	0.1	1.1%	10.9%
Total / *Median**	2,225.8	30.9	*1.2%*	*10.9%*

- Qatar National Bank is the largest bank in Qatar with total assets of SAR 1,317 BN as of 09/24 LTM.
- Amongst Qatari banks having above SAR 100 BN total asset size, Qatar Islamic Bank is the best performing bank in terms of return on assets, and Qatar National Bank in terms of 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 – 09/24 LTM

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 year1 (SAR BN)	Impairments for the year/ Net Interest Income
Qatar National Bank	28.4	34.8	122.8%	2.2%	24.4%	8.1	24.3%
Qatar Islamic Bank	2.4	7.9	333.2%	1.2%	7.4%	1.0	23.0%
Masraf Al Rayan	7.0	4.7	67.4%	4.1%	27.0%	1.1	126.2%
The Commercial Bank	5.9	6.1	102.7%	3.5%	21.9%	0.7	19.3%
Dukhan Bank	4.2	3.2	75.9%	3.5%	28.0%	0.4	36.9%
Doha Bank	5.0	3.9	76.6%	4.5%	32.8%	0.7	34.1%
Ahli Bank	NA	2.5	NA	NA	NA	0.6	32.4%
Qatar International Islamic Bank	1.4	1.9	130.3%	2.3%	14.6%	0.3	51.3%
Lesha Bank	NA	0.3	NA	NA	NA	0.0	0.4%
Total / *Median**	54.4	65.3	*102.7%*	*3.5%*	*24.4%*	13.0	*32.4%*

- 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 1.2% (median ratio at 3.5%).
- Median impairments made against bad loans are taking away 32.4% 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 – 09/24 LTM

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	479.4	7.6	1.6%	12.7%
Kuwait Finance House	443.9	8.1	1.8%	10.8%
Kuwait Projects Company Holding	155.4	NA	0.1%	1.0%
Boubyan Bank	111.0	1.1	1.1%	8.9%
Burgan Bank	94.9	0.6	0.7%	5.0%
Gulf Bank	91.5	0.7	0.8%	7.4%
Al Ahli Bank of Kuwait	86.7	0.6	0.8%	7.9%
Warba Bank	60.5	0.2	0.4%	5.1%
Commercial Bank of Kuwait	56.5	1.2	2.3%	15.0%
Kuwait International Bank	44.0	0.4	0.0%	6.0%
Total / *Median**	1,623.8	20.6	*0.8%*	*7.7%*

- National Bank of Kuwait is the largest bank in Kuwait with total assets of SAR 479 BN as of 09/24 LTM.
- Commercial Bank of Kuwait is the best performing bank in Kuwait in terms of return on equity and 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 – 09/24 LTM

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 year1 (SAR BN)	Impairments for the year/ Net Interest Income
National Bank of Kuwait	4.1	10.8	263.1%	0.9%	6.7%	0.9	7.7%
Kuwait Finance House	5.8	11.3	197.3%	1.3%	7.5%	-0.2	NM
Kuwait Projects Company Holding	3.0	2.3	77.6%	1.9%	14.2%	0.3	NA
Boubyan Bank	0.9	2.7	307.7%	0.8%	6.8%	0.2	9.6%
Burgan Bank	1.5	NA	NA	1.5%	11.8%	-0.3	NM
Gulf Bank	1.0	NA	NA	1.1%	10.0%	0.6	29.4%
Al Ahli Bank of Kuwait	0.7	4.1	554.4%	0.9%	8.7%	0.4	23.4%
Warba Bank	0.8	1.1	133.9%	1.4%	16.7%	0.0	4.0%
Commercial Bank of Kuwait	NA	2.3	NA	NA	NA	0.2	11.9%
Kuwait International Bank	1.0	1.0	97.7%	2.4%	19.0%	0.2	24.1%
Total / *Median**	18.8	35.8	*197.3%*	*1.3%*	*10.0%*	2.3	*11.9%*

- 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 1.3%).
- Median impairments made against bad loans are taking away 11.9% 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 – 09/24 LTM

Banks in Bahrain – Profitability Overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
Arab Banking Corporation	172.3	1.3	0.8%	7.1%
Al Salam Bank	68.3	0.6	1.1%	13.9%
The National Bank of Bahrain	57.3	0.9	1.6%	15.2%
Bank of Bahrain and Kuwait	41.6	0.7	1.8%	11.9%
Ithmaar Holding	24.0	0.1	NA	NA
Khaleeji Bank	15.5	0.1	0.4%	4.7%
Bahrain Islamic Bank	14.5	0.1	0.4%	3.9%
United Gulf Holding Company	10.7	NA	-1.6%	-12.4%
Total / *Median**	404.2	3.7	*0.8%*	*7.1%*

- Arab Banking Corporation is the largest bank in Bahrain with total assets of SAR 172 BN as of 09/24 LTM.
- Bank of Bahrain and Kuwait is the best performing bank in Bahrain in terms of return on assets, and the third in terms of 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 – 09/24 LTM

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 year1 (SAR BN)	Impairments for the year/ Net Interest Income
Arab Banking Corporation	2.7	2.3	85.1%	1.6%	15.4%	0.5	14.9%
Al Salam Bank	1.7	0.6	38.6%	2.4%	32.6%	0.2	8.1%
The National Bank of Bahrain	1.2	1.0	86.3%	2.1%	20.8%	0.1	6.3%
Bank of Bahrain and Kuwait	0.8	0.8	98.1%	2.0%	13.9%	0.2	13.1%
Ithmaar Holding	0.4	0.4	95.6%	1.9%	70.4%	0.1	13.5%
Khaleeji Bank	0.5	0.2	46.7%	3.3%	41.2%	0.0	NM
Bahrain Islamic Bank	0.9	0.5	51.5%	6.1%	60.6%	0.1	39.2%
United Gulf Holding Company	NA	NA	NA	NA	NA	NA	NA
Total / *Median**	8.3	6.0	*85.1%*	*2.1%*	*32.6%*	1.1	*13.3%*

- In terms of non-performing loans to total assets, Arab Banking Corporation is the best performing bank in the region with the lowest ratio at 1.6% (median ratio at 2.1%).
- Median impairments made against bad loans are taking away 13.3% share from net interest income of banks, thus, denting bottom line.

