WP/10/87

IMF Working Paper

The GCC Banking Sector: Topography and Analysis

Abdullah Al-Hassan, May Khamis, and Nada Oulidi

INTERNATIONAL MONETARY FUND

 WP/10/87

IMF Working Paper

Monetary and Capital Markets and Middle East and Central Asia Departments

The GCC Banking Sector: Topography and Analysis

Prepared by Abdullah Al-Hassan, May Khamis, and Nada Oulidi

Authorized for distribution by Daniel Hardy and Abdelhak Senhadji

April 2010

Abstract

In this paper, we analyze the evolution of the Gulf Cooperation Council (GCC) banking sectors in the six member countries including ownership, concentration, cross-border linkages, balance sheet exposures and risks, recent trends in credit growth, and financial soundness. We identify risks to the banking sector's financial stability in the context of the current global crisis and their mitigating factors.

JEL Classification Numbers: G20; G21

Keywords: Gulf Cooperation Council; banking sector; credit growth; financial statements

Authors' E-Mail Addresses: aalhassan@imf.org; mkhamis@imf.org; noulidi@imf.org

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I. INTRODUCTION

The economies of the country members of the Gulf Cooperation Council (GCC)[1] share a number of commonalities. All GCC countries are large oil exporters with fixed exchange rate regimes,[2] which exposes them to the vagaries of international oil prices. The similarities in economic structure imply common sources of strengths and vulnerabilities of their financial systems. The existing literature is, however, devoid of analyses or regional comparisons of GCC countries' financial systems.

As analysis of GCC banking sectors is essential in gauging sources of strengths and vulnerabilities, and understanding how these systems could be affected with changing economic conditions. In this paper, we examine GCC banking sectors' balance sheet exposures, funding sources, shareholders and capital base structures, and financial soundness. We show that the financial systems in the region are dominated by the banking sector, which exhibits a number of common structural characteristics across countries. These have supported to a large extent GCC banks' resilience to the financial crisis. First, the predominance of domestic banks across the region minimized direct cross-border spillovers through the ownership channel within GCC and from international banks. Second, the high share of the traditional banking book in banks' on- and off-balance sheets limited losses from exposures to structured products and derivatives to a few isolated cases. Third, the banking sectors in the GCC countries were buttressed by high profits and capital buffers in the run-up to the 2008-09 global recession and international financial crisis.

However, the GCC banking systems had some vulnerabilities that were revealed by the recent global crisis and the impact it had on the economies of the GCC countries. Among those are increased reliance on external financing, and high exposures to the real estate and construction sectors and equity prices. During the 2003–08 oil price boom, procyclical government spending, abundant banking sector liquidity, and bullish consumer and investor sentiments spurred non-oil real sector and rapid credit growth with associated build-up of domestic imbalances (e.g., asset price bubbles). While credit growth was essentially funded by a relatively stable domestic deposit base, more volatile external funding became increasingly important. The 2008–09 global recession put an end to the boom by diminishing oil revenues, reversing short-term capital inflows to the GCC region, and straining the rollover of private sector external debt.

The remainder of this paper is organized as follow. Section I describes the structure of the financial sector, including cross-border ownership within the GCC. Section II analyses the balance sheet of the banking sector including recent trends in credit growth and its contributing factors. Section III examines the funding sources for banks and the importance

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[1] Includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (U.A.E.).

[2] With except to Kuwait, where its currency is begged to a basket of currencies.

of external funding in view of the current drought in international capital markets. Section IV examines the loan portfolio exposures and the resulting credit risk. Section V analyzes the financial soundness of the banking sector with regard to capitalization, earnings quality and sustainability, asset quality and concentration, and liquidity, and Section VI concludes with policy lessons.

II. Structure of the GCC Financial System

The financial sector in the GCC is generally dominated by the banking sector, which is relatively concentrated with a few domestic players dominating the market (Box 1, and Table 1).[3] Islamic banks have grown in recent years to become a prominent source of financial intermediation in the Gulf countries, controlling on average 24 percent of the region's banking system assets. In all six countries, the largest five banks are domestic and account for 50–80 percent of total banking sector assets.

Table 1. GCC: Total Banking Sector Assets, 2002–08

(In percent of GDP)

	Bahrain	Kuwait	Oman	Qatar	Saudi	U.A.E.
2002	106	120	52	85	68	111
2003	106	103	52	84	64	105
2004	108	94	50	76	65	107
2005	105	81	45	80	61	120
2006	123	84	50	85	61	133
2007 1/	254	101	64	103	71	162
2008	258	84	66	94	68	142

Sources: IFS; and authors' estimates.

1/ The increase in 2007 for Bahrain is due to the fact that some wholesale banks were re-licensed to retail banks.

Nonbank financial institutions (NBFIs) have limited presence in the GCC, with some exceptions. Investment funds have been growing rapidly in several countries, although they tend to remain largely focused on domestic equity and real estate.[4] Most mutual investment funds are bank-owned; they are present, although on a limited basis, in Bahrain, Saudi Arabia, and the U.A.E. Kuwait has 95 Investment companies (ICs) with total assets under management of more than 100 percent of GDP at end-2008, of which, 42 percent is

[3] In this paper, the term "domestic banks" refers to banks that are majority-owned by domestic shareholders, while foreign banks refer to banks with majority foreign ownership. The latter are mostly in the form of foreign bank branches. See Appendix I for a list of banks operating in the GCC, and Appendix II for bank concentration.

[4] The discussion below on the GCC nonbank financial system is based on International Monetary Fund (2010).

Box 1. Highlights of the GCC Financial Sector

The following are the main highlights of the structure of the financial sector in the individual GCC countries.

Bahrain. The retail banking sector is the largest in the region, with assets amounting to close to 260 percent of GDP at end-2008. Together with the U.A.E., Bahrain's retail banking sector is the least concentrated among the GCC systems. The three largest retail banks (Bank of Bahrain and Kuwait, National Bank of Bahrain, and Ahli United Bank) constitute 41 percent of the total banking sector's assets. Bahrain also has a vibrant wholesale banking sector[1]—the largest of which is Arab Bank Corporation—which provides off-shore, investment banking, and project finance services to the rest of the region. The financial sector altogether contributes about one-third of the country's GDP and employs around 3 percent of its workforce, with total assets at around 1200 percent of GDP. In view of its linkages with global financial markets, the wholesale banking sector has been strongly affected by the global crisis. In addition to the banking sector, Bahrain is home to a number of investment funds with assets under management close to 80 percent of GDP.

Kuwait. The banking sector is highly concentrated with the two largest banks (National Bank of Kuwait and Kuwait Finance House) accounting for half of the banks' total assets. In addition to the banking sector, there are 95 Investment companies (ICs) with total assets (both on- and off-balance sheet) of around 102 percent of GDP—around 42 percent of which is on account of proprietary trading. This sector has been strongly affected by tight global liquidity conditions and falling asset prices.

Oman. The banking system is the smallest in the region with a share of 66 percent of GDP. As a result, some of the largest government projects are directly financed by foreign banks. The banking sector is highly concentrated with the largest two banks (Bank Muscat and the National Bank of Oman) controlling more than 55 percent of the sector's assets.

Qatar. The banking system in Qatar is the third largest after Bahrain and the U.A.E., with assets around 94 percent of GDP at end-2008. The sector is highly concentrated with the three largest local banks (Qatar National Bank, Commercial Bank of Qatar, and Doha Bank) accounting for close to 70 percent of total assets. The entry of foreign banks under the Qatar Financial Center has increased competition, but local banks still have well-established franchises in domestic business. Foreign banks are essentially engaged in financing large infrastructure projects and investment banking. In addition to banks, there are three specialized government-owned banks operating mainly in developmental and housing projects, in addition to six finance and leasing companies, but these have a marginal share of financial sector assets.

Saudi Arabia. The banking sector is relatively small, with assets at around 68 percent of GDP at end-2008, The sector is only moderately concentrated with the three largest banks (National Commercial Bank, Samba Financial Group, and Al Rajhi Bank) accounting for 45 percent of total assets. Public ownership (including quasi government) is fairly extensive in four banks and reaches 80 percent in the largest bank, the National Commercial Bank. There are five sizable specialized credit institutions with asset size close to half that of the banking sector. These provide interest free loans for public policy purposes. There are also three autonomous government institutions (the Pension Fund, the General Organization for Social Insurance, and the Saudi Fund for Development) that dominate the primary market for government securities. The rest of the nonbank financial institutions (NBFIs) account for a marginal share of the total financial system's assets.

U.A.E. The U.A.E. has the second largest banking sector in the GCC after Bahrain, with total assets accounting for over 140 percent of GDP. The banking system is the least concentrated and the three largest banks (National Bank of Abu Dhabi, Emirates Bank International, and Abu Dhabi Commercial Bank) account for 32 percent of total assets. Bank ownership is still predominantly held by the government. In addition to banks, the financial sector of the U.A.E. includes two important Islamic mortgage finance companies, with combined lending amounting to around 16 percent of banks' officially reported real estate lending and 3 percent of banks' private sector credit.The two companies are being restructured by a federal committee after the Government announced in November 2008 that they were to be merged. The authorities are currently considering the possibility of converting the two companies to a bank, with the ability to obtain funding through deposit taking. The two companies have been highly dependent on short-term funds from the domestic banking sector to finance their long-term lending operations.

GCC: Concentration of the Banking System, 2007
(as percent of total banking sector assets)

	Top 3 banks	Top 5 banks
Bahrain	40.5	49.5
Kuwait	63.0	81.0
Oman	65.6	81.1
Qatar	67.4	79.7
Saudi Arabia	45.5	66.0
U.A.E.	31.8	47.6

Sources: Country authorities; Moody's; and authors' estimates.

1/ Wholesale banks are prohibited from accepting retail deposits (both domestic and foreign) and are subject to minimum loan limits to the domestic economy. Loan limits do not apply to interbank loans or to investments in locally-incorporated banks. Minimum domestic loan sizes and deposits are $27 million and $100,000 million, respectively. Wholesale banks include branches of global banks, banks from the Middle East and South Asia, and locally-incorporated banks (domestically owned and subsidiaries of foreign banks).

proprietary.[5] Their relatively large asset size and increasing reliance on the banking sector for financing has raised their systemic risk and possible spillover effects on the banking sector. Investment banks in Bahrain are fewer, but larger.

Nonbank finance companies are scarce, and are most important in the U.A.E., although the two largest companies, now in restructuring, had lending worth only about 3 percent of the banking sector's loans. The insurance sector remains small and is focused on property/casualty risks. Contractual savings are underdeveloped and dominated by public pension systems, which are mainly defined benefit, "pay-as-you-go" schemes. They contribute little to the accumulation of long-term resources for investment. For example, pension fund assets amounted to 3.2 percent of GDP in Saudi Arabia (end-2007), 2.7 percent in U.A.E. (end-2007), and 20.5 percent in Bahrain (end-2006).

Stock market capitalization has grown strongly in recent years. GCC market capitalization leapt from $117 billion (29 percent of GDP) in 2003 to $1.1 trillion (177 percent of GDP) in 2005, but fell back to $650 billion (73 percent of GDP) by mid-2009. GCC markets generally lack institutional investors whose long-term horizons help dampen volatility. Local debt markets are underdeveloped, particularly as governments drew down outstanding debt in recent years. However, GCC issuers boosted the use of *sukuk* until mid-2008 when s*ukuk* issuance worldwide grew from around $5 billion per year in 2001–04 to $32 billion in 2007, before falling to $15 billion in 2008, most of it dollar-denominated by GCC entities.

[5] ICs provide asset management services such as brokerage, portfolio management, forward trading, IPOs, local and international fund management and financial services such as corporate finance advisory services (mergers, acquisitions, underwriting, and private placements) and private equity.

The ownership structure of banks[6]

The banking sector is largely domestically owned. This reflects entry barriers and licensing restrictions for foreign banks, including GCC banks. Except for Bahrain, all GCC countries have limits on foreign ownership: Oman (35 percent), Kuwait and Qatar (49 percent), Saudi Arabia (40 percent for non-GCC nationals and 60 percent for GCC nationals), and U.A.E. (40 percent). Therefore, the cross-border presence of GCC banks and other foreign banks is limited and is mostly in the form of branches, in many cases as single branches. However, foreign bank presence in Bahrain and the U.A.E. is important, at 57 and 21 percent of total assets, respectively. Market shares of foreign banks by total assets in the rest of the GCC are 2 percent in Saudi Arabia, 12 percent in Oman, 10 percent in Qatar, and 10 percent in Kuwait.

The domestic banking sector in the GCC (i.e. banks that are majority owned by domestic shareholders) continues to have significant public and quasi public sector ownership, but its extent varies considerably, ranging between 13 percent in Kuwait and over 52 percent in the U.A.E. (Table 2, and Appendix III).[7] Oman and Saudi Arabia have a relatively high public sector ownership (30 percent and 35 percent, respectively), although the majority of this is attributed to quasi government ownership. The U.A.E.'s domestic banking system stands out with almost half of the domestic sector's assets owned by the public sector, a significant amount of which is attributed to direct ownership by the Government (41.5 percent) and the Royal family (10.3 percent). Contrary to common perceptions, except in the U.A.E., royal family ownership in the GCC is almost nonexistent.

In view of the above, direct cross-border linkages within the GCC and also with other foreign jurisdictions through cross-border ownership are relatively low, with some exceptions. As noted above, the U.A.E. and Bahrain have important foreign bank presence in the banking sector, and Bahrain and Oman have sizeable joint ventures in the domestic banking system with foreign investors, mostly from the GCC. Joint ventures in the domestic banking sector in Saudi Arabia are small, mostly by non-GCC investors (around 13 percent of the domestic sector's assets), and are negligible in Kuwait and the U.A.E.

