NPL MARKET OVERVIEW

WHAT DIRECTORS NEED TO KNOW – Q1 2026
A LEADERSHIP BRIEFING

A Haykala Strategic Analysis

8 MIN READ

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GCC NON-PERFORMING LOANS: WHAT DIRECTORS NEED TO KNOW

The Q1 2026 Asset Quality Review

EXECUTIVE OVERVIEW

Non-performing loans (NPLs) are loans that borrowers have stopped repaying. For a board, they answer two questions: how much of the bank's lending has gone bad, and is there enough money set aside to cover their losses? The latest numbers — covering the twelve months to March 2026 — look strong — especially in Saudi Arabia, where bad loans are near record lows. But the strength is not evenly spread. The problems sit in a few countries, a few institutions, and one corner of the market that gets little attention. Three things stand out:

- **More Than Its Fair Share: GCC banks hold SAR 15.4 trillion in assets — 2.7% of the world's banking assets, the 8th largest market. But they carry SAR 213 billion of bad loans — the world's 5th largest pool, at 4.9% of the global total. The region has almost twice its fair share of problem loans.**
- **Saudi Arabia Leads: Saudi banks have the region's lowest level of bad loans — just 0.6% of assets — and have set aside SAR 1.62 for every riyal of bad debt. Oman (2.5%), Qatar (2.3%) and Bahrain (2.0%) carry far more, and Bahrain has set aside only 71% of what its bad loans would require.**
- **Bad Loans Eat Profit: Even small amounts of bad debt cost money every year. Saudi banks lose about 10% of their lending income to bad-loan charges — Qatari banks lose 30%, Omani banks 18%. That is money that cannot be paid out as dividends.**

THE BOARDROOM DASHBOARD

SAR 15.4 TN	SAR 213 BN	0.6%	37.6%
GCC BANKING ASSETS	GCC BAD LOANS	SAUDI BAD LOANS / ASSETS	FINANCE CO. PROVISION CUSHION
• 8th largest market globally	• 5th largest pool: 4.9% of world bad loans	• Lowest in GCC / 162% covered	• Just over a third of bad loans provided for

WHAT CHANGED THIS QUARTER

This edition updates the review to March 2026 (last-twelve-months data). The headline: the GCC's bad-loan pile grew to SAR 213 billion — moving the region from the world's 7th-largest pool of bad loans to its 5th, and from 4.5% to 4.9% of the global total — even as the region's own ratios stayed broadly flat. Underneath, the movements were telling. Kuwait's bad loans jumped by a quarter, from SAR 16 to 21 billion, and its cushion thinned from 244% to 190%. Oman went the other way — bad loans fell from SAR 15 to 12 billion and its cushion strengthened to 138%. Saudi Arabia stayed pristine at system level, but two mid-sized banks moved the wrong way: Bank Albilad's bad loans rose by a third and Bank AlJazira's by a quarter, with both cushions falling — while Saudi Awwal Bank kept rebuilding, lifting its cushion to 188%. The finance companies deteriorated further: the typical firm's bad loans rose from 12.2% to 13.8% of assets, and the worst book now stands at 42%.

THE CREDIT NARRATIVE: WHERE THE STRESS ACTUALLY SITS

A Region of Extremes: The Country Divide

The regional average hides big differences. Saudi Arabia keeps bad loans below 1% of assets with a cushion well above what full cover would require; Kuwait sits just above 1% after this quarter's jump, though still comfortably covered. Oman, Qatar and Bahrain carry around four times the Saudi level — and in Qatar and Bahrain, bad loans equal more than a fifth of the banking system's entire equity. The UAE sits in between. Its SAR 87 billion of bad loans is the region's biggest pile, mostly old cases at a handful of banks, and the money set aside (94%) does not yet fully cover it. The picture is improving — the UAE ratio has fallen to about 2.3% thanks to strong recoveries — but the gains come from a few big banks, and several UAE lenders started adding "just in case" provisions again in early 2026 as regional tensions rose.