Note:
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*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 – 09/24 LTM

Banks in Oman – Profitability Overview

Company Name	Total Assets (SAR BN)	Net Income (SAR BN)	Return on Assets	Return on Equity
Bank Muscat	137.2	2.2	1.6%	9.3%
Sohar International Bank	73.9	1.0	1.3%	1.0%
National Bank of Oman	48.7	0.6	1.3%	8.8%
Bank Dhofar	46.3	0.4	0.9%	5.7%
Oman Arab Bank	41.5	0.2	0.6%	4.4%
Ahli Bank	33.9	0.4	1.0%	7.0%
Bank Nizwa	17.3	0.2	1.1%	7.1%
Total / *Median**	398.7	4.9	*1.1%*	*7.0%*

- Bank Muscat is the largest bank in Oman with total assets of SAR 137 BN as of 09/24 LTM.
- 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 – 09/24 LTM

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 year1 (SAR BN)	Impairments for the year/ Net Interest Income
Bank Muscat	NA	6.1	NA	NA	NA	0.6	15.5%
Sohar International Bank	2.1	2.6	123.5%	2.8%	28.6%	1.1	62.5%
National Bank of Oman	1.7	1.7	97.7%	3.5%	25.0%	0.1	14.3%
Bank Dhofar	2.0	1.6	78.8%	4.3%	27.7%	0.3	25.1%
Oman Arab Bank	2.2	1.9	85.5%	5.2%	41.8%	0.2	24.7%
Ahli Bank	1.4	1.1	73.3%	4.3%	26.8%	0.1	17.3%
Bank Nizwa	0.4	0.5	113.9%	2.4%	16.6%	0.1	NA
Total / *Median**	9.8	15.3	*91.6%*	*3.9%*	*27.2%*	2.5	*21.0%*

- In terms of non-performing loans to total assets, Bank Nizwa is the best performing bank in the region with the lowest ratio at 2.4% (median ratio at 3.9%).
- Median impairments made against bad loans are taking away 21.0% share from net interest income of banks, thus, denting bottom line.

Note:
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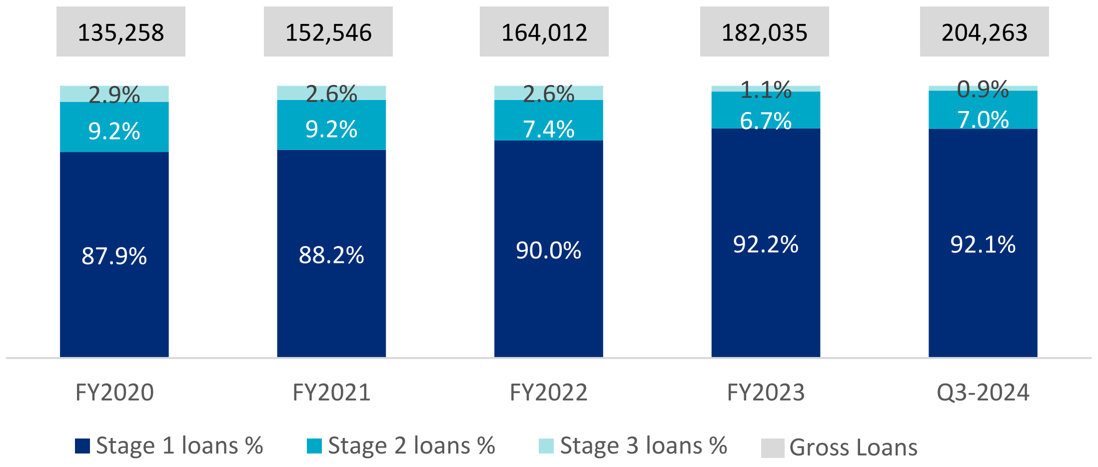
Source: S&P Capital IQ – 09/24 LTM

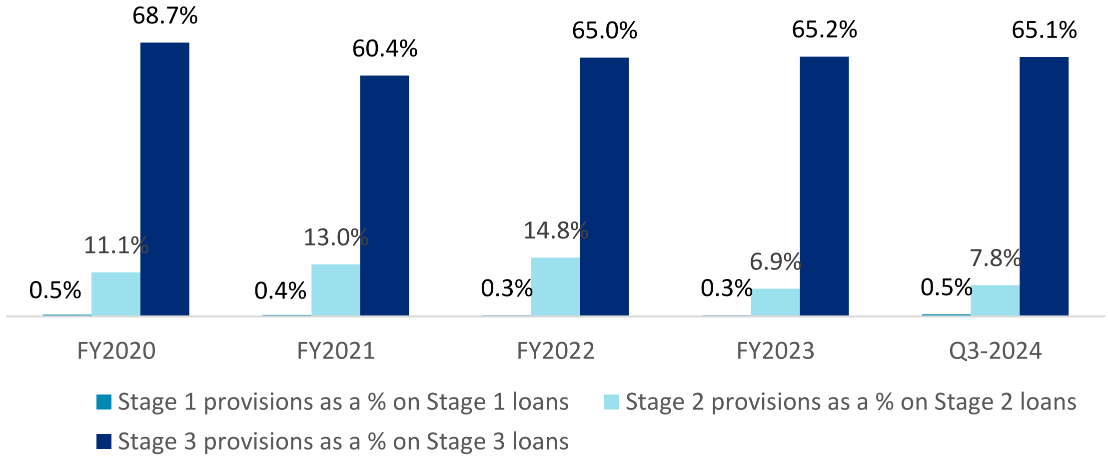
Banque Saudi Fransi

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 51% since FY 2020

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

- While the gross loan book has increased by 51% over the last 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)

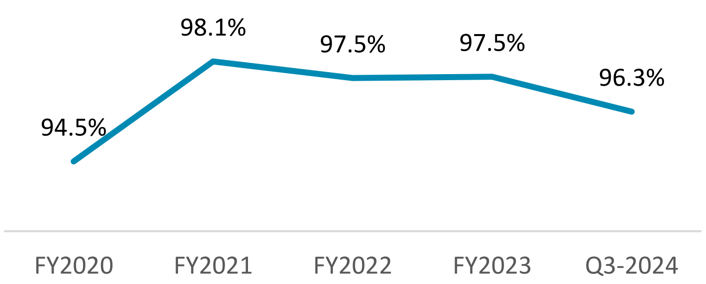
Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