[6] The discussion below is based on end-2007 data to abstract from the impact of capital injections by the U.A.E. and Qatari governments in 2008-09.

[7] Data on bank ownership is as of end-2007 in order to abstract from capital injections by the public sector in 2008 and 2009 in response to global developments, as these should be viewed as temporary.

Table 2. GCC: Ownership Structure of the Domestic Banking System, end-2007 1/

(In percent of total assets)

	Public				Private Domestic	Private Foreign		
	Total	Government	Quasi Government 2/	Domestic Royal Family	Total	Total	GCC	Non-GCC
Bahrain	20.4	9.0	11.4	…	41.8	37.8	34.7	3.1
Kuwait	13.0	12.0	1.0	…	87.0	…	…	…
Oman	30.0	10.0	19.0	1.0	40.0	30.0	14.0	16.0
Qatar	20.7	20.4	0.3	…	75.6	3.7	3.7	0.0
Saudi Arabia	35.0	18.0	17.0	…	52.0	13.0	…	13.0
U.A.E.	52.3	41.5	0.5	10.3	47.6	0.2	0.2	…

Sources: Bank's annual reports; and authors' calculations.

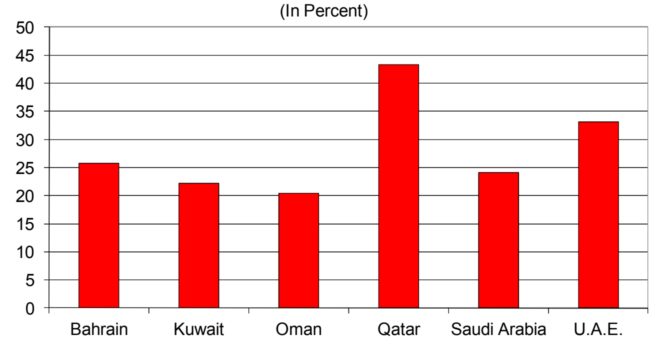
1/ The domestic banking system refers to banks that have domestic majority ownership.

2/ Quasi government includes public pension funds and social security.

III. Recent Trends in Credit Growth

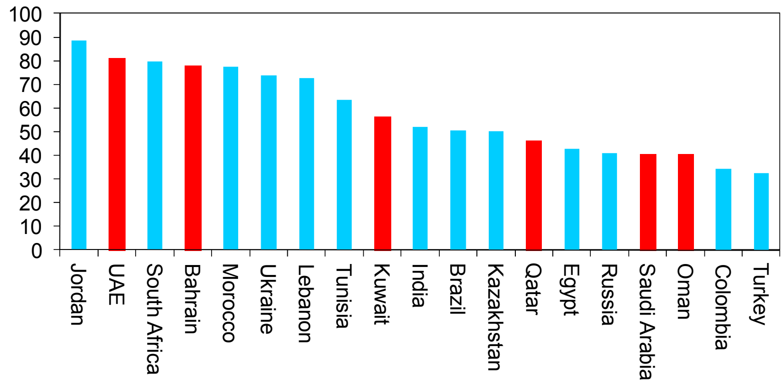
The GCC region has witnessed in recent years rapid credit growth to the private sector (Figure 1). Over the period 2003–08, Qatar and the U.A.E. experienced significant private sector credit growth at around 45 and 35 percent, respectively, while Oman had the slowest rate in the region at around 20 percent. In view of this growth, the ratio of private sector credit to GDP compares favorably to other emerging countries (Figure 2). When measured in relation to non-oil GDP, credit to the private sector in the GCC registers the highest rates among emerging countries. Notwithstanding the positive impact of increasing bank intermediation in the GCC on economic activity, as international experience shows, high rates of credit growth during an economic upturn almost invariably lead to high levels of credit defaults when economic activity slows. Therefore, high rates of credit growth witnessed in some GCC countries during 2003–08 have increased these systems' vulnerability to a downturn in economic activity.

Figure 1. GCC: Average Annual Private Sector Credit Growth, 2003-2008
(In Percent)



Source: Country Authorities.

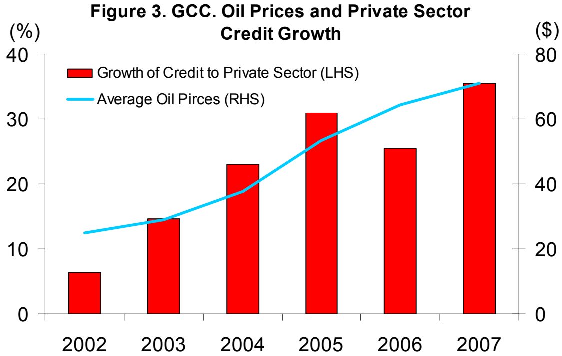
Figure 2. Selected Emerging Countries: Private Sector Credit to GDP, 2008
(In percent)



Source: IFS and World Economic Outlook (IMF).

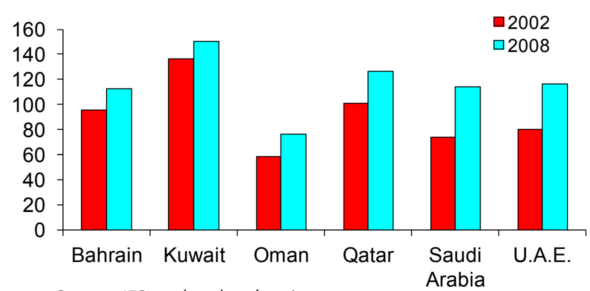
Albeit indirectly, credit to the private sector has been spurred by the increase in international oil prices (Figure 3).[8] Higher oil prices have boosted government spending and non-oil GDP growth and, as a result, spurred business confidence and local and regional private sector activities and investments. The impact was translated into a concomitant increase in the demand and supply of credit. As regard to supply, deposits in the banking sector grew as private sector income increased (Figure 4). This in turn boosted banks' lending capacity. As for demand, banking sector credit was reoriented from the public to the private sector, where the latter expanded economic activities and investments (see Figure 9).

Figure 3. GCC. Oil Prices and Private Sector Credit Growth



Source: IFS; and authors' estimates.

Figure 4. GCC: Deposits as Percent of Non-oil GDP



Source: IFS, and authors' estimates.

IV. GCC Banking Sector Balance Sheets: Stylized Facts

The banking sector in the GCC still relies on the traditional deposits and loans as the main sources and uses of funds (Figures 5 and 6, and Appendix IV). The role of foreign liabilities as a source of funding is still limited, although it has increased in some countries particularly in 2006 and 2007 (Figure 7). Interbank liabilities are significant in Kuwait and also important

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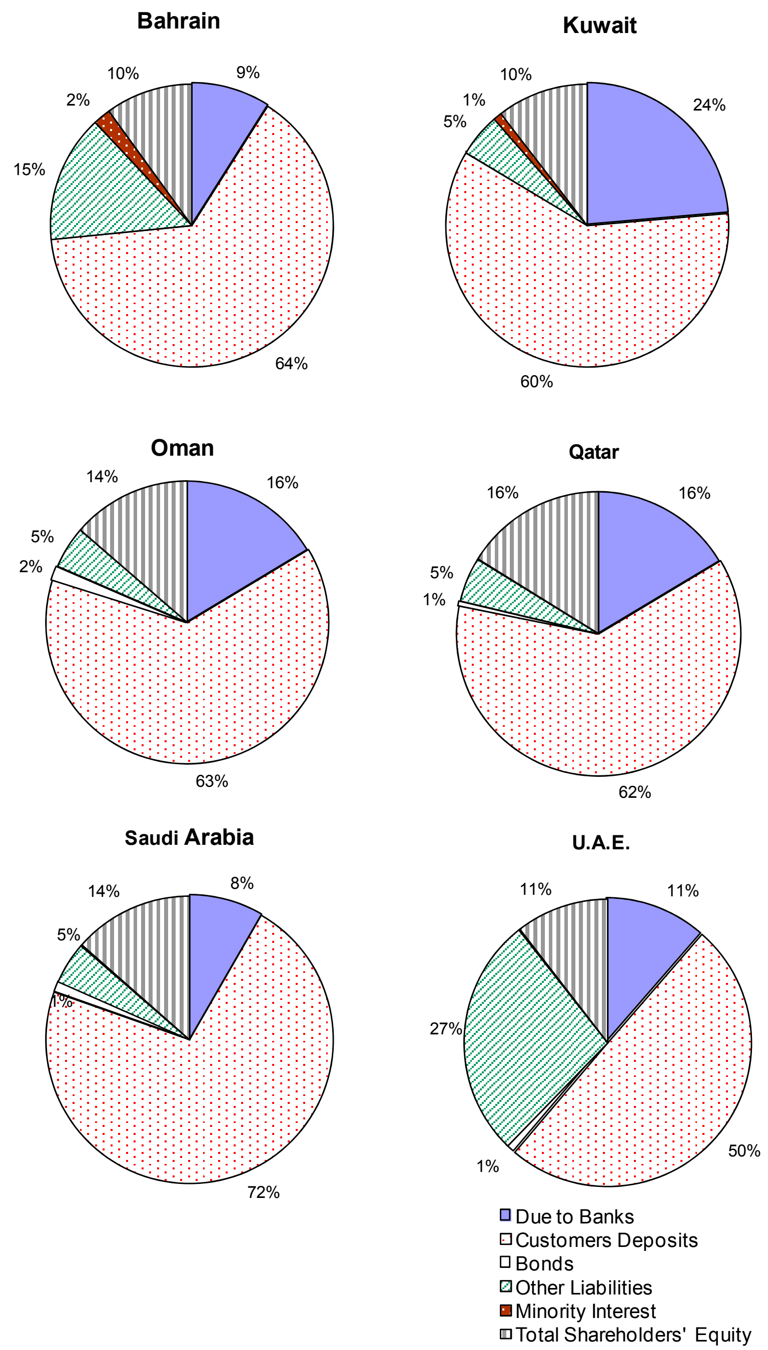
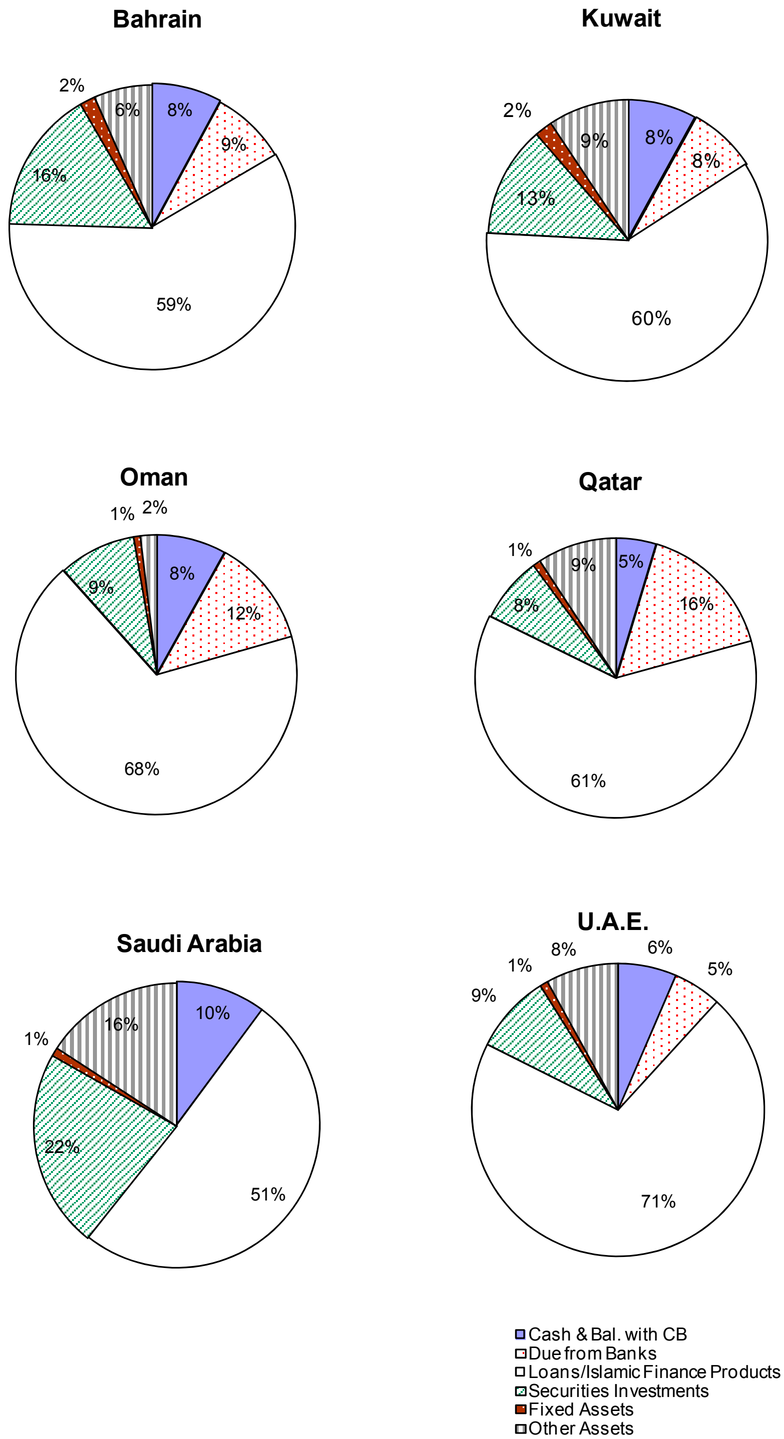
[8] See Crowley (2008) and Hesse and Poghosyan (2009).