GCC BANKING MARKETS — WHERE THE BAD LOANS SIT (Q1 2026)					
Country	Total Assets (SAR BN)	Bad Loans (SAR BN)	Bad Loans / Assets	Bad Loans / Equity	Provision Cushion
Saudi Arabia	4,743.9	28.8	**0.6%**	3.9%	163%
United Arab Emirates	5,431.4	86.5	**1.6%**	14.5%	94%
Qatar	2,454.2	56.2	**2.3%**	21.0%	118%
Kuwait	1,882.2	20.6	**1.1%**	8.7%	190%
Bahrain	448.1	8.9	**2.0%**	21.5%	72%
Oman	465.5	11.9	**2.5%**	17.2%	138%
Total GCC	**15,425**	**213**	**1.4%**	**10.9%**	**121%**

Source: Haykala Research / S&P Capital IQ — publicly listed banks, twelve months to March 2026. Provision cushion = money set aside as a share of bad loans; above 100% means fully covered.

The Saudi Exception — and What Sits Beneath It

Saudi Arabia stands out. Every listed Saudi bank has bad loans below 1% of assets, and every one has set aside more than its bad loans would require. Market trackers show this continuing into 2026. It reflects ten years of careful lending. The watch-out: Saudi banks are now lending faster than ever, much of it for Vision 2030 projects. Across the Gulf, banks have added over USD 700 billion of new loans in five years that have never been through a downturn. Today's clean numbers describe yesterday's loans — not tomorrow's.

SAUDI BANKS — BAD-LOAN SCORECARD (Q1 2026)					
Bank	Bad Loans (SAR BN)	Provision Cushion	Bad Loans / Assets	Bad Loans / Equity	Provisions / Lending Income
The Saudi National Bank	4.9	149%	0.4%	2.3%	1.5%
Al Rajhi Banking & Inv.	5.9	150%	0.6%	3.9%	7.8%
Riyad Bank	3.2	151%	0.6%	4.1%	11.1%
Saudi Awwal Bank	4.1	188%	0.9%	5.1%	6.3%
Alinma Bank	2.3	167%	0.7%	4.5%	10.0%
Banque Saudi Fransi	2.3	176%	0.7%	4.4%	11.1%
Arab National Bank	1.9	174%	0.7%	3.8%	NA
Bank Albilad	1.6	157%	0.9%	6.6%	4.1%
The Saudi Investment Bank	1.1	194%	0.6%	4.8%	9.7%
Bank AlJazira	1.5	151%	0.9%	6.7%	10.6%
Total / Median*	**28.8**	**162.6%**	**0.6%**	**3.9%**	**7.4%**

Source: Haykala Research / S&P Capital IQ — twelve months to March 2026. "Provisions / Lending Income" shows how much of each bank's core interest income is absorbed by charges for bad loans.

Beneath the Ratios: The Early-Warning System

The headline ratio only shows what has already gone wrong. Accounting rules make banks sort every loan into three buckets — healthy, showing early stress, and bad — and set money aside for each. Reading these disclosures shows trouble coming before it hits the headlines. We reviewed four mid-sized Saudi banks over FY 2022 – Q1 2026. Their loan books grew 38–66%, but their discipline differed. Banque Saudi Fransi has kept bad loans well covered while holding them to 4.4% of its equity, against a 5.6% average. Saudi Awwal Bank shows the other path: for several years it had set aside less than its bad loans required — with bad loans averaging about 11% of its equity — before rebuilding; its cushion now stands at 188%. That recovery makes the point: resolving bad loans flows straight through to shareholder value.

FOUR SAUDI BANKS UNDER THE MICROSCOPE (FY 2022 – Q1 2026)				
Bank	**Loan Book Growth**	**Provision Cushion Trend**	**Bad Loans / Equity**	**What It Means**
Banque Saudi Fransi	+38%	Rising — bad loans well covered	4.4%	Bad loans at 4.4% of equity vs a 5.6% average — a well-managed book
Saudi Awwal Bank	+66%	Below 100% for years; rebuilt to 188% by Q1 2026	~11% → 5%	Years of thin cover now resolved — proof that fixing bad loans unlocks value
Bank Albilad	+41%	Falling since FY 2022; bad loans up a third this quarter	5.7–9.4%	Shrinking cushion — watch loans slipping from early stress into bad
Bank AlJazira	+59%	Falling since FY 2022; set-asides on bad loans rising (56% → 65%)	~8%	Expected losses building inside a fast-growing loan book