- Provisions on stage 1 loans has been gradually declining (0.5% in FY2020 to 0.3% in FY2023)
- Provisions on stage 2 loans has declined from 11.1% in FY2020 to 6.9% in FY2023, indicating lower expected credit losses
- Stage 3 loan provisions range from 60.4% to 68.7% during the period of FY2020 – Q3-2024

Source: Annual report

Asset quality analysis – NPL coverage ratio has increased since FY 2020, and NPLs/ Equity has changed to 3.7% in Q3-2024, which indicate effective management

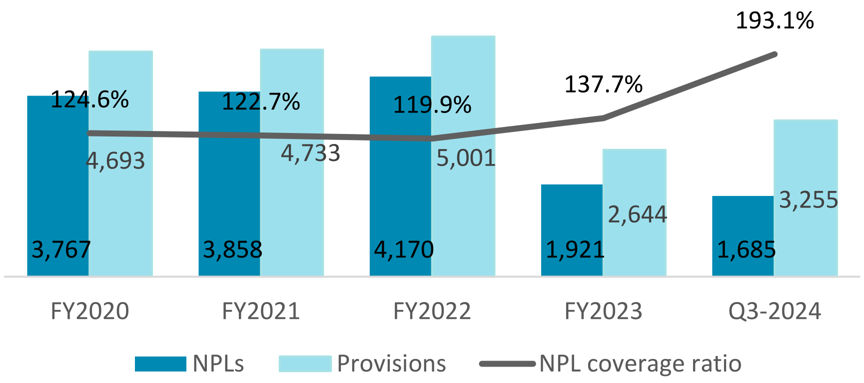
NPLs as % of stage 3 loans



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 +90% share of stage 3 loans historically

NPL coverage ratio

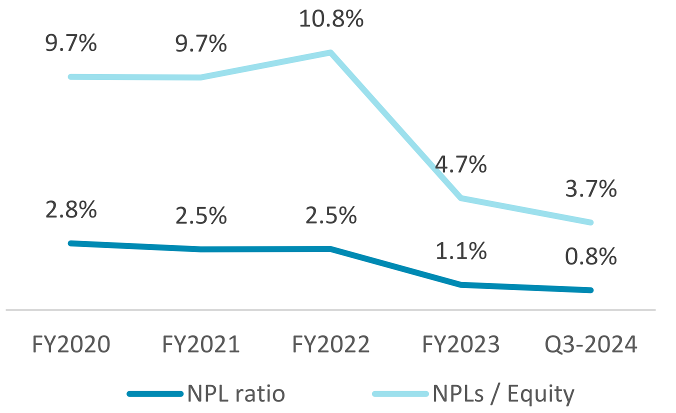


Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- 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

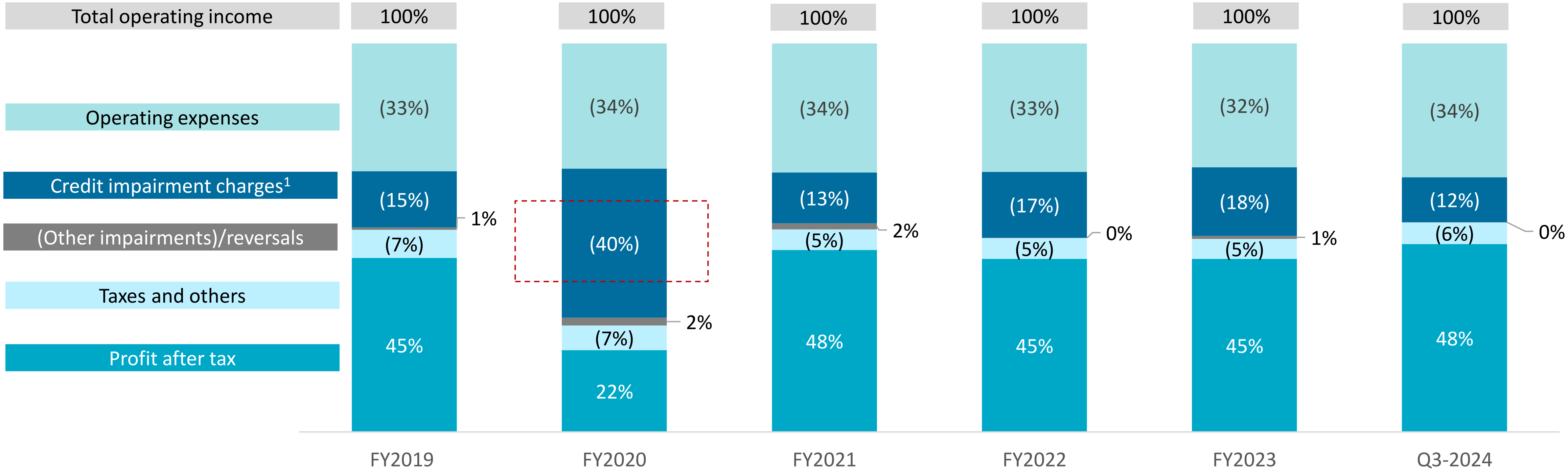


NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been 7.7% on average of book value of equity during FY2020 – Q3-2024. However, that changed to 3.7% in Q3-2024, which indicate effective management

Source: Annual report

Impairment charges have significant impact on profitability



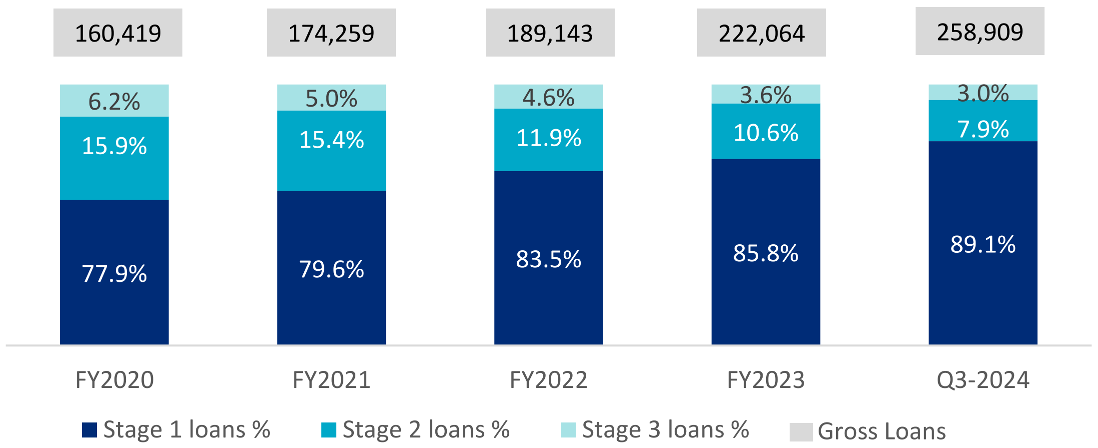
	FY2019	FY2020	FY2021	FY2022	FY2023	Q3-2024
Credit costs[2]	0.8%	2.2%	0.7%	0.9%	1.0%	0.4%
Return on average equity[3]	9.8%	4.3%	8.8%	9.1%	10.6%	7.9%