Figure 5. GCC: Banking Sector Liability and Equity Structure, 2008



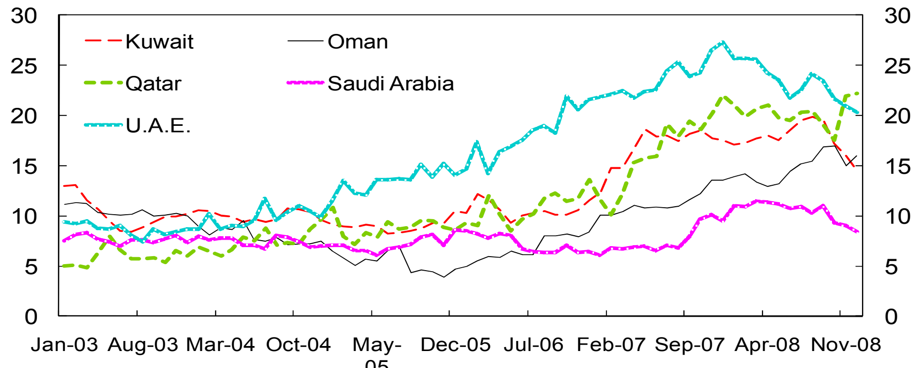
Source: Banks' Annual Reports from Zawya; and authors' estimates.

Figure 6. GCC: Banking Sector Assets Structure, 2008



Source: Banks' Annual Reports from Zawya; and authors' estimates.

Figure 7. GCC: Foreign Liabilities to Total Liabilities, 2003–08
(In percent)



Sources: Country authorities; and IMF staff estimates.

Note: Bahrain is excluded from the chart as the relicensing of some wholesale banks into retail banks in early 2007 complicates the analysis of the ratio of foreign liabilities to total liabilities.

in Oman and Qatar at 27, 16, and 16 percent of the total balance sheet (end-2008), respectively. GCC banks continue to have a very small share of bond financing (up to 2 percent of total liabilities). This has exacerbated the maturity mismatches between assets and liabilities in GCC banks in general.

Banks' assets are mainly composed of loans and, to a lesser degree, securities investments. Loans and Islamic finance products constitute between 50 percent (Saudi Arabia) and 71 percent (U.A.E.) of banks' portfolios,[9] and securities range between 8 percent in Qatar, up to 23 percent in Saudi Arabia, which is an important share of banks' balance sheets by international comparison (Figure 8). In the current crisis, banks have registered significant losses related to these investments through mark-to-market valuations of their trading portfolios, although there is no indication that these assets were held in high risk asset classes, equities, or financial derivatives. An analysis of the 50 top GCC banks (conventional and Islamic) based on Bankscope data indicates that, on average, banks in the GCC held 18 percent of their portfolios in securities at end-2008. Of which, only about 1 percent was held in equities or derivatives (2 percent in the case of Islamic banks).[10]

Funding of credit growth

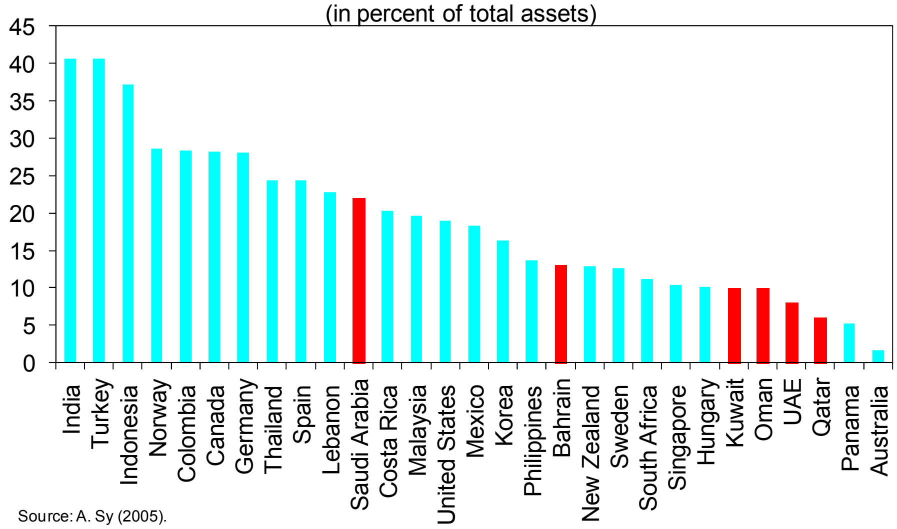
A breakdown of credit growth during 2002–08 into its contributing factors confirms that client deposits have been the main contributor to credit growth for the six countries over the period (Table 3). The funding pattern, however, has been relatively volatile, which increases

[9] Islamic banks' finance products include Murabaha, Ijara, Istisnaa, Mudaraba, Musharaka, and other Islamic banking products.

[10] International Monetary Fund (2009).

banks' funding risk generally.[11] A closer look shows that foreign liabilities have played a significant role in explaining the rapid credit growth for the U.A.E. in 2006 and for Oman, Qatar, Saudi Arabia, and the U.A.E. in 2007. The increase in 2006 in net foreign liabilities in the U.A.E. relates largely to banks' issuance of foreign debt to support credit growth and also to address asset/liabilities maturity mismatches through the issuance of medium-term notes. In 2007, the increase in the four countries reflects short-term capital inflows in speculation of an appreciation of GCC currencies. As oil prices declined in the second half of 2008, foreign financing markedly declined as speculative capital inflows reversed and, to a lesser extent, international capital markets dried out.

Figure 8: International Comparison of Banks' Holdings of Securities
(in percent of total assets)



Source: A. Sy (2005).

V. Credit Concentration and Risks

The concentration of credit portfolios in GCC countries varies considerably within the GCC (Figure 9). Banks' exposures to the construction and real estate sectors are significant in Kuwait and Bahrain and are also important in Qatar and the U.A.E. This exposure increased sharply since 2002 in Qatar and Bahrain and, to a lesser extent, Kuwait. U.A.E. banks' exposure to the construction and real estate sectors appears relatively low in view of the construction and real estate boom that the country witnessed during this period. This could be attributed to the presence of domestic real estate and mortgage finance companies (although these are relatively small), but more importantly to direct external financing of large real

[11] The break down follows the following formula:

$$\frac{\Delta CPR_t}{CPR_{t-1}} = \sum_i \frac{\Delta L_t^i}{L_{t-1}^i} \cdot \frac{L_{t-1}^i}{CPR_{t-1}} - \sum_{j=1}^{k} \frac{\Delta A_t^j}{A_{t-1}^j} \cdot \frac{A_{t-1}^j}{CPR_{t-1}}$$

Where CPR is credit to the private sector, A^j are bank assets other than credit to the private sector, and L^i are bank liabilities including capital

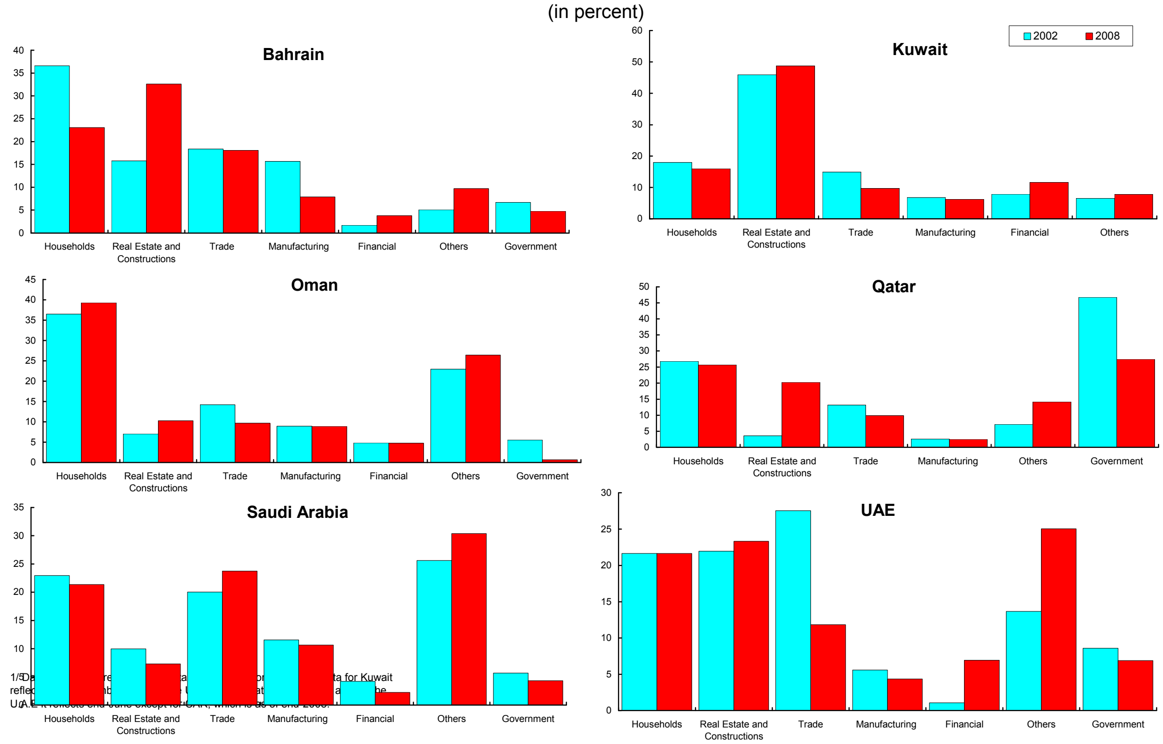
Table 3. GCC: Contribution of Balance Sheet Items to Private Sector Credit Growth, 2002-08

(percent)

		Cash and Reserves	Net claims on Government	Foreign assets	Foreign liabilities	Net foreign liabilities	Client deposits	Other debt	Capital	Other items net
Bahrain	2002	-13	18	-12	11	-1	61	…	23	12
	2003	-68	-18	-84	105	21	170	…	21	-26
	2004	2	11	-47	82	35	24	…	18	11
	2005	-20	-9	-35	-4	-39	135	…	23	10
	2006	-4	14	-292	188	-105	95	…	46	54
	2007	-57	12	-604	532	-72	127	…	52	39
	2008	6	14	-116	161	45	56	…	0	-21
Kuwait	2002	23	28	-53	59	6	51	56	11	-75
	2003	46	12	1	-6	-5	41	-4	14	-3
	2004	11	53	-51	-7	-58	83	-29	20	19
	2005	-21	24	-30	22	-9	68	-19	25	31
	2006	-23	24	-47	28	-19	90	8	12	9
	2007	-10	-24	-48	63	15	101	4	27	-12
	2008	26	-2	-30	-14	-44	115	-18	-2	24
Oman	2002	-248	379	-832	-446	-1277	1096	0	62	88
	2003	-285	-127	-39	-183	-223	117	0	162	455
	2004	38	51	-114	-43	-157	44	0	39	85
	2005	-46	65	-55	-26	-80	142	4	18	-2
	2006	-11	10	-85	47	-39	108	5	11	16
	2007	-76	9	-3	48	44	95	-1	49	-21
	2008	-3	25	-20	1	-19	51	30	15	0
Qatar	2002	19	205	137	-10	127	-179	5	-34	-42
	2003	-7	6	-80	29	-51	95	1	29	26
	2004	-12	23	-101	56	-46	93	3	54	-15
	2005	-8	26	-65	11	-54	91	0	27	18
	2006	-4	34	-94	58	-36	93	-1	25	-12
	2007	-49	2	-55	95	40	70	3	31	3
	2008	16	-109	-17	48	31	131	11	21	9
Saudi Arabia	2002	-132	-4	21	-89	-68	252	-5	21	36
	2003	76	-182	64	-13	51	129	10	6	10
	2004	-6	1	-14	7	-7	78	-2	11	25
	2005	-1	13	1	16	17	49	-2	19	3
	2006	-48	3	-96	-24	-120	267	-2	56	-56
	2007	-56	-23	-18	45	28	128	-1	21	3
	2008	7	-39	-3	5	1	38	7	16	19
UAE	2002	14	20	-90	0	-90	103	0	28	26
	2003	-14	-42	3	2	5	125	0	17	9
	2004	-25	1	-35	29	-6	109	0	19	2
	2005	-9	7	-52	46	-6	79	0	27	3
	2006	-15	-6	-51	82	32	63	0	23	3
	2007	-104	-3	21	85	106	97	0	16	-11
	2008	37	20	-2	-13	-16	34	11	12	2

Source: IFS; WEO; and authors' calculations.

Figure 9. GCC: Bank Loans Sectoral Distribution
(in percent)



Source: Country authorities; and authors' estimates.
Note: Construction and Real estate in Bahrain, Kuwait, Saudi Arabia, and the U.A.E. inculde both residential and commercial.
Households sector in Oman and Qatar might inculde residential mortgages.

estate projects, in particular by Dubai corporates. As regards large exposures, GCC banks have a relatively high concentration of credit to large business groups and high net worth individuals.

