Qatar Banking
Sector report

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Foreword

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As the global financial landscape shifts towards digital and sustainable practices, Qatar's banking sector is at the forefront of this transformative journey. Under the guidance of the Qatar Central Bank's Third Financial Sector Strategic Plan of 2023, Qatar's financial institutions are not only adapting to an evolving landscape but are also taking the lead in shaping it. By seizing opportunities and responding to increasing competition from sectors like telecommunications, retail, and fintech, the banking sector is positioning itself as a key player in both local and global markets.

Qatari banks have distinguished themselves through product innovation, advancing supply chain logistics, trade finance solutions, and transactional banking. Their strategic investments in digital assets, voice-enabled services, augmented reality, and blockchain technology are setting new benchmarks in the financial sector's digital evolution. Furthermore, the expansion of portfolios to include green bonds and sukuks has attracted substantial interest from both local and international investors, reinforcing Qatar's commitment to sustainability and regulatory resilience.

Significant improvements in governance, risk, and compliance models highlight a shift from mere regulatory compliance to impactful implementation. By focusing on monitoring asset quality and maintaining liquidity, Qatari banks are exceeding regulatory standards. New regulations in open banking and micro-financing are driving strategic execution across these emerging segments. Additionally, in the face of a global talent shortage, Qatari banks are attracting international expertise and heavily investing in local talent development, ensuring the sustainability of their objectives.

Qatar's banking sector continues to integrate advanced technology, deliver strong financial results, and align closely with national priorities, all of which point to a bright future. While challenges such as fluctuating interest rates, asset liquidations, and changing customer expectations remain, the financial landscape in Qatar stands out as one of the most stable and promising in the region.

Executive summary

In 2023, Qatar's financial sector demonstrated resilience and growth amid global economic uncertainties and rising interest rates. The banking sector's performance highlights robust asset growth, improved financial stability, and stable returns coupled with active investment in further development, positioning it well for future challenges and opportunities. On a macro level, central banks have been balancing act between managing inflation and fostering economic growth to navigate dynamics environment underpinned by decrease of US federal interest rate. This report examines the performance of Qatar’s financial sector in 2023, followed by an analysis of general macroeconomic trends for 2024.

Balances

The total assets of Qatari banks grew by 3.4%, reflecting a sustained expansion in their holdings driven by strategic investments and portfolio growth.

Gross loans and advances rose by 3.0% while customer deposits only rose by 0.6%, indicating banks seeking shorter-term wholesale market funding (including interbank facilities) to offset the increase in deposit Qatar Money Market Rate for Lending (QMRL) growth.

Earnings

The banking sector experienced a remarkable 50.2% surge in gross income, which is attributed to repricing of existing variable rate portfolios (in particular, for QNB) and higher rates for new facilities due to the increase in the QMRL rate, which rose from an average of 3.5% in 2022 to 6.0% in 2023.

While operating income increased by 16.6%, profit before income and tax grew by 10.8% due to the substantial 48% increase in operating expenses.

Stability

Sector-wide stability indicators displayed overall improvement from a Non-Performing Loans (NPLs) and liquidity management perspective. NPLs only grew by 7.6% in 2023 compared to 29.7% in 2022, indicating a significant slowdown in NPL accumulation as the high levels from the pandemic and blockade are nearly absorbed. The liquidity coverage ratio improved by 16.3%, demonstrating enhanced liquidity buffers.

The average loans-to-deposits ratio and capital adequacy remained relatively stable at 116.9% and 18.9% respectively, ensuring effective liquidity management and capitalisation buffer to withstand potential shocks.

Profitability

Profitability metrics showed varied trends. The Net Interest Margin (NIM) across banks decreased by 3.9%, indicating cost of funds level catching up with increase in interest rates on the back of lending and deposit QMRL dynamics.

The Return on Average Assets (ROAA) and Return on Average Equity (ROAE) remained stable, with ROAA at 1.5% and ROAE at 10.6%, indicating steady profitability despite market challenges.

Historical values throughout the report have been recalculated based on the recently updated financials for all banks.

Key financial performance highlights*

Values as of 2023 year-end and year-on-year growth**

Balances

Assets
QAR 2.1 Tn (+3.4%)

Gross loans & advances
QAR 1.5 Tn (+3.0%)

Deposits
QAR 1.4 Tn (+0.6%)

Equity
QAR 0.2 Tn (+3.7%)

Earnings

Gross income
QAR 154.5 Bn (+50.2%)
(+33.0% excluding QNB)

Operating income
QAR 78.7 Bn (+16.6%)

Profit before tax
QAR 34.5 Bn (+10.8%)

Net income
QAR 28.5 Bn (+7.6%)

Stability

Average loans-to-customer deposits ratio
117% (0.9%)

Non-performing loans
QAR 51.6 Bn (+7.6%)

Cost of risk
0.95% (-8.6%)

Capital adequacy ratio
18.9% (-1.51%)

Liquidity coverage ratio
190.0% (+16.3%)

Profitability

Net interest margin
2.7% (-3.9%)

Cost-to-income ratio
24.5% (+5.0%)

Return on average equity
10.6% (+2.5%)

Return on average assets
1.5% (+4.8%)

* KPIs and values calculated from the aggregation of conventional and Islamic banks, excluding international foreign branches operating in Qatar and Qatar Developmental Bank.