- 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

Saudi Awwal Bank

Asset quality analysis – Breakdown of gross loans into ECL stages and their provisions indicate decline in share of stage 3 loans since FY 2020; while gross loan book has increased by 61%

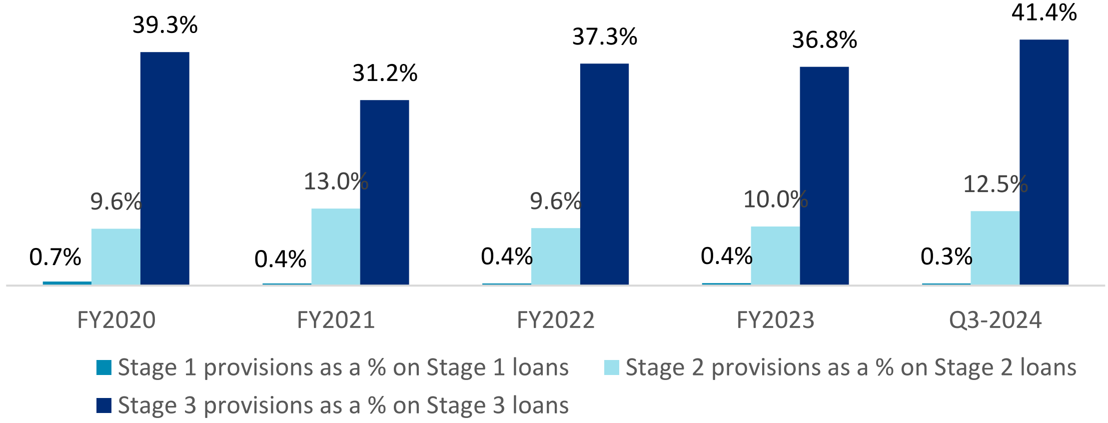


IFRS 9 details on the asset quality norms and how banks must classify their gross loan book into different stages

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 61% since FY2020
- There are variations in Q3-2024 for all stages compared to the last four years



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)

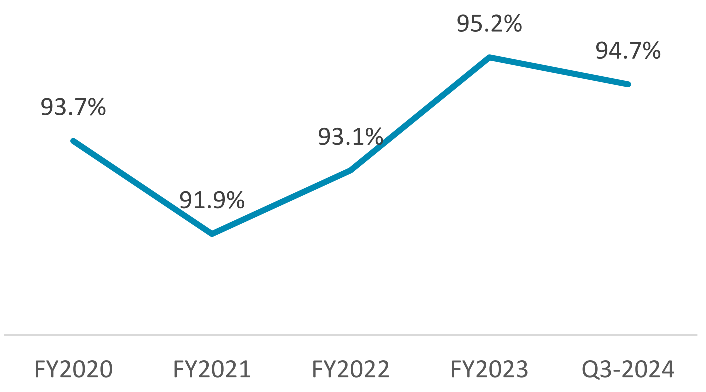
Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

- Provisions on stage 1 loans have remained stable during FY2021 – Q3-2024
- Provisions on stage 2 loans has been fluctuating during the same period
- Stage 3 loan provisions range from 31.2% to 41.4% during the period of FY2020 – Q3-2024

Source: Annual report

Asset quality analysis – NPL coverage ratio is below 100% in recent years and NPLs account for ~14% of book equity; effective management can unlock shareholder value

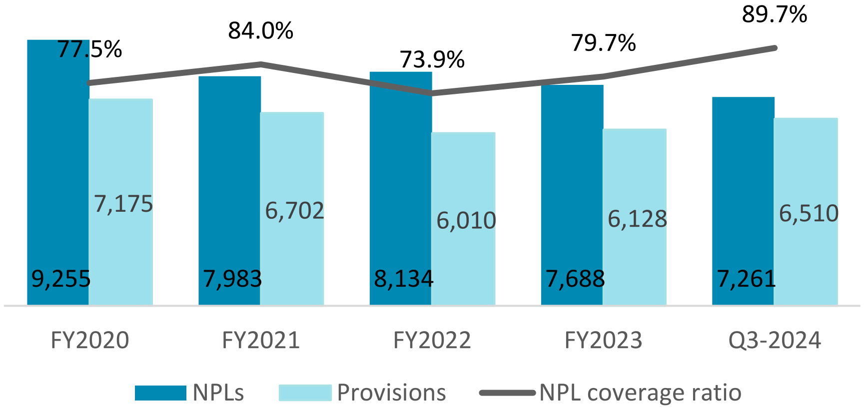
NPLs as % of stage 3 loans



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

- Non-performing loans are a major subset of stage 3 loans; evident from ~94% share of Stage 3 loans historically

NPL coverage ratio

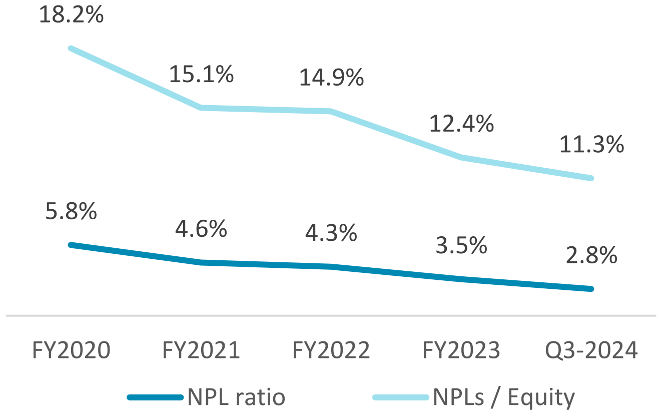


Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- Increasing NPL coverage ratio indicates improved coverage of NPLs through higher provisioning