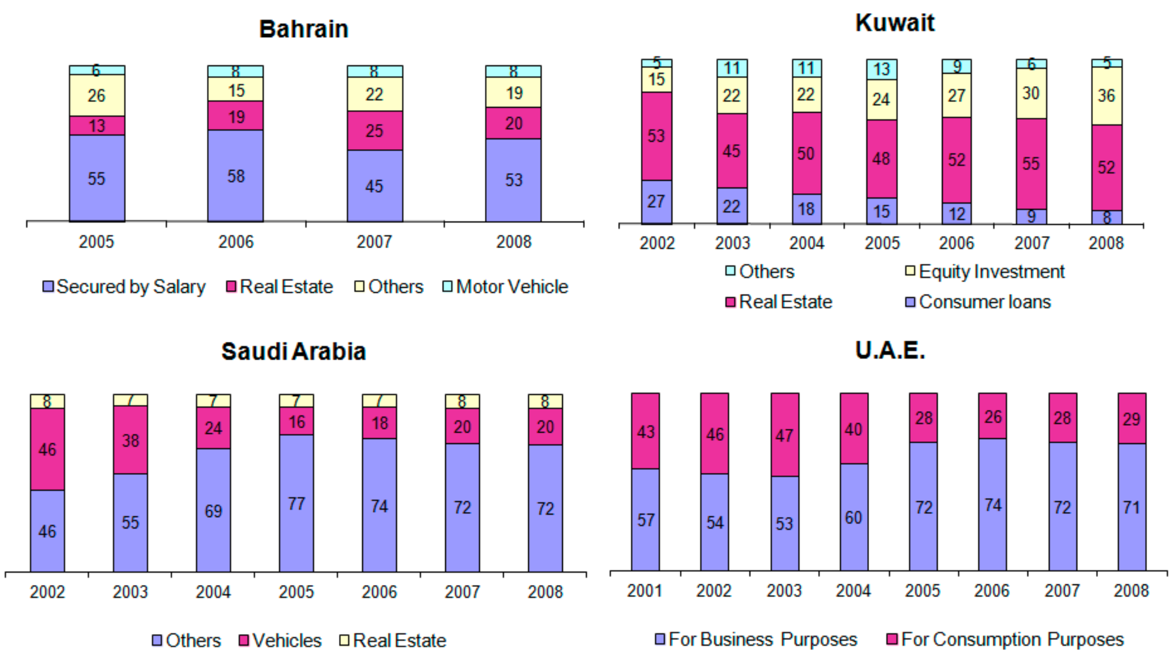
Credit to nonbank financial entities has witnessed a notable increase in Kuwait and the U.A.E., with levels specifically high in Kuwait. On the other hand, lending to the public sector has declined sharply as GCC governments benefited from rising oil prices in recent years and therefore a decline in the need to finance domestic projects through bank borrowing. Direct credit to the government constitutes a marginal share of loans in most countries with the exception of Qatar, where it constitutes more than 27 percent of loans, although credit to government declined from much higher levels witnessed in the early 2000s.

Within household lending, there has been a marked increase in consumer lending in the U.A.E., and lending for equity investment in Kuwait (Figure 10). Household lending in Saudi Arabia for consumption or possibly equity investment appears to have also increased as indicated by the increase in the “other” category from around 46 percent of household loans to 72 percent during 2002–08.[12] Household loans in the GCC are generally limited to salaried individuals, which lowers the risk of lending to this category, although risks remain in

[12] Detailed data on household lending is only available for Bahrain, Kuwait, Saudi Arabia, and the U.A.E.

relation to situations that involve significant layoffs of expatriate workers (for example, in cases where there is a significant slowdown in economic activity). The following is an analysis of the main risk exposures for the GCC, by country.

Figure 10. GCC: Distribution of Household Credit
(in percent of total household credit)



Sources: Countries' central banks; and staff estimates.

Bahrain. Overall, the retail banking portfolio in Bahrain is highly exposed to construction and real estate (33 percent of total loans) and the household sectors (23 percent). However, household loans in Bahrain are mainly secured by salary which mitigates the risk of default.

Kuwait. The banking portfolio is highly exposed to the real estate and construction sectors, which constitute close to 50 percent of total loans. Household loans (excluding mortgages) and nonbank financial institutions (mainly to investment companies) are also important in banks' loans portfolios accounting for 16 and 12 percent of total loans, respectively. With regard to household loans, these are mainly composed of loans facilitating equity margin purchases (36 percent of total household lending, or close to 12 percent of banks' loan portfolios in 2008).[13] This highly exposes Kuwaiti banks to market induced credit risk.[14] Additionally, banks are highly exposed to Kuwait's troubled investment companies. The

[13] Real estate loans for households are included in the "construction and real estate." These account for around 52 percent of household lending.

[14] To address pressures created by the current global crisis, the Central Bank of Kuwait has recently prevented banks from liquidating margin trading accounts that fall below margin to limit the impact on the market and also on households. This increases the credit risk associated with this category.

stressed domestic investment companies have put strains on the banking sector during the current crisis. Two of the largest investment companies, mainly active in the real estate and stock markets, have already defaulted on some or all of their debt (the events occurred in January and May 2009), but are in the process to negotiate or have successfully completed debt restructuring agreements.

Oman. Oman's banking sector is highly exposed to the household sector, which accounts for approximately 40 percent of total loans.[15] Rising consumer indebtedness raises concerns as Omani households are highly leveraged with household loans accounting for 17 percent of GDP. Additionally, a high proportion of the corporate loan portfolio is in a handful of large exposures. This has posed important risks to Omani banks historically: banks' asset quality deteriorated in 2000–02 due to the financial troubles faced by large corporate clients to which most banks were exposed. The exposures are mostly to family-owned businesses, where despite improvements, corporate governance and transparency are still modest.

Qatar. The banking sector is mostly concentrated in the household, construction and real estate, and government sectors, which account for 26, 20, and 27 percent of total loans, respectively. As regards the household sector, although data is not readily available on the uses of these loans, an important share of these loans might be for securities investments.[16] This could be a potential risk due to risk concentration and the difficulty arising from monitoring margin lending. One mitigating factor, however, is that household loans are largely extended to those with a salary assignment.

Saudi Arabia. The loan portfolio appears well diversified with respect to the corporate sector with trade being the main sector at 25 percent of total loans (mirroring the structure of the economy). However, concentration of credit to high net worth individuals could pose risks, similar to other GCC countries. Household loans in turn are well diversified with no dominating sub-sector. Real estate loans in Saudi Arabia are marginal compared to the rest of the GCC at less than 10 percent of total loans. However, similar to the rest of the GCC countries, some margin lending for equities could be a source of risk. Prudential regulations in Saudi Arabia curb credit growth risks by requiring banks to obtain Saudi Arabia Monetary Authority's approval for foreign lending and by imposing statutory caps on individual indebtedness.

U.A.E. The banking sector is highly exposed to the construction sector and the highly speculative real estate sector (25 percent of total loans, including household mortgages), and to the household sector (20 percent, excluding household mortgages). Trade is also an important sector in bank loans accounting for 13 percent of total loans. The banking portfolio

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[15] The Central bank of Oman established a lending cap limiting personal loans to 40 percent of total loans.

[16] Except for Kuwait, GCC central banks do not report bank lending for equity purchases separately. However, personal loans in GCC countries might have been used for this objective. See Mansur and Delgado (2008).

is concentrated in the corporate sector, which accounts for around two-thirds of total loans. Financing, however, is mainly directed to large private business groups or government-owned related enterprises and there is currently a high level of concentration of credit risk due to large financings of a few family-owned businesses and sizeable government-related entities.

VI. Financial Soundness

Capitalization

The banking sectors in the GCC countries are well capitalized across the board with capital adequacy ratios (CAR) well above minimum CARs (Table 4), and comfortable leverage ratios by international comparisons.[17,18] The high capitalization levels of the banking sectors is related to high profitability, although they have declined significantly in recent years as a result of rapid credit growth and increasing leverage. In 2008, the profitability of the banking sectors have been affected by the higher provisioning requirements related to the crisis, impacting the ability of banks to increase capital internally.

The CAR of the banking sector in the U.A.E. was the lowest among the GCC countries in 2008 at 13.3, declining significantly from 2005 when it stood at 17 percent. However, U.A.E. banks have received capital injections by the government in 2009, raising their CAR to 17.6 percent by June 2009 and making them among the best capitalized in emerging markets. Risks to capital adequacy, however, exist as the fallout from the crisis on the asset quality of banks continues to unfold, in addition to the risk of credit rating downgrades of U.A.E. corporates by major rating agencies.[19] The latter could impact banks' CARs through the valuation of risk weighted assets.

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[17] Currently, the minimum regulatory CAR is 8 percent in Saudi Arabia, 10 percent in Oman and Qatar, 11 percent in the UAE, and 12 percent in Bahrain and Kuwait. The U.A.E has raised its minimum CAR in response to the current crisis from 10 percent to 11 percent, effective September 30, 2009, and to 12 percent, to become effective June 30, 2010.

[18] In Bahrain, as regard to the different categories of banks, the locally incorporated retail banks held the lowest CAR at 18.1 percent in 2008 (versus 21 percent in 2007), while their Tier 1 capital to RWA still stood at a comfortable 10.9 percent in 2008 (versus 17 percent in 2007). Conventional wholesale banks held a CAR of 19.3 percent (versus 19 percent in 2007), while their Tier 1 capital to RWA stood at 17.3 in 2008 (versus 16 percent in 2007). Islamic retail banks' CARs stood at very high levels as well with a CAR of 22 percent and Tier I capital of 24.4 percent. For Islamic wholesale banks, the CAR was also robust at 25 percent in 2008 (Central Bank of Bahrain*, Financial Stability Report*).

[19] At end of November 2009, Standard and Poor's downgraded several Dubai government related entities as a result of a plan to restructure debt by Dubai World.

Table 4. GCC: Financial Soundness Indicators, 2003-08 1/

(Percent)

	2003	2004	2005	2006	2007	2008	2009
Capital Adequacy Ratio							
Bahrain	23.8	25.7	26.9	22.0	21.0	18.1	…
Kuwait	18.4	17.3	21.3	21.8	18.5	16.0	…
Oman	17.6	17.6	18.5	17.2	15.8	14.7	15.5
Qatar	25.3	24.9	24.8	13.5	12.2	15.1	15.7
Saudi Arabia	19.4	17.8	17.8	21.9	20.6	16.0	…
United Arab Emirates	18.9	16.9	17.4	16.6	14.0	13.3	18.6
Capital to Assets							
Bahrain	…	…	…	…	…	…	…
Kuwait	10.7	12.1	12.7	11.7	12.0	11.6	…
Oman	12.6	12.9	13.7	13.2	14.1	15.5	…
Saudi Arabia	8.8	8.0	8.8	9.3	9.9	10	…
United Arab Emirates	11.4	11.1	11.4	11.1	9.4	10.6	…
Return on Equity							
NPLs to Total loans							
Bahrain	10.3	7.6	5.8	4.8	2.3	2.3	…
Kuwait	6.1	5.3	5.0	3.9	3.2	3.1	…
Oman	12.8	11.0	7.0	4.9	3.2	2.1	2.8
Qatar	8.1	6.3	4.3	2.2	1.5	1.2	2.0
Saudi Arabia	5.4	2.8	1.9	2.0	2.1	1.4	…
United Arab Emirates	14.3	12.5	8.3	6.3	2.9	4.0	4.6
Provisions to NPLs							
Bahrain	67.7	68.0	67.7	68.5	74.0	84.0	…
Kuwait	77.7	82.5	107.2	95.8	92.0	84.7	…
Oman	78.3	87.1	97.4	109.6	111.8	127.3	113.8
Qatar	85.4	87.6	84.3	94.0	90.7	83.2	…
Saudi Arabia	128.2	175.4	202.8	182.3	142.9	153.3	…
United Arab Emirates	88.5	94.6	95.7	98.2	100.0	103.0	79.0
ROA							
Bahrain	1.9	2.2	2.1	2.1	1.2	1.3	…
Kuwait	2.0	2.5	3.0	3.2	3.4	3.2	…
Oman	0.2	1.7	2.3	2.3	2.1	1.7	2.2
Qatar	2.5	2.8	4.3	3.7	3.6	2.9	2.6
Saudi Arabia	2.2	2.4	3.4	4.0	2.8	2.3	…
United Arab Emirates	2.3	2.1	2.7	2.3	2.0	2.3	1.5
ROE							
Bahrain	18.3	20.8	14.3	15.4	18.4	16.9	…
Kuwait	18.6	20.9	22.9	27.1	28.1	27.8	…
Oman	1.8	13.5	15.6	17.8	14.3	12.6	14.2
Qatar	20.8	20.8	28.5	27.2	30.4	21.5	20.7
Saudi Arabia	25.9	31.7	38.5	43.4	28.5	22.7	…
United Arab Emirates	16.4	18.6	22.5	18.0	22.0	21.1	12.1

Source: Country authorities.

1/ Data for Bahrain reflects the retail banking sector only. 2008 data for Kuwait is as of September 2008. 2009 data is as of June for Oman, September for Qatar (except for the provisioning rate, which is for end-2008), and November for the U.A.E.

Asset quality

The asset quality of GCC banks has improved significantly over the past five years. The ratio of nonperforming loans (NPLs) to total loans has been on a declining trend since 2003, when it was at double digits, although the underlying trend is masked by the high credit growth rate during this period. NPLs stood at low levels in 2008 by international comparisons despite the crisis. However, the supervisory authorities in the GCC have required banks to take substantial general loan loss provisions in anticipation of rising amounts of NPLs in 2009, and possibly 2010. The coverage ratio of provisions to NPLs across the GCC is very high by international standards.[20]

There are, however, continued risks of a possible worsening of asset quality as the fallout from the crisis continues to materialize on banks' balance sheets. This risk is heightened in countries with the highest credit growth rates prior to the crisis, and in systems that have significant concentration in construction and real estate, as these sectors have been hit hard throughout the GCC. The high concentration on lending to large business groups is also an issue as indicated by the recent default of two prominent Saudi conglomerates; in addition to Saudi banks' exposure to these two groups, a number of GCC banks also had significant exposures. Additionally, the recent announcement by Dubai World—one of the three major Government-related holding companies in Dubai—on seeking a debt standstill and restructuring could have an important impact on U.A.E. banks and other GCC banks that have exposure to this group.[21] The impact, however, is still unclear pending the conclusion of the debt restructuring process.