** The aggregated values cover the key financials of the following banks: Ahli Bank, Commercial Bank Qatar (CBQ), Doha Bank, Qatar Islamic Bank (QIB), Qatar International Islamic Bank (QIIB), Qatar National Bank (QNB), Masraf AlRayan, and Dukhan Bank.

Figure 1: Total assets (QAR billions)

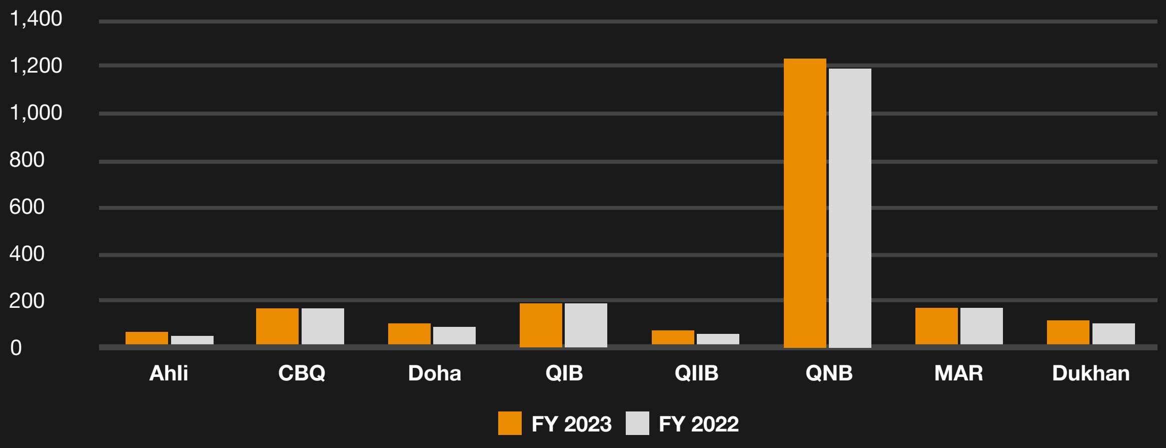
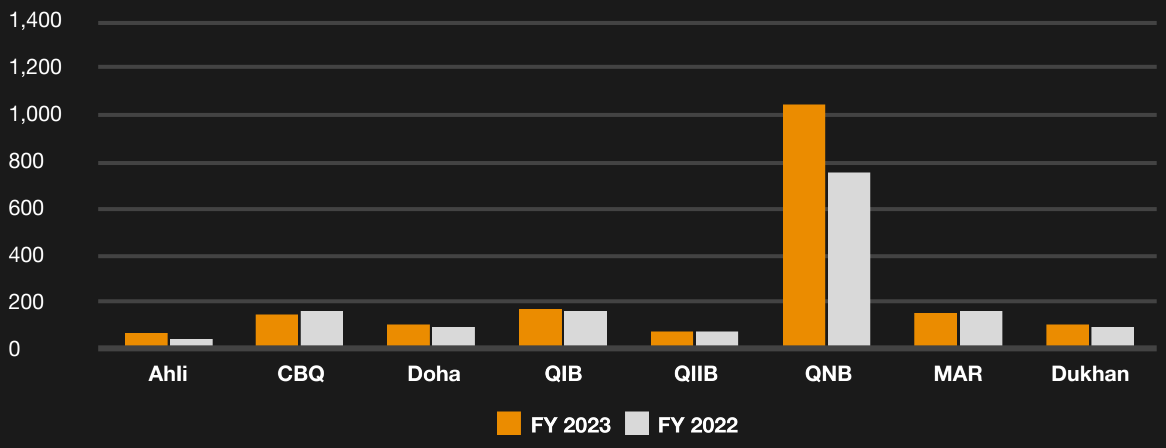


Figure 2: Total liabilities (QAR billions)