Source: Haykala Research / bank annual reports, FY 2022 – Q1 2026

The Hidden Friction Point: GCC Financing Companies

The banks get the headlines, but the region's finance companies — consumer, car and small-business lenders — are where loan quality has really broken down, and where reporting is weakest. Across 19 listed GCC finance companies, the typical firm has 13.8% of its assets in bad loans — about ten times the level at the banks — and some are as high as 42%. As a group they have set aside just over a third (38%) of what their bad loans would require, and nearly half publish no provision figures at all. The message for anyone who lends to, invests in or partners with this segment: it works in calm times, but it is thinly protected and hard to see into if conditions turn.

THE STRESS BOOK — GCC FINANCING COMPANIES (Q1 2026)				
Company	**Geography**	**Bad Loans / Assets**	**Bad Loans / Equity**	**Provisions / Lending Income**
Muscat Finance	Oman	**42.3%**	123.2%	70.1%
Taageer Finance	Oman	**28.7%**	116.6%	115.2%
Bahrain Commercial Facilities	Bahrain	**23.6%**	50.5%	5.2%
Morabaha Marina	KSA	**21.1%**	34.6%	75.7%
Finance House	UAE	**15.6%**	90.7%	18.9%
National Finance	Oman	**14.3%**	70.0%	29.4%

Nayifat Finance	KSA	**13.8%**	23.1%	458.1%
United Finance	Oman	**13.1%**	36.0%	16.6%
Sector Median (19 companies)	**GCC**	**13.8%**	**34.6%**	**26.6%**

Source: Haykala Research / S&P Capital IQ — twelve months to March 2026. As a group the sector has set aside only 37.6% of what its bad loans would require; many companies do not disclose provisions at all.

The Egyptian Counterpoint

For groups with business in Egypt, the banks there look surprisingly clean: the typical bank has just 1.3% of assets in bad loans, and market leader CIB has set aside more than three times what its bad loans would require. The caution is the backdrop — those numbers are earned in an economy of very high interest rates and inflation, and rating agencies still see Gulf banks' Egyptian and Turkish businesses as a risk to watch.

THE MACRO OUTLOOK

The next 12 to 24 months look like a gradual turn of the cycle, not a crisis. As interest rates fall, bank profits will thin — making the cost of bad loans easier to see. Rating agencies expect losses to rise modestly through 2026 from today's unusually low levels. Three things will decide whether the clean numbers last. First, the new loans: the lending boom since 2021, including big project finance, now faces its first real repayment test. Second, funding: Saudi banks lend out more than they take in as deposits, so they have less room to be patient with struggling borrowers. Third, geopolitics: several UAE banks began adding precautionary provisions in early 2026 — a sign that managements see risks rising. None of this is a cliff. But the cycle rewards those — banks and borrowers alike — who fix weakness early.

KEY TAKEAWAYS FOR BOARDS OF DIRECTORS

1. Look at the Cushion, Not Just the Ratio

Ask How Much Has Been Set Aside: A low bad-loan number means little if the money behind it is thin. Anything below 100% cover means losses are still to come. Ask management how the cushion compares with peers — and how many loans sit in the "early stress" bucket, where tomorrow's bad loans show up first.

2. Treat Bad-Loan Costs as Real Money

Measure the Leak: When 10–30% of lending income goes to bad-loan charges, that is money that cannot fund dividends or growth. For borrowers, the logic reverses: as losses rise, banks get tough with their weaker clients first. A company under strain should talk to its lenders before its loans are downgraded — not after.

3. Act Early — Restructuring Protects Value

Bring in Advisors Before the 90-Day Clock Runs: Once a payment is 90 days late, a loan is normally counted as in default — so the window to act is short. Well-run workouts recover real value for both sides. Banks and indebted companies should build restructuring relationships and use independent debt advisors while there is still room to negotiate — not after the damage is done.

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