Profitability

The banking sectors in the GCC have stable sources of earnings from traditional banking. Net interest margins represent the main source of income, ranging from 53 percent of gross operating income in Qatar in 2008 to 80 percent in Saudi Arabia (Figure 11). Notwithstanding, losses from investments in securities in addition to increasing provisions have weighed on banks' operating profits in 2008-2009 across the GCC (Figures 12–13). Investment losses mostly affected Saudi and Bahraini banks, while loan loss provisioning affected Kuwaiti banks most. Returns on equity (ROE)—hovering around 20 percent—and

[20] As regard to the different categories of banks in Bahrain, conventional retail banks had the lowest NPL ratio at 2.3 percent, while the Islamic wholesale banks had the highest NPL ratio at 4.2 percent. Wholesale banks' NPL ratio increased in 2008 with a ratio of 3.2 for the wholesale conventional (versus 2.5 in 2007) and 4.2 for the Islamic (versus 3.5 in 2007). (Central Bank of Bahrain, *Financial Stability Report*).

[21] Dubai World is a Government-related holding company and is fully owned by the Dubai Government. In addition to profitable subsidiaries such as Dubai Ports, Dubai World owns two subsidiaries, Nakheel and Limitless, which are engaged in mega real estate projects. These have been affected significantly by the tightening of global financial conditions and the bursting of the real estate bubble in Dubai in late 2008. Dubai World announced on November 25, 2009 that it will seek a debt standstill and restructuring on debt related to parts of its business, mainly real estate.

returns on assets (ROA) stood at comfortable levels by international comparisons, with Bahrain and Oman being the least profitable.

Together with Saudi Arabia, the banking sector in Kuwait has been one of the most profitable within the GCC in recent years, although the latter has been affected relatively more by the current crisis (Figure 13).[22,23] The retail banking sector in Bahrain has been the least profitable in the region in the last few years and returns have further suffered in 2008 and 2009.[24] On the other hand, Islamic retail banks in Bahrain continued to be very profitable (with an ROA of 5 percent, up from 4 percent in 2007).

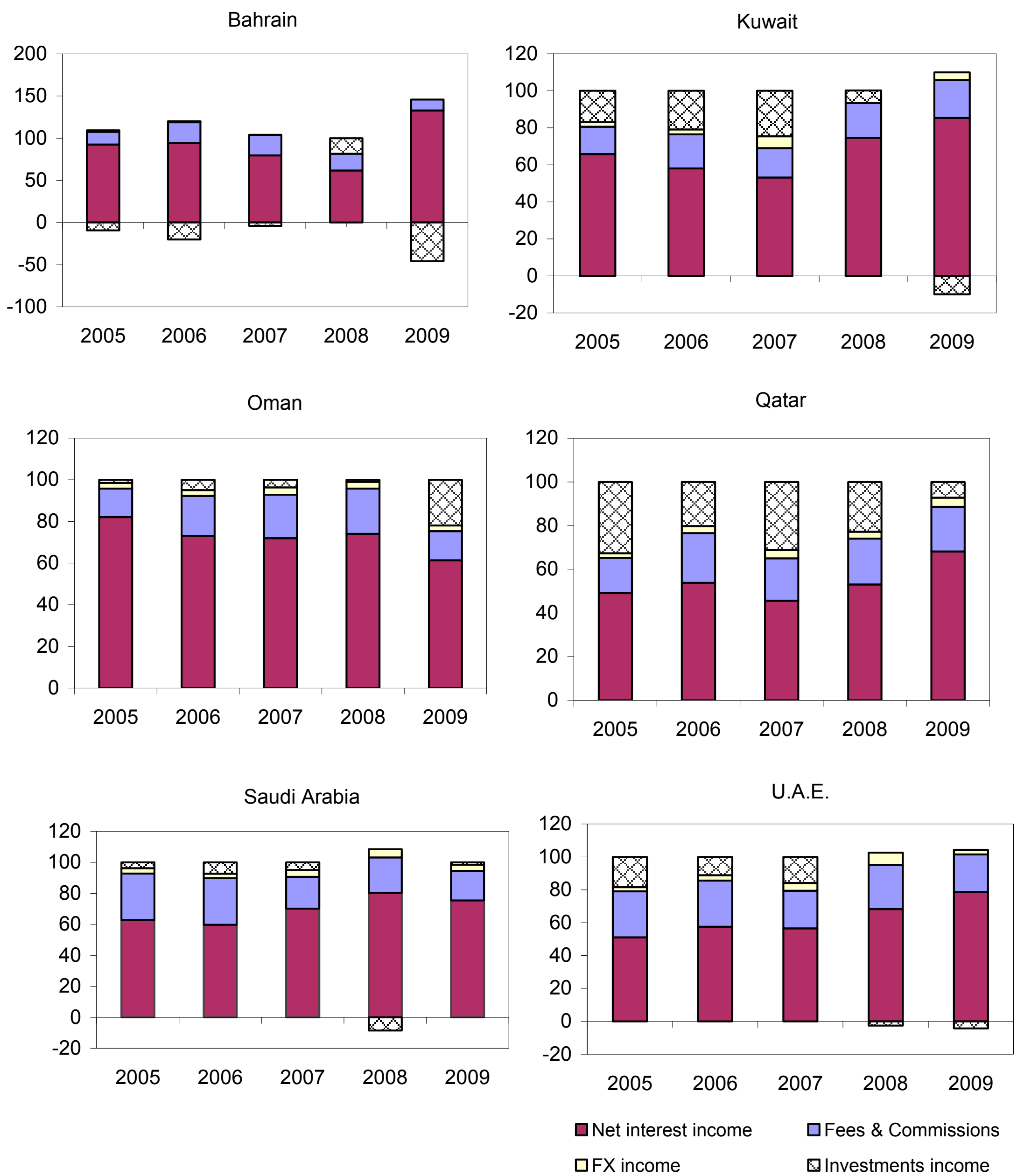
In view of limited global linkages, the Oman banking sector has been little affected by the global crisis. While the Qatari economy is more open, the economy (and consequently banks) have been least affected by the global crisis due to the thriving gas sector. Banks have also had significant government support that helped reduce their losses; the government purchased equity and real estate assets of banks up to $6 billion (6 percent of GDP) during the first half of 2009. It is also worthwhile noting that Qatari banks have the most diversified income within the GCC with net interest margins contributing with 50 percent, while banking fees and commissions, FX income, and investment income constitute the rest. In the U.A.E., more recent data indicate that while bank profitability increased in 2008, it was negatively affected by global and domestic developments in the first half of 2009. Profitability is likely to be further jeopardized by increasing provisions due to the continuing slowdown in economic activity and the bursting of the real estate bubble. Provisions could also potentially rise in relation to exposures to Dubai World.

[22] ROA and ROE data for Kuwait is for Q32008 and therefore does not reflect higher provisions incurred in Q4 2008.

[23] Gulf Bank, the third largest bank in Kuwait, suffered significant losses in 2008 on account of customer-related foreign exchange derivatives transactions. The bank was recapitalized through a combination of capital injections by shareholders (68 percent) and the government (32 percent) via the Kuwait Investment Authority (KIA).

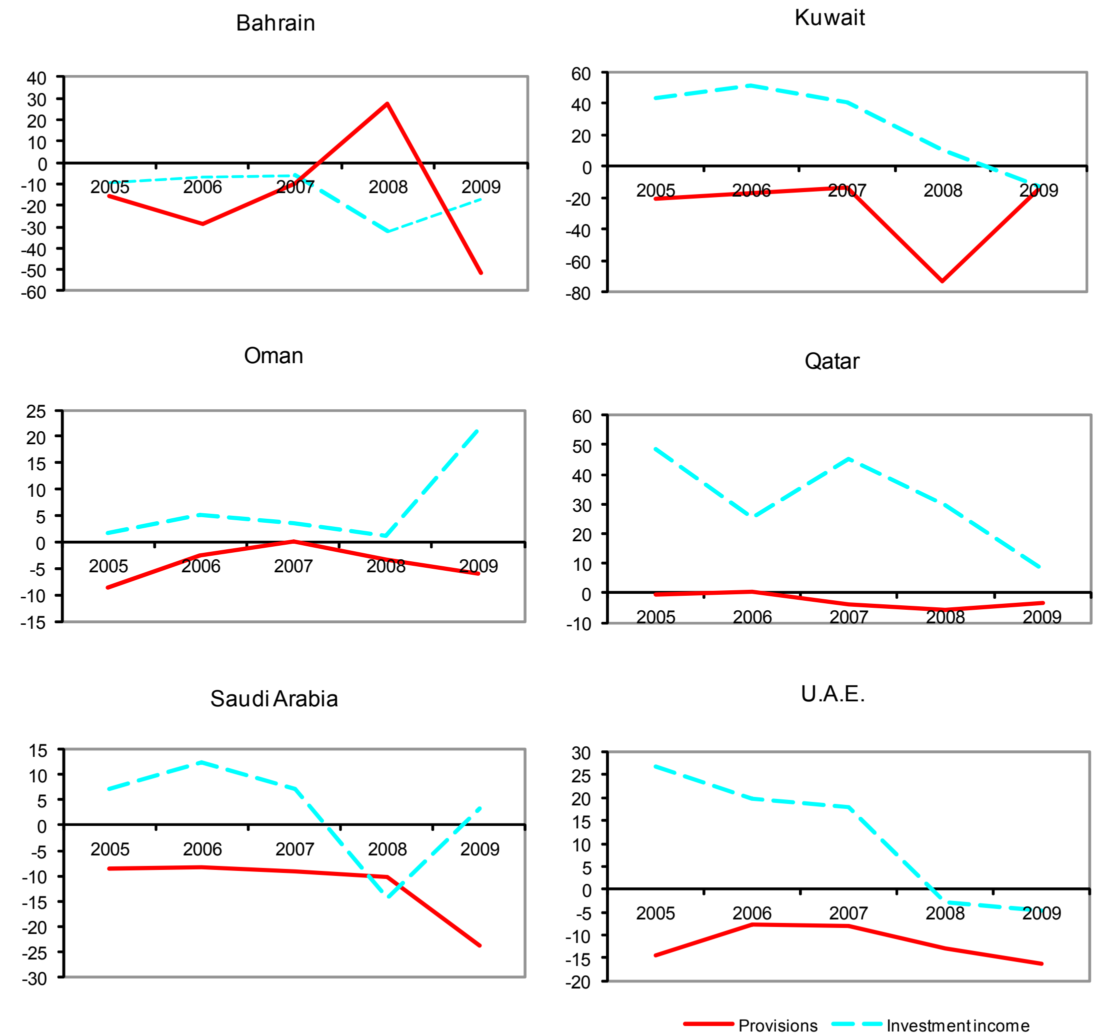
[24] The wholesale banking sector in Bahrain was also hit significantly as a result of the crisis. Gulf International Bank and Arab Banking Corporation derived massive losses ($1.1 billion and $0.9 billion, respectively) as a result of impairments to their investment portfolios in advanced economies. Wholesale banks suffered an overall net loss in 2008 with an ROA at -0.1 percent compared to an ROA of 0.6 percent in 2007 (Central Bank of Bahrain, *Financial Stability Report*).

Figure 11. GCC: Income Analysis of GCC Banks, 2005- Q1 2009
(In percent of gross income)



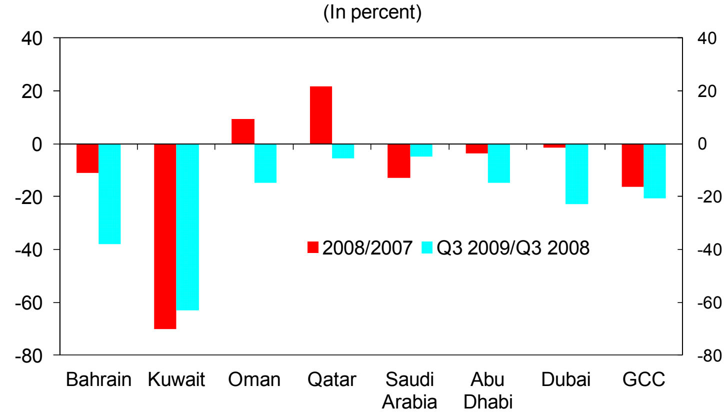
Source: Banks' annual and quarterly reports from Zawya; and authors' estimates.

Figure 12. GCC: Banks' Provisions and Investment Income, 2005-Q1 2009
(As percent of gross operating income, excluding investment income)



Sources: Banks' annual and quarterly reports from Zawya; and Fund staff estimates.