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

Size of NPLs w.r.t. balance sheet

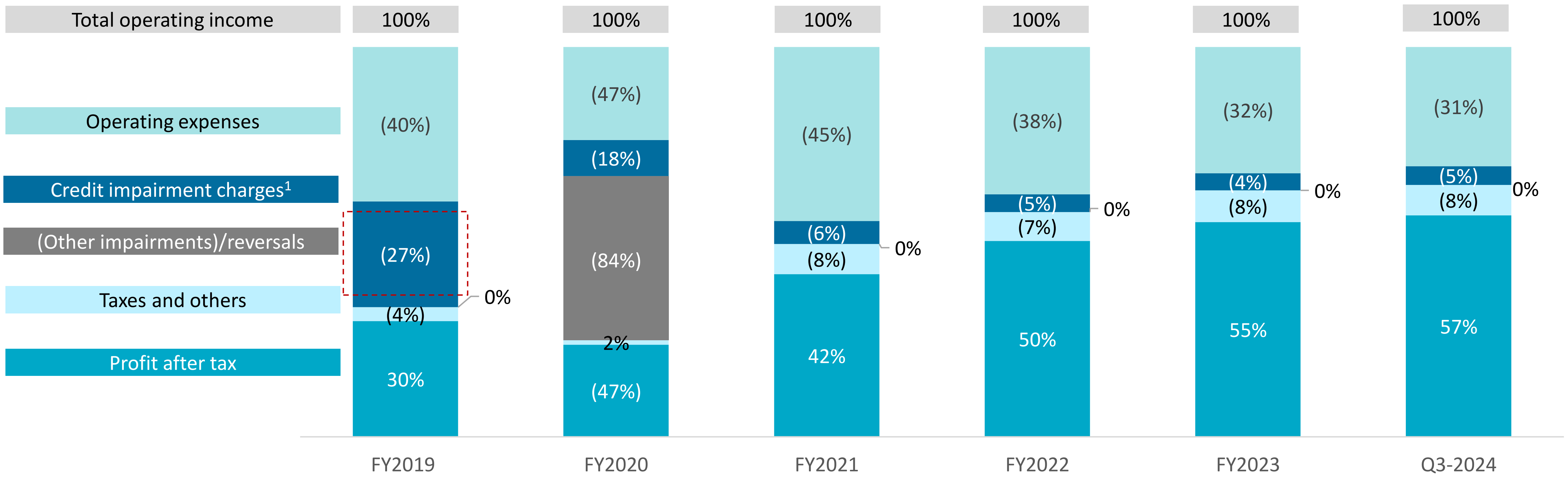


NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been 14.4% on average of book value of equity and can unlock potential shareholder value through effective management

Source: Annual report

Impairment charges have significant impact on profitability



	FY2019	FY2020	FY2021	FY2022	FY2023	Q3-2024
Credit costs[2]	1.9%	1.1%	0.3%	0.3%	0.3%	0.2%
Return on average equity[3]	6.2%	NM	6.2%	9.0%	12.0%	9.4%

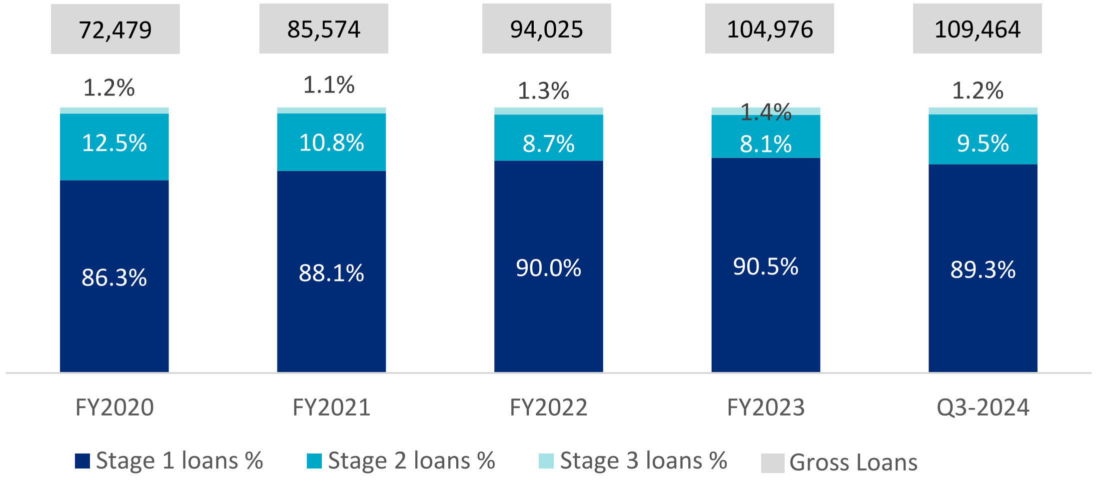
- With the evolution of stringent asset quality norms, there has been significant impact of annual credit provisions on profitability and on the bottom-line. However, the bank has not created adequate provisions on bad loans as is evident by the low coverage ratio (earlier slide)
- In FY2019, provisions consume 27% of total operating income, leading to low return on equity compared to prior years
- In FY2020, impairment loss of of goodwill was SAR 7.4 BN (84% of total operating income)

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 51% since FY 2020

Breakdown of gross loans as per 3 stages of ECL



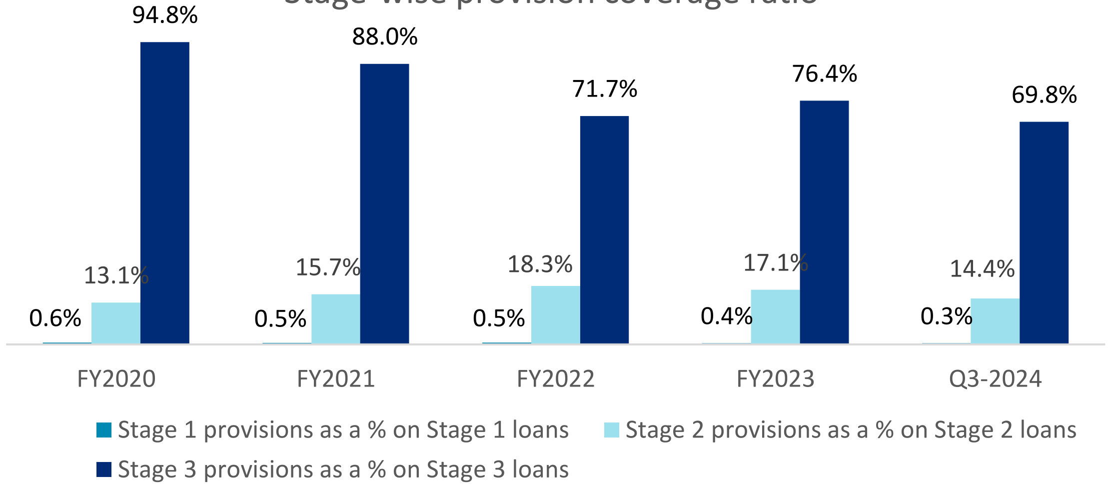
IFRS 9 details on the asset quality norms and how banks must classify their gross loan book into different stages