Figure 13. GCC: Change in Bank Profitability 2007-2009
(In percent)

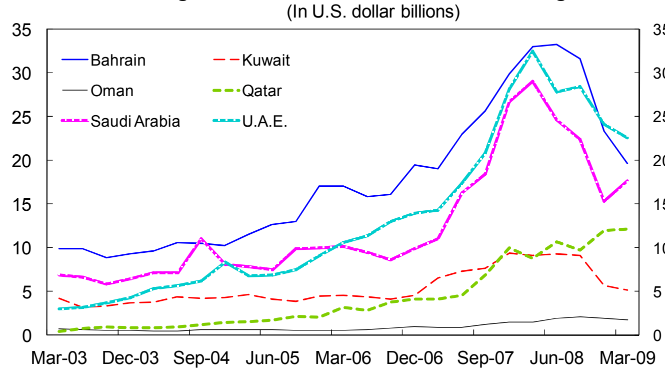


Source: Kamco Research; and Authors' estimates.

Liquidity

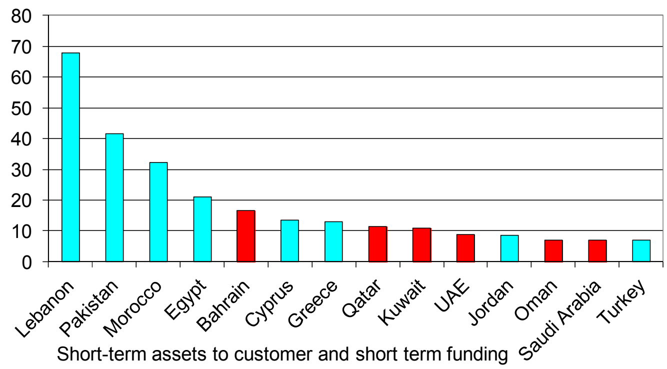
Liquidity in the GCC banking sector has been severely squeezed in 2008 with the reversal of speculative foreign deposits and tight liquidity in international capital markets. GCC banks had become increasingly reliant on external financing, which increased fourfold since 2003 peaking to $103 billion in September 2008 (Figure 14). The majority of the issuances were by Bahrain, Saudi Arabia, and U.A.E. entities. Liquidity ratios for all countries ranked on the low side by international comparisons, reflecting the relatively high asset/liability maturity mismatches in GCC banks (Figure 15).

Figure 14. GCC: Banks' External Financing 1/
(In U.S. dollar billions)



Source: BIS Consolidated Banking Statistics.
1/ Includes foreign currency interbank lending extended by foreign bank branches in GCC countries.

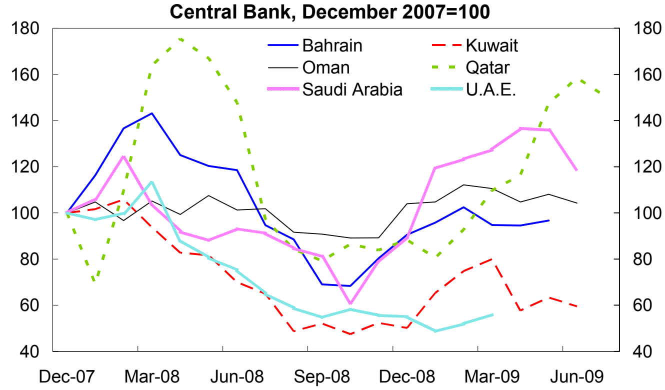
Figure 15. Banking Sector Liquidity in Selected Countries, 2007
(In percent)



Source: Bankscope.

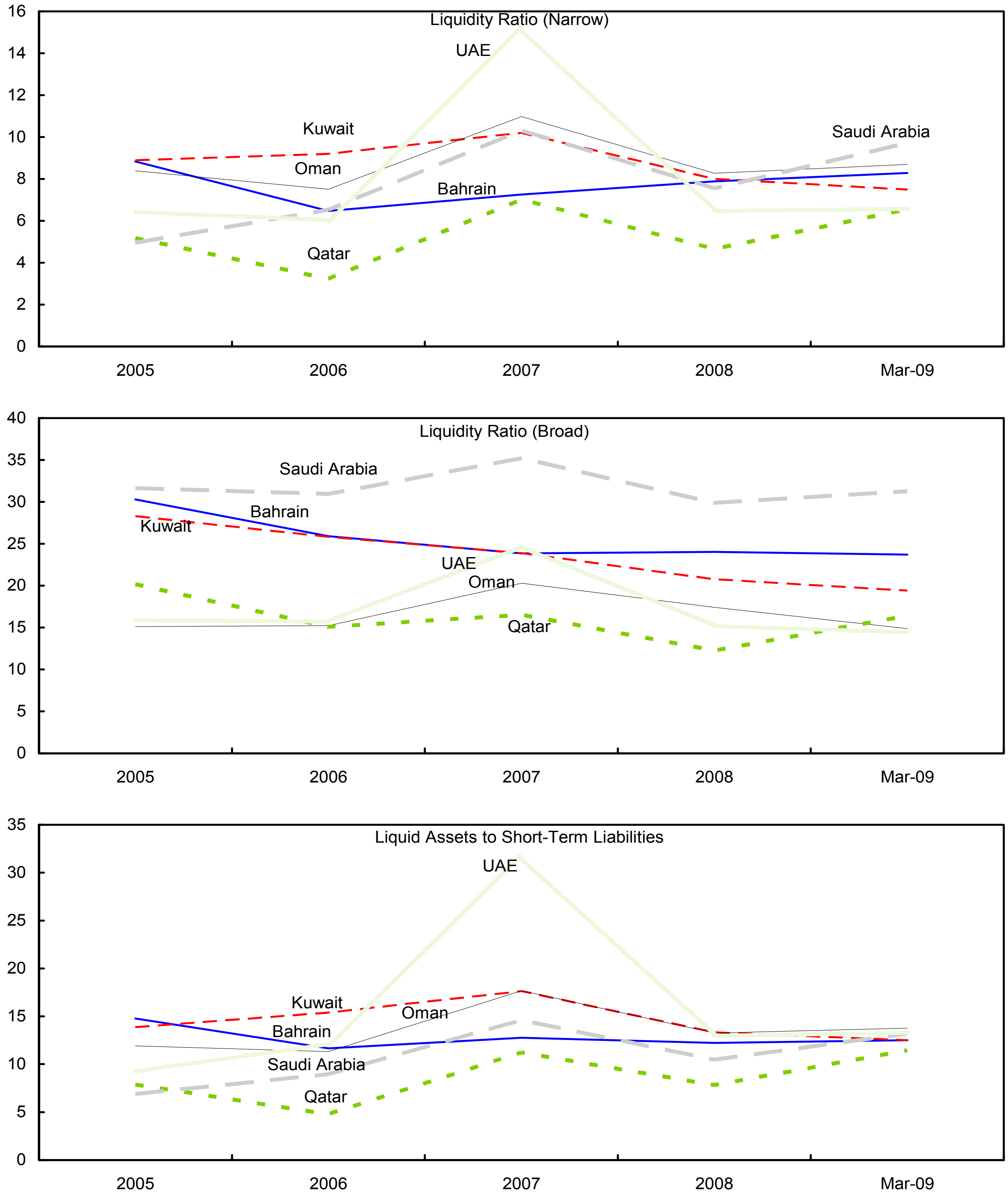
Liquidity peaked in GCC countries in 2007 reflecting the inflow of capital in speculation of an appreciation of GCC currencies (Figures 16–17). The U.A.E. received the bulk of these inflows as indicated by the significant rise in its liquidity ratios in 2007. Liquidity conditions started to tighten in early 2008 as speculative capital inflows reversed. Liquidity was squeezed further following Lehman's collapse in September 2008. The injection of liquidity by the GCC authorities via central bank repos and direct placements of government deposits restored liquidity conditions quickly. Narrow and broad liquidity indicators show that liquidity conditions have returned to their 2006 levels or even above by March 2009.

Figure 16. GCC: Commercial Banks' Reserves with Central Bank, December 2007=100



Sources: GCC central banks; and authors' estimates.

Figure 17. Liquidity Indicators of GCC Banking Sectors



Source: Banks' Annual and Quarterly Reports and authors' estimates. Narrow liquidity ratio is calculated as cash and reserves at the central bank to total liabilities. The broad liquidity ratio is calculated as cash, reserves at the central bank, and securities holdings as a share of total liabilities.

VII. Conclusions and Policy implications

The moderate impact of the global financial crisis on the GCC banking sectors has generally demonstrated the soundness of these systems. The banking sectors in the GCC countries continue to be well capitalized across the board with capital adequacy ratios well above minimum standards and comfortable leverage ratios by international comparisons. There are, however, risks of a possible worsening of asset quality as the fallout from the crisis continues to materialize on banks' balance sheets. This risk is heightened in countries with the highest credit growth rates prior to the crisis, and in systems that have significant concentration in construction and real estate, as these sectors have been hit hard throughout the GCC.

Notwithstanding the general soundness of GCC banks, our analysis indicates some weaknesses associated with the operational aspects of GCC banks and the characteristics of the GCC economies. These would need to be evaluated and addressed by GCC policy makers.

First, some GCC countries witnessed rapid credit growth in the oil boom period preceding the financial crisis. As indicated above, this rise in available bank liquidity and the consequent increase in lending rates have been indirectly associated with higher oil prices. This linkage presents risks and introduces significant liquidity volatility for banks. International experience indicates that rapid credit growth in periods of high real economic growth is likely to result in high levels of asset impairment once economic conditions reverse. As observed in the current crisis, sharp declines in oil prices have brought about a slowdown in economic activity, along with a worsening of banks' asset quality and strains on their liquidity. Policy makers are encouraged to evaluate policy measures that could dampen the impact of oil prices on economic activity and the financial sector.

Second, there are issues that need to be addressed in relation to banks' asset management practices. GCC banks generally have significant concentration risk, both in the context of lending to a few obligors and large exposures to sectors that are highly subject to market price fluctuations and asset bubbles (such as real estate and equities). Additionally, some GCC banking systems have high exposures to households. While household lending in the GCC is generally secured by borrowers' salaries, household defaults could pause risks. These would typically be associated with a slowdown in economic activity and massive layoffs of expatriate workers.

Third, liquidity management practices in GCC banks in general would need to be evaluated. GCC banks appear to maintain low liquidity levels by international comparison. While the banking sector in the GCC still relies on relatively stable deposits as the main source of funds, the fact that banks continue to have a very small share in bond financing complicates banks' ability to manage the maturity mismatches between assets and liabilities. Furthermore, the increasing dependence of banks on external financing in some GCC countries in recent years has increased banks' vulnerability to external credit conditions. This was demonstrated in the current crisis as banks' liquidity was squeezed with the tightening in global liquidity conditions.

Appendix I. List of Commercial Banks in GCC Countries

Table 1. GCC: List of Commercial Banks in GCC countries (2008)

Bahrain	Kuwait	Oman
Local Banks		
Ahli United Bank	National Bank of Kuwait	National Bank of Oman
Bahrain Development Bank	Kuwait Finance House*	Oman Arab Bank
Bahraini Saudi Bank	Gulf Bank KSC	Oman International Bank
BBK	Commercial Bank of Kuwait	Bank Muscat
BMI Bank	Al Ahli Bank of Kuwait	Bank Dhofar
Eskan Bank	Burgan Bank SAK	Bank Sohar
Future Bank	Bank of Kuwait & The Middle East	Ahli Bank
National Bank of Bahrain	Kuwait International Bank*	
Oasis Capital Bank	Boubyan Bank*	
Al Baraka Islamic Bank*		
Al-Salam Bank –Bahrain*		
Bahrain Islamic Bank*		
Khaleeji Commercial Bank*		
Kuwait Finance House*		
Shamil Bank of Bahrain *		
Foreign Banks		
Arab Bank plc	Bank of Bahrain and Kuwait	HSBC Bank Middle East
BNP Paribas	BNP Paribas	Standard Chartered Bank
Credit Libanais	HSBC Bank Middle East Limited	Habib Bank Ltd.
Citibank	National Bank of Abu Dhabi	Bank Melli Iran
HSBC Bank Middle East Limited	Citibank	National Bank of Abu Dhabi
Habib Bank	Qatar National Bank	Bank Saderat Iran
ICICI Bank	Doha Bank	State Bank of India
MashreqBank psc		Bank of Beirut
National Bank of Abu Dhabi		Qatar National Bank
National Bank of Kuwait		
Rafidain Bank		
Standard Chartered Bank		
State Bank of India		
The Housing Bank for Trade and Finance		
United Bank Limited		

Table 1. GCC: List of Commercial Banks (2008, continued)

Qatar	Saudi Arabia	U.A.E.
	Local Banks	
Qatar National Bank	National Commercial Bank	National Bank of Abu Dhabi
Commercial Bank of Qatar	Samba Financial Group	Abu Dhabi Commercial Bank
Doha Bank	Al Rajhi Bank*	Union National Bank
Qatar Islamic Bank*	Riyad Bank	The National Bank of Dubai
Ahli Bank	Banque Saudi Fransi	Commercial Bank of Dubai
International Bank of Qatar	Saudi British Bank	Dubai Islamic Bank*
Masraf Al Rayan*	Arab National Bank	Emirates Bank International
Qatar International Islamic Bank*	Saudi Hollandi Bank	Emirates Islamic Bank
Al Khalij Commercial Bank	Saudi Investment Bank	Mashreq Bank*
	Bank Al-Jazira	Sharjah Islamic Bank
	Bank AlBilad*	Bank of Sharjah
	Alinma Bank*	United Arab Bank
		The National Bank of Ras-Al Khaimah
		Commercial Bank International
		National Bank of Fujairah
		National Bank of Umm-Al Qaiwain
		First Gulf Bank
		Abu Dhabi Islamic Bank*
		Dubai Bank*
		Noor Al Islam Bank*
		Al Masraf
		Invest Bank
		Al Hilal Bank*
	Foreign Banks	
Arab Bank Limited	Emirates Bank	National Bank of Bahrain
Mashreq Bank	National Bank of Kuwait	Rafidain Bank
HSBC Bank Middle East	Deutsche Bank	Arab Bank
Gulf Bank	BNP Paribas	Banque Du Caire
Saderat Iran Bank	National Bank of Kuwait	El Nillien Bank
United Bank	Bank Muscat	National Bank of Oman
Standard Chartered Bank		Calyon-Corporate
		Bank of Baroda
		BNP Paribas
		Janata Bank

Table 1. GCC: List of Commercial Banks (2008, concluded)

	Foreign Banks	
Qatar	Saudi Arabia	U.A.E.
		HSBC Bank Middle East
		Arab African International Bank
		Banque Libanaise Pour Le Commerce (France) S.A.
		Al Ahli Bank of Kuwait
		Barclays Bank
		Habib Bank
		Habib Bank AG Zurich
		Standard Chartered Bank
		CitiBank
		Bank Saderat Iran
		Bank Melli Iran
		Blom Bank France
		Lloyds TSB Bank PLC
		ABN Amro Bank
		United Bank
		Doha Bank
		Samba Financial Group

Source: GCC central banks.

Notes: *Islamic bank.

APPENDIX II. CONCENTRATION OF THE BANKING SECTOR

Table 2. Bahrain: Concentration of the Banking Sector, 2007

(In percent)

Bank name	Share of total assets	Cumulative share of total assets
Bank of Bahrain and Kuwait	19.0	19.0
National Bank of Bahrain	11.5	30.5
Ahli United Bank	10.0	40.5
Shamil Bank of Bahrain*	4.6	45.1
Kuwait Finance House*	4.4	49.5
Bahrain Islamic Bank*	4.0	53.5
Future Bank	3.0	56.5
Al-Salam Bank*	2.4	58.9
Albaraka Islamic Bank*	2.4	61.3
Khaleeji Commercial Bank*	1.6	62.9
Bahraini Saudi Bank	1.4	64.3

Source: Authors' estimates.

Notes: * Islamic bank.

Table 3. Kuwait: Concentration of the Banking Sector, 2007

(In percent)

Bank name	Share of total assets	Cumulative share of total assets
National Bank of Kuwait	29.0	29.0
Kuwait Finance House*	22.0	51.0
Gulf Bank	12.0	63.0
Commercial Bank of Kuwait	11.0	74.0
Burgan Bank	7.0	81.0
AlAhli Bank of Kuwait	7.0	88.0
Bank of Kuwait and the Middle East	3.0	91.0
Boubyan Bank	2.0	93.0

Source: Moody’s Kuwait Banking System Profile (April, 2008).

Notes: * Islamic bank.

Table 4. Oman: Concentration of the Banking Sector, 2007

(In percent)

Bank Name	Share of Total Assets	Cumulative Share of Total Assets
BankMuscat	40.8	40.8
National Bank of Oman	14.3	55.1
Oman International Bank	10.5	65.6
Bank Dhofar	9.2	74.8
Oman Arab Bank	6.3	81.1
Bank Sohar	4.1	85.2
Ahli Bank	3.0	88.2

Sources: Moody’s Oman Banking Statistical Supplement (July, 2008), Central Bank of Oman, and authors' estimates.

Notes: * Islamic bank.

Table 5. Qatar: Concentration of the Banking Sector, 2007

(In percent)

Bank Name	Share of Total Assets	Cumulative Share of Total Assets
Qatar National Bank	37.5	37.5
Commercial Bank of Qatar	19.7	57.2
Doha Bank	10.2	67.4
Ahli Bank	5.3	72.7
Qatar Islamic Bank*	7.0	79.7
International Bank of Qatar	3.7	83.4
Masraf Al Rayan*	3.5	86.9
Qatar International Islamic Bank*	3.4	90.3
Al Khalij Commercial Bank	1.7	92.0

Source: Authors' estimates.

Notes: * Islamic bank.

Table 6. Saudi Arabia: Concentration of the Banking Sector, 2007

(In percent)

Bank Name	Share of Total Assets	Cumulative Share of Total Assets
National Commercial Bank	19.4	19.4
Samba Financial Group	14.4	33.8
Al Rajhi Bank*	11.6	45.4
Riyadh Bank	11.3	56.7
Banque Saudi Fransi	9.3	66.0
Saudi British Bank	9.1	75.1
Arab National Bank	8.8	83.9
Saudi Hollandi Bank	4.7	88.6
Saudi Investment Bank	4.3	92.9
Bank Al-Jazira	2.0	94.9
Bank AlBilad*	1.5	96.4

Sources: Moody’s Saudi Arabia Banking System Profile (July, 2008), and authors' estimates.

Notes: * Islamic bank.

Table 7. U.A.E.: Concentration of the Banking Sector, 2007

(In percent)

Bank name	Share of Total Assets	Cumulative Share of Total Assets
National Bank of Abu Dhabi	11.2	11.2
Emirates Bank International	11.1	22.3
Abu Dhabi Commercial Bank	9.5	31.8
National Bank of Dubai	8	39.8
HSBC Middle East	7.8	47.6
First Gulf Bank	7.3	54.9
Mashreqbank*	6.6	61.5
Dubai Islamic Bank*	6.1	67.6
Union National Bank	4.4	72
Abu Dhabi Islamic Bank*	3.4	75.4
Commercial Bank of Dubai	2.5	77.9
Dubai Bank*	1.2	79.1
National Bank of Ras Al-Khaimah	1	80.1

Source: Moody’s Saudi Arabia Banking System Outlook (December, 007), and authors' estimates.

Notes: * Islamic bank

APPENDIX III. OWNERSHIP STRUCTURE OF GCC DOMESTIC BANKS

Table 8. Bahrain: Ownership Structure of the Domestic Banking Sector (2007)

(In percent)

	Gov.	Quasi Gov.	Private Domestic	Foreign		Royal Family
				GCC	Non-GCC	
Ahli United Bank		10.5	62.8	26.7 1/		
Bank of Bahrain and Kuwait		32.1	19.1	48.0		
National Bank of Bahrain	49.0		51.0			
Shamil Bank of Bahrain*			100.0			
Bahrain Islamic Bank*	4.0		33.3	62.8 2/		
Al-Salam Bank Bahrain*			35.0	65.0 3/		
Albaraka Islamic Bank*			50.0	50.0 4/		
Khaleeji Commercial Bank*			42.2	57.8		
Bahraini Saudi Bank		10.0	84.5	5.5		
Kuwait Finance house*				100.0		
Future Bank 5/				33.3 5/	66.6 5/	

Sources: Bankscope, Bankers' Almanac, and authors' estimate.

1/ Quasi-government entities from both Kuwait and Qatar own 21%, while the remaining shares are owned by a royal family member from Kuwait.

2/ The Kuwaiti government owns 9%.

3/ Represents share of different private corporations from the U.A.E. that are owned by Sheikh Mohammed bin Rashid Al-Maktoum.

4/ Part of Albaraka Banking Group (Saudi Arabia).

5/ Ahli United bank owns 33.3%, and the remainder (66.6%) is owned by Bank Mellin Iran and Bank Saderat in Iran.

Notes: * Islamic banks.

Table 9. Kuwait: Ownership Structure of the Domestic Banking Sector (2007)

(In percent)

Bank name	Gov.	Quasi Gov.	Private Domestic	Foreign		Royal Family
				GCC	Non-GCC	
National Bank of Kuwait			100.0			
Kuwait Finance House*	49.0		51.0			
Gulf Bank			100.0			
Commercial Bank of Kuwait			100.0			
Al Ahli Bank of Kuwait			100.0			
Burgan Bank		6.0	94.0			
Bank of Kuwait & The Middle East	1.1	12.0	86.9			
Kuwait International Bank			100.0			
Boubyan Bank	20.0	4.0	76.0			

Sources: Bankscope, Bankers' Almanac, and authors' estimate.

Notes: * Islamic bank.

Table 10. Oman: Ownership Structure of the Domestic Banking Sector (2007)

(In percent)

Bank name	Gov.	Quasi Gov.	Private Domestic	Foreign		Royal Family
				GCC	Non-GCC	
Bank Muscat	19.1	24.2	16.7	15.0	25.0	
National Bank of Oman		23.0	42.1	34.9		
Oman International Bank			89.9			10.1
Bank Dhofar		27.0	63.0			
Oman Arab Bank			50.0		49.0 1/	
Bank Sohar	14.5	14.8	70.7			
Al Ahli Bank		7.0	48.0	35.0	10.0 2/	

Sources: Bankscope, Bankers' Almanac, and authors' estimates.

1/ Represents the share of Arab Bank PLC incorporated in Jordan.

2/ Represents the share of Ahli United Bank in Bahrain.

Table 11. Qatar: Ownership structure of the Domestic Banking sector (end-2007)

(In percent)

Bank name	Gov.	Quasi Gov.	Private Domestic	Foreign		Royal Family
				GCC	Non-GCC	
Qatar National Bank	50.0		50.0			
Commercial Bank of Qatar			100.0			
Doha Bank			100.0			
Qatar Islamic Bank*			100.0			
Ahli Bank			60.0	40.0 1/		
International Bank of Qatar			70.0	30.0 2/		
Masraf Al Rayan*			100.0			
Qatar International Islamic Bank*			100.0			
Al Khalij Commercial Bank		18.0	72.0	10.0		

Sources: Bankscope, Bankers' Almanac, and authors estimates.

1/ Represents the share of Ahli United Bank from Bahrain.

2/ Represents the share of National bank from Kuwait.

Notes: * Islamic bank.

Table 12. Saudi Arabia: Ownership Structure of the Banking Sector (2007)

(In percent)

Bank name	Gov.	Quasi gov.	Private domestic	Foreign		Royal family
				GCC	Non-GCC	
National Commercial Bank	70.0	10.0	20.0			
Samba Financial Group	23.0	21.5	52.0		3.5	
Al Rajhi Bank*		9.9	90.1			
Riyadh Bank	6.5	43.3	50.2			
Banque Saudi Fransi		12.8	56.1		31.1	
Saudi British Bank		9.5	50.6		39.9	
Arab National Bank		10.8	49.2		40.0	
Saudi Hollandi Bank		9.6	50.5		39.9	
Saudi Investment Bank		38.8	53.8		7.4	
Bank Al-Jazira			94.2		5.8	
Bank AlBilad*			100.0			

Source: Bankscope, Bankers' Almanac, and authors' estimates.

Notes: * There is no Islamic bank license in Saudi Arabia and most banks offer a combination of conventional and Islamic banking products. These two banks offer only Islamic banking products.

Table 13. United Arab Emirates: Ownership Structure of the Banking Sector (2007)

(In percent)

Bank Name	Gov.	Quasi gov.	Private domestic	Foreign		Royal family
				GCC	Non-GCC	
Emirates Bank International 1/	77.0		23.0			
National Bank of Abu Dhabi	73.0		27.0			
Abu Dhabi Commercial Bank	64.8		22.4			12.8 2/
National Bank of Dubai	14.0		86.0			
Mashreqbank*			100.0			
Dubai Islamic Bank*	30.0	4.0	65.0			
First Gulf Bank			40.0			60.0
Union National Bank	60.0		40.0			
Abu Dhabi Islamic Bank*	10.0	3.0	58.0			29.0
Commercial Bank of Dubai	20.0		80.0			
Emirates Islamic Bank	77.0		23.0			
National Bank of Fujairah	54.0		46.0			
Commercial Bank International	5.0		95.0			
National Bank of Ras Al-Khaimah	52.8		35.3	11.9		
Dubai Bank*	9.7 4/		20.4			70.0 3/
Sharjah Islamic Bank	27.0		53.0	20.0		
Bank of Sharjah	15.5		68.5			15.0
National Bank of Umm Al Qaiwain	30.0		70.0			
United Arab Bank			68.0	17.0		15.0

Source: Bankscope, Bankers' Almanac, and IMF staff.

1/ Emirates Bank International and National Bank of Dubai completed merger on 17-10-2007 to become Emirates NBD.

2/ Abu Dhabi Ruling Family.

3/ Represent the share of Dubai holding LLC, which is owned by Sheikh Mohammed bin Rashid Al Maktoum

4/ Through the share of government in Emaar properties, since Emaar owns 30 of Dubai Bank.

Notes: * Islamic bank.

APPENDIX IV: BANKS AGGREGATED FINANCIAL STATEMENTS, 2005–09[25]

Table 14. Bahrain: Balance Sheet of the Banking Sector 1/

(USD 000)

	2005	2006	2007	2008	2009 (Q1)
Assets					
Cash & Reserves at CB	2,096	2,115	2,811	3,214	3,398
Loans	11,067	14,945	20,403	23,060	22,768
Securities	4,423	5,361	5,410	5,361	5,042
Fixed Assets	162	183	330	428	398
Other Assets	5,983	10,102	9,752	8,730	9,446
Total Assets	23,731	32,705	38,707	40,793	41,052
Liabilities					
Due to Banks	3,782	6,752	5,316	3,675	4,341
Customers Deposits & CD's	14,203	18,150	22,029	26,276	27,157
Bonds					
Other Liabilities	2,349	4,047	6,125	5,949	4,812
Total Liabilities	20,334	28,949	33,469	35,900	36,310
Minority Interest	896	516	765	819	778
Shareholders' Equity					
Paid-up Capital	1,379	1,808	2,140	2,336	2,458
Reserves	785	850	1,901	1,359	1,281
Retained Earnings/ Accumulated losses	131	230	216	278	281
Total Shareholders' Equity	2,502	3,240	4,473	4,074	3,964
Total Liab. & Shareholders' Equity	23,731	32,705	38,707	40,793	41,052

Sources: Banks' Annual and Quarterly Reports from Zawya; and authors' estimates.