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% since FY2020
- Share of stage 1 loans has increased since FY2020, while share of stage 2 loans have declined in the total mix by Q3-2024

Stage-wise provision coverage ratio



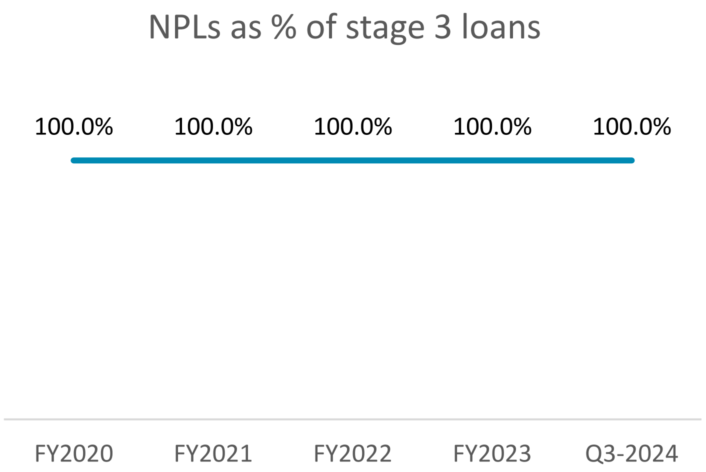
As per IFRS 9, the bank is required to estimate provisioning requirement on these 3 stages of loans, which is a function of probability of default and loss-given default (please refer appendix for an illustration)

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 relatively stable during FY2020 – Q3-2024, and it is currently lower compared to historical levels
- Provisions on stage 2 loans has been gradually rising from 13.1% in FY2020 to 17.1% in FY2023 indicating higher expected credit losses
- Provisions on stage 3 loans have gradually decreasing from 94.8% in FY2020 to 69.8% in Q3-2024 indicating lower expected credit losses

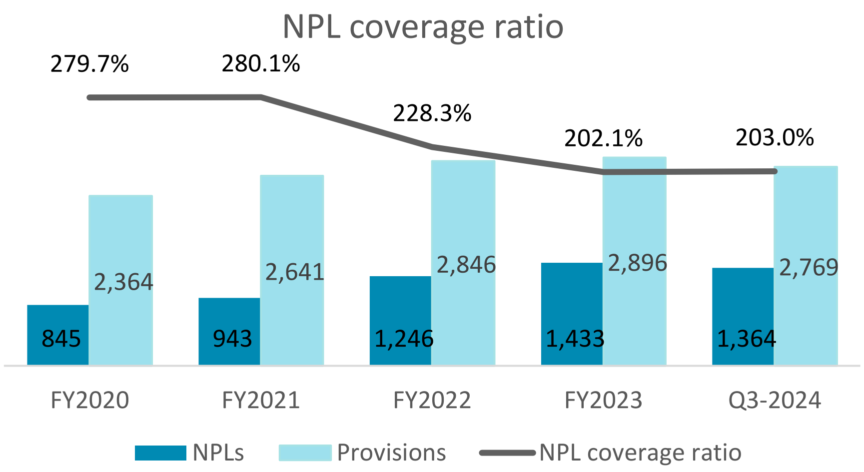
Source: Annual report

Asset quality analysis – NPL coverage ratio has declined in Q3-2024, and NPLs account for ~ 9% of book equity during FY 2020 – Q3-2024, 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

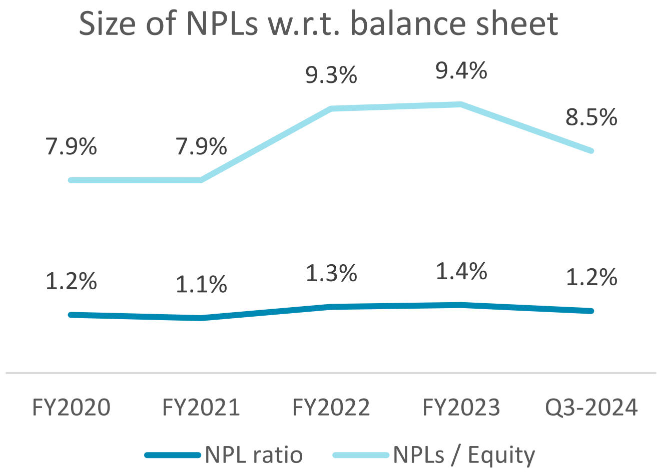
- There are no NPLs in stage 1 and stage 2 loans
- Non-performing loans are a major subset of stage 3 loans; evident from 100% share of stage 3 loans historically



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

- 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)