1/ Based on data for listed banks only.

Table 15. Bahrain: Income Statement of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q 1)
Gross Interest Income	1,032	1,715	2,186	1,781	391
Gross Interest Expense	-5	-813	-1,137	-931	-9
Net Interest Income	1,027	902	1,049	850	382
Banking Fees & Commissions	169	237	318	274	37
FX Income	18	11	6	0	0
Income from investments	-103	-192	-53	256	-132
Tot. Non Interest Income	219	257	395	277	121
Total Operating Income	468	622	821	786	257
Operating Expenses	-327	-449	-619	-651	-155
Provisions	-52	-55	-52	-170	-68
Operating Profit	405	524	717	703	205
Net Non-Operating Income (Expense)	2	0	0	0	0
Other Expenses	-23	0	0	0	-1
Net Profit Before Taxes	355	417	581	562	167
Net Profit After Taxes	318	280	366	312	112

Source: Banks' Annual and Quarterly Reports, and authors' estimates.

1/ Based on data for listed banks only.

[25] Includes conventional and Islamic banks.

Table 16. Kuwait: Balance Sheet of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Assets					
Cash & Bal. with Central Bank	7,058	9,532	15,528	13,056	11,694
Gross Loans & Advances	32,548	41,892	67,369	78,810	75,049
Securities Investments	13,403	14,722	16,930	16,260	14,569
Fixed Assets	624	708	890	1,152	1,106
Other Assets	25,715	36,734	51,456	53,967	53,736
Total Assets	79,349	103,587	152,172	163,245	156,154
Liabilities					
Due to Banks	12,154	22,121	35,870	38,592	36,576
Customers Deposits & CD's	50,852	61,970	88,133	97,879	93,426
Bonds	72		200		
Other Liabilities	4,239	5,824	7,033	8,094	7,895
Total Liabilities	67,317	89,915	131,236	144,565	137,897
Minority Interest	1,175	581	883	1,604	1,554
Shareholders' Equity					
Paid-up Capital	2,977	3,314	4,350	4,761	5,214
Reserves	4,357	5,789	9,936	9,924	9,679
Retained Earnings/ Accumulated losses	1,515	1,997	2,612	1,827	2,675
Total Shareholders' Equity	10,857	13,091	20,053	17,076	16,703
Total Liab. & Shareholders' Equity	79,349	103,587	152,172	163,245	156,154

Source: Banks' Annual and Quarterly Reports from Zawya; and authors' estimates.

1/ Based on data for listed banks only.

Table 17. Kuwait: Income Statement of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Gross Interest Expense	-697	-3,107	-4,936	-4,929	-934
Net Interest Income	3,148	2,846	3,381	4,464	1,020
Banking Fees & Commissions	704	903	1,016	1,121	245
FX Income	120	128	404	-9	49
Income from investments	809	1,027	1,566	404	-118
Tot. Non Interest Income	1,027	1,267	1,718	733	198
Total Operating Income	2,879	3,550	4,245	3,767	939
Operating Expenses	-988	-1,508	-2,069	-2,446	-592
Provisions	-421	-422	-354	-2,469	-153
Operating Profit	2,827	3,725	5,260	2,427	789
Net Non-Operating Income (Expense)	4	-1	0	0	0
Other Expenses	-4	-1	-1	0	0
Net Profit Before Taxes	2,363	2,961	3,973	1,326	525
Net Profit After Taxes	2,248	2,258	2,687	558	402

Source: Banks' Annual and Quarterly Reports, and authors' estimates.

1/ Based on data for listed banks only.

Table 18. Oman: Balance Sheet of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Assets					
Cash & Reserves at CB	1,220	1,314	2,413	2,314	2,340
Loans	11,128	12,691	15,202	19,380	19,333
Securities	978	1,355	2,053	2,551	1,666
Fixed Assets	90	90	173	220	225
Other Assets	338	463	526	553	805
Total Assets	14,547	17,510	21,996	27,961	26,919
Liabilities					
Due to Banks	1,066	2,141	2,923	4,503	3,968
Customers Deposits & CD's	10,232	11,610	13,640	17,450	17,008
Bonds	393	310	468	449	433
Other Liabilities	651	1,183	1,205	1,330	1,451
Total Liabilities	12,609	15,388	18,711	24,206	23,298
Minority Interest					55
Shareholders' Equity					
Paid-up Capital	805	869	1,171	1,338	1,355
Reserves	748	754	1,512	1,623	1,681
Retained Earnings/ Accumulated losses	330	408	455	480	392
Total Shareholders' Equity	1,938	2,121	3,285	3,755	3,566
Total Liab. & Shareholders' Equity	14,547	17,510	21,996	27,961	26,919

Source: Banks' Annual and Quarterly Reports from Zawya; and authors' estimates.

1/ Based on data for listed banks only.

Table 19. Oman: Income Statement of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Gross Interest Income	607	927	1,105	1,265	431
Gross Interest Expense	-34	-369	-489	-514	-135
Net Interest Income	404	558	616	752	250
Banking Fees & Commissions	68	147	179	220	57
FX Income	13	21	30	33	11
Income from investments	8	38	31	10	89
Tot. Non Interest Income	114	229	275	301	168
Total Operating Income	517	787	891	1,053	418
Operating Expenses	-220	-316	-370	-433	-150
Provisions	-43	-20	1	-36	-20
Operating Profit	253	451	522	584	248
Net Non-Operating Income (Expense)	27	11	14	-44	-1
Other Expenses	0	0	-2	0	0
Net Profit Before Taxes	280	462	534	540	247
Net Profit After Taxes	243	406	467	471	214

Sources: Banks' Annual and Quarterly Reports, and authors' estimates.

1/ Based on data for listed banks only.

Table 20. Qatar: Balance Sheet of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Assets					
Cash & Bal. with Central Bank	20,787	19,073	64,761	59,062	82,818
Gross Loans & Advances	101,515	134,413	232,548	346,070	362,900
Securities Investments	54,538	61,783	74,386	78,953	102,600
Fixed Assets	3,557	5,259	6,717	9,232	8,353
Other Assets	221,126	369,486	545,101	774,708	707,462
Total Assets	401,523	590,014	923,513	1,268,027	1,264,134
Liabilities					
Due to Banks	23,697	51,390	93,933	200,554	224,604
Customers Deposits & CD's	264,149	398,483	577,169	754,911	722,436
Bonds	0	0	6,591	6,603	6,606
Other Liabilities	32,083	17,114	37,771	61,932	68,827
Total Liabilities	324,676	486,531	768,359	1,069,655	1,067,644
Minority Interest	207	290	432	822	768
Shareholders' Equity					
Paid-up Capital	14,560	36,603	53,068	66,408	69,983
Reserves	31,429	43,346	62,659	102,484	109,592
Retained Earnings/ Accumulated losses	4,698	5,815	8,917	6,479	16,678
Total Shareholders' Equity	76,639	103,193	154,721	197,549	195,721
Total Liab. & Shareholders' Equity	401,523	590,014	923,513	1,268,027	1,264,134

Sources: Banks' Annual and Quarterly Reports from Zawya; and authors' estimates.

1/ Based on data for listed banks only.

Table 21. Qatar: Income Statement of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Gross Interest Income	17,226	28,005	40,848	54,197	14,340
Gross Interest Expense	-6,966	-13,733	-23,509	-28,016	-6,062
Net Interest Income	10,260	14,272	17,339	26,181	8,278
Banking Fees & Commissions	3,370	6,018	7,387	10,371	2,480
FX Income	444	861	1,421	1,548	510
Income from investments	6,824	5,352	11,879	11,260	874
Operating Expenses	-5,548	-7,392	-9,860	-14,074	-3,574
Provisions	-47	69	-939	-2,114	-401
Operating Profit	16,667	22,353	32,777	41,810	11,187
Net Non-Operating Income (Expense)	6	-72	1,115	-534	119
Other Expenses	-2,662	-2,902	-3,431	-4,702	-1,161
Net Profit Before Taxes	15,439	19,844	29,997	36,574	10,257
Net Income	15,418	19,811	29,925	36,525	10,229

Source: Banks' Annual and Quarterly Reports, and authors' estimates.

1/ Based on data for listed banks only.

Table 22. Saudi Arabia: Balance Sheet of the Banking Sector 1/

(USD million)

	2005	2006	2007	2008	2009 (Q1)
Assets					
Cash & Reserves at CB	9,668	14,454	28,512	25,740	33,159
Loans	101,567	110,949	134,578	174,514	165,180
Securities	52,117	53,969	68,755	75,572	73,455
Fixed Assets	1,711	1,944	2,180	2,437	2,312
Other Assets	30,089	39,866	42,510	62,608	67,115
Total Assets	195,153	221,183	276,536	340,872	341,222
Liabilities					
Due to Banks	15,403	12,277	25,415	28,333	25,794
Customers Deposits & CD's	140,236	161,367	195,509	245,730	251,344
Bonds	1,300	3,457	3,506	4,101	4,079
Other Liabilities	12,907	13,162	15,899	16,212	14,593
Total Liabilities	169,846	190,263	240,329	294,376	295,810
Minority Interest	82	15	80	477	466
Shareholders' Equity					
Paid-up Capital	9,473	12,579	17,728	26,739	26,515
Reserves	9,945	12,919	12,421	14,606	14,442
Retained Earnings/ Accumulated losses	2,467	3,531	3,638	3,103	4,750
Total Shareholders' Equity	25,224	30,904	36,127	46,019	44,946
Total Liab. & Shareholders' Equity	195,153	221,183	276,536	340,872	341,222

Sources: Banks' Annual and Quarterly Reports from Zawya; and authors' estimates.

1/ Based on data for listed banks and the National Commercial Bank.

Table 23. Saudi Arabia: Income Statement of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Gross Interest Income	9,679	13,032	14,919	16,233	4,388
Gross Interest Expense	-2,956	-5,027	-5,923	-5,890	-1,192
Net Interest Income	6,723	8,005	8,996	10,343	3,196
Banking Fees & Commissions	3,208	4,038	2,632	2,953	807
FX Income	365	394	580	678	166
Income from investments	403	971	620	-1,098	67
Tot. Non Interest Income	2,801	3,911	2,557	1,989	516
Total Operating Income	6,572	8,461	7,709	7,721	2,021
Operating Expenses	-3,049	-3,589	-4,145	-5,171	-1,483
Provisions	-535	-617	-656	-893	-467
Operating Profit	7,165	9,678	8,325	7,209	2,359
Net Non-Operating Income (Expense)	47	2	27	120	-2
Other Expenses	-29	-31	-44	-42	-15
Net Profit Before Taxes	4,378	5,769	4,716	4,604	1,182
Net Profit After Taxes	4,377	5,769	4,501	4,604	1,182
Net Income	7,183	9,441	8,059	7,023	2,276

Sources: Banks' Annual and Quarterly Reports, and authors' estimates.

1/ Based on data for listed banks and the National Commercial Bank.

Table 24. United Arab Emirates: Balance Sheet of The Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Assets					
Cash & Reserves at CB	5,938	7,645	37,233	18,847	19,368
Loans	56,263	76,485	144,254	195,907	201,359
Securities	7,656	10,362	21,003	23,344	21,286
Fixed Assets	530	860	2,829	4,136	4,351
Other Assets	22,023	31,377	40,467	49,233	48,834
Total Assets	92,410	126,729	245,787	291,467	295,198
Liabilities					
Due to Banks	7,400	10,561	32,030	33,181	28,970
Customers Deposits & CD's	64,353	63,050	117,932	145,214	145,717
Bonds	625	1,725	2,975	3,041	2,693
Other Liabilities	7,130	35,007	65,933	79,101	84,213
Total Liabilities	79,508	110,343	218,870	260,536	261,593
Minority Interest	285	280	376	398	350
Shareholders' Equity					
Paid-up Capital	3,304	4,301	5,823	6,962	7,326
Reserves	5,840	7,257	13,583	16,266	18,876
Retained Earnings/ Accumulated losses	2,210	3,121	5,087	7,462	8,074
Total Shareholders' Equity	12,616	16,106	26,540	30,532	33,255
Total Liab. & Shareholders' Equity	92,409	126,729	245,787	291,467	295,198

Source: Banks' Annual and Quarterly Reports from Zawya; and authors' estimates.

1/ Based on data for listed banks only.

Table 25. United Arab Emirates: Income Statement of the Banking Sector 1/

(USD millions)

	2005	2006	2007	2008	2009 (Q1)
Gross Interest Expense	-1,878	-3,943	-6,789	-6,483	-1,753
Net Interest Income	2,377	2,641	4,063	6,175	1,899
Banking Fees & Commissions	1,300	1,286	1,643	2,430	554
FX Income	115	149	336	677	68
Income from investments	857	511	1,144	-236	-104
Tot. Non Interest Income	2,011	1,587	2,769	2,972	688
Total Operating Income	3,695	3,713	6,106	8,023	2,275
Operating Expenses	-999	-1,500	-2,582	-3,692	-958
Provisions	-412	-241	-403	-1,062	-389
Operating Profit	3,465	4,011	5,743	5,872	1,602
Net Profit Before Taxes	2,928	3,057	4,494	4,886	1,343
Net Income	2,907	3,039	4,420	4,866	1,335

Sources: Banks' Annual and Quarterly Reports, and authors' estimates.

1/ Based on data for listed banks only.

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