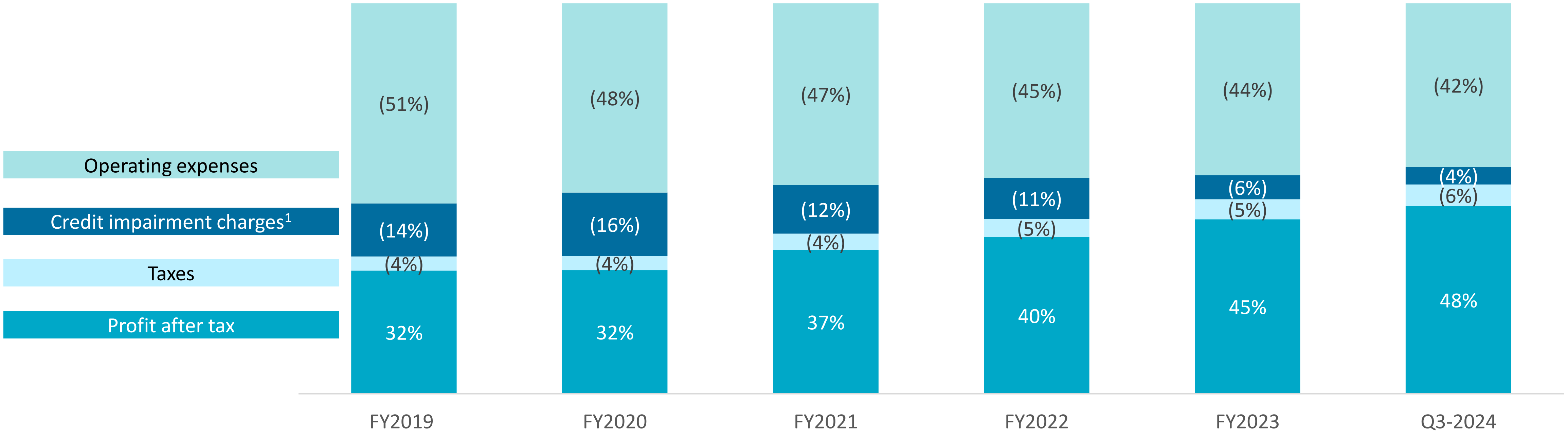
NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been in the range of 7.9% - 9.4% of book value of equity and can unlock potential shareholder value through effective management

Source: Annual report

Impairment charges have significant impact on profitability

	FY2019	FY2020	FY2021	FY2022	FY2023	Q3-2024
Total operating income	100%	100%	100%	100%	100%	100%



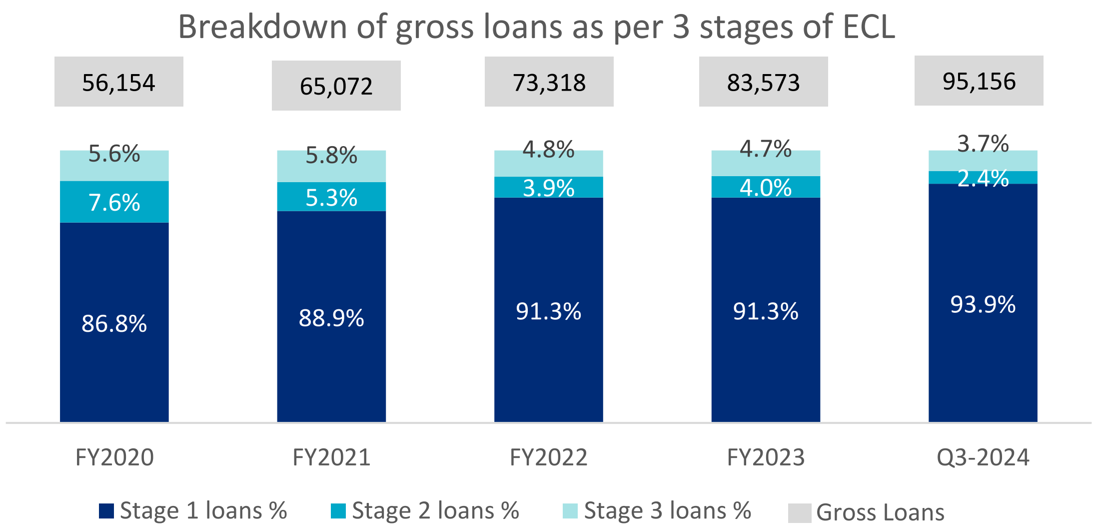
	FY2019	FY2020	FY2021	FY2022	FY2023	Q3-2024
Credit costs[2]	1.0%	1.1%	0.7%	0.6%	0.3%	0.2%
Return on average equity[3]	14.4%	13.4%	14.8%	16.4%	16.5%	12.8%

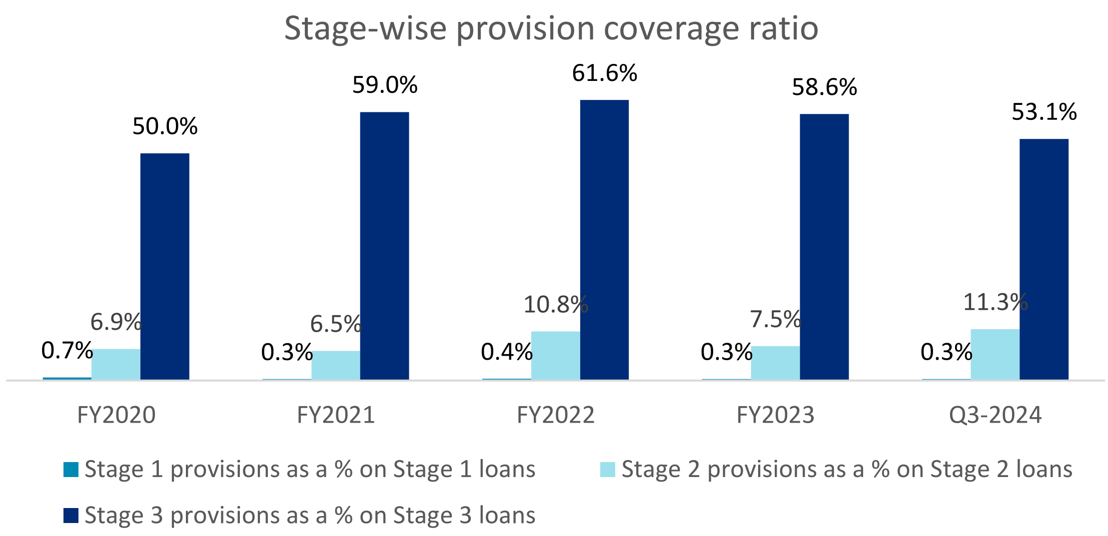
- With the evolution of stringent asset quality norms, there has been significant impact of annual credit provisions on profitability and on the bottom-line
- High NPLs lead to high credit costs impacting shareholder return, as the banks are mandated to create adequate provisions on bad loans

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

AlJazira Bank

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 69% since FY 2020





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 69% during FY2020 – Q3-2024
- Share of stage 1 loans have increased during FY2020 – Q3-2024, while share of stage 2 and 3 loans have declined compared to historical levels

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)

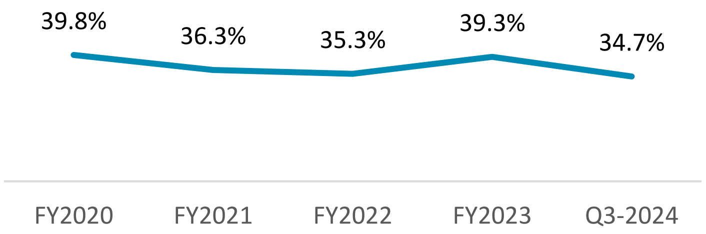
Stage-wise provision coverage rates depend on the ECL calculation undertaken by the bank for that period, which is dynamic as default probabilities change, Loss-given default change

- Stage 1 provisions have remained relatively stable during FY2021 – Q3-2024
- Provisions on stage 2 loans has increased from 6.9% in FY2020 to 11.3% in Q3-2024 indicating higher expected credit losses
- Similarly, provisions on stage 3 loans has increased from 50.0% in FY2020 to 53.1% in Q3-2024 indicating higher expected credit losses

Source: Annual report

Asset quality analysis – NPL coverage ratio has increased since FY 2020, however NPLs account for ~ 9% of book equity and effective management can unlock shareholder value

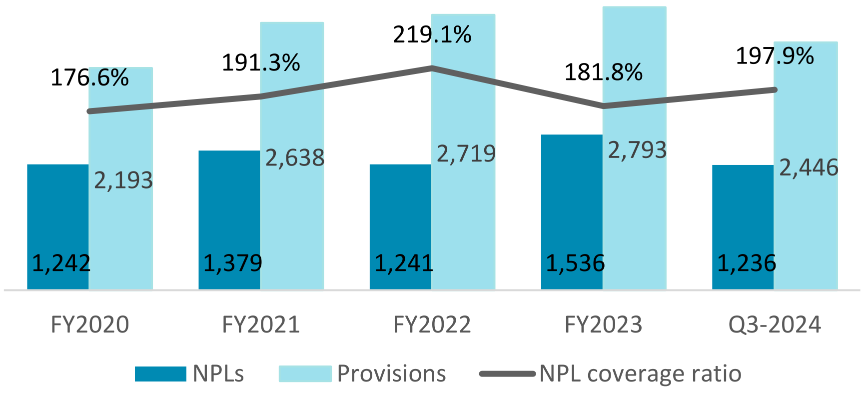
NPLs as % of stage 3 loans



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
- NPLs as a percentage of stage 3 loans range from 35% to 40% during the historical period

NPL coverage ratio

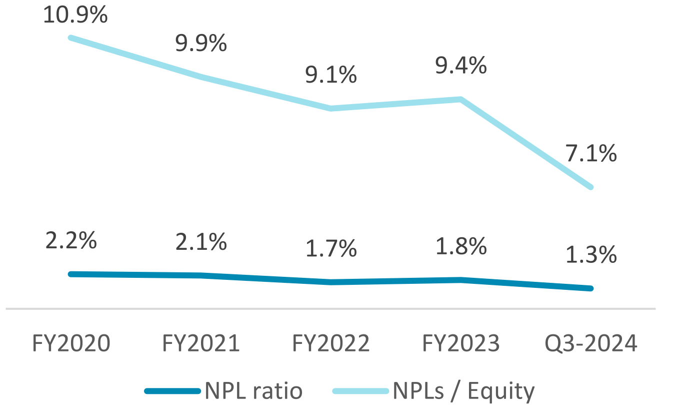


Provisions mean accumulated impairment allowance balance; i.e. accumulated provisions on balance sheet. This provision is a summation of stage 1 provisions, stage 2 provisions and stage 3 provisions

- 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

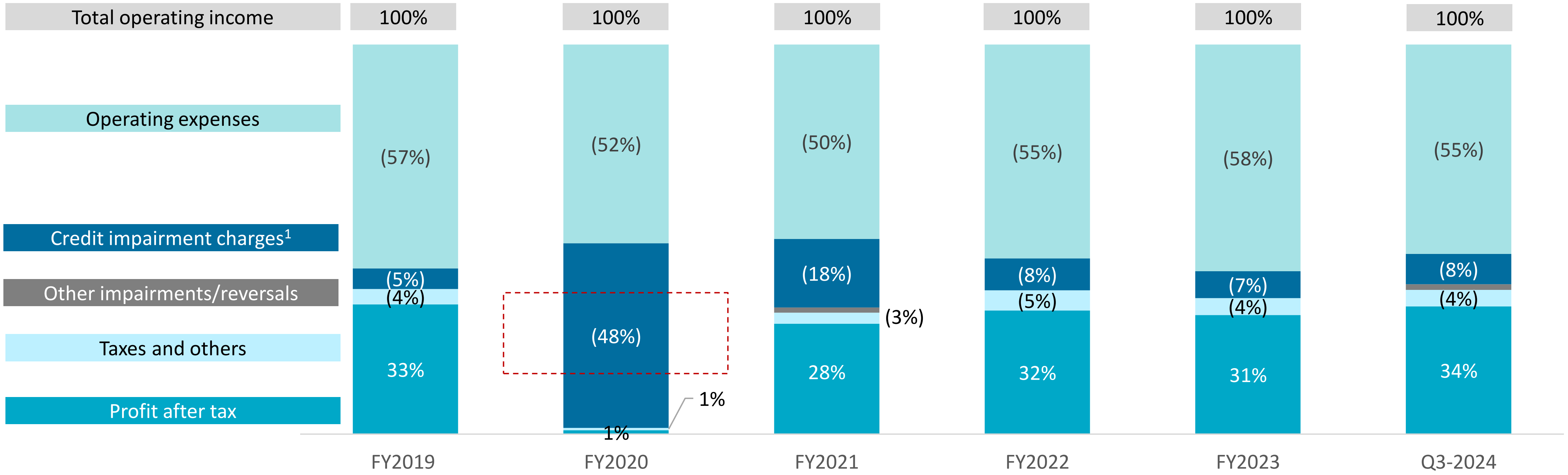


NPL ratio is calculated as NPLs / Gross Loans

- NPLs have been 9.3% on average of book value of equity and can unlock potential shareholder value through effective management

Source: Annual report

Impairment charges have significant impact on profitability, but impairment has improved over the last periods



	FY2019	FY2020	FY2021	FY2022	FY2023	Q3-2024
Credit costs[2]	0.3%	3.0%	1.1%	0.4%	0.3%	0.3%
Return on average equity[3]	8.7%	0.3%	8.0%	8.1%	6.8%	5.6%

- 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