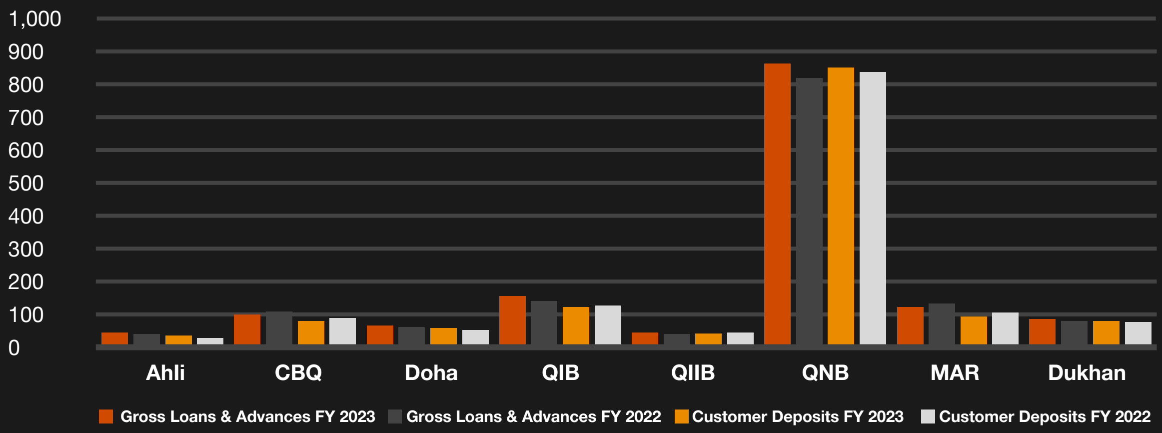


The Qatari banking sector has shown a consistent growth trend, with total assets increasing by 3.4% from FY 2022 to FY 2023, reaching QR 2.086 trillion. This growth is supported by a three-year Compound Annual Growth Rate (CAGR) of 3.5%, indicating sustained expansion over the period from FY 2021 to FY 2023. With Ahli Bank leading the way, rising from QAR 49 billion to QAR 60 billion, derived from a surge in due from banks increasing by 292%, leveraging on the increased interest rates.

Similarly, total liabilities have grown by 3.3% from FY 2022 to FY 2023, with a CAGR of 3.4%, reaching QR 1.850 trillion. Ahli Bank reflected the largest spike in due to banks increasing by 276%.

The growth is seen in total assets demonstrating a consistent expansion in the banks' holdings, fueled by strategic investments and portfolio growth underscoring the banks' ability to capitalise on emerging opportunities in the market.

Figure 3: Gross total loans and deposits (QAR billions)

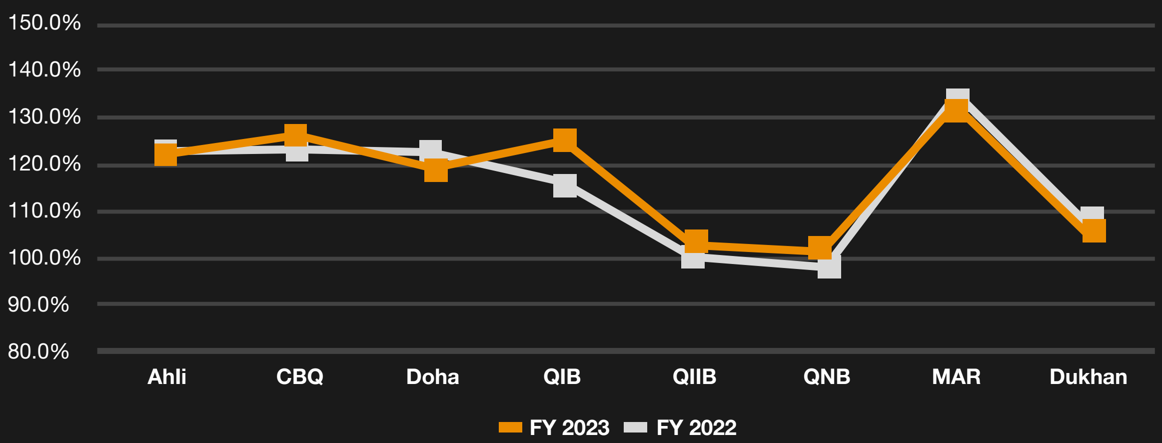


The cumulative total loans and advances provided by listed banks have shown growth patterns surpassing the pace of funding growth. Total gross loans and advances rose by 3.0% to QAR 1.46 trillion in FY 2023, up from QAR 1.42 trillion in FY 2022, achieving a three-year CAGR of 3.1%.

Customer deposits, which remain the primary source of funding for these portfolios, increased by 0.6% annually and have grown by 3.1% over a three-year span, reaching QAR 1.35 trillion in FY 2023, compared to QAR 1.34 trillion in FY 2022.

Overall, the dynamics seen with gross loans and customer deposits indicate that banks are seeking a shorter-term wholesale market funding, including interbank facilities to try and offset the increase in deposit QMRL growth.

Figure 4: Loans-to-deposits (L/D) ratio: Gross total loans/total deposits



The dynamics for the loans-to-customer deposits ratio (LDR) has been generally stable with modest increase from 115.8% in FY 2022 to 116.9% in FY 2023.

Despite most banks showing a stable LDR, QIB stood out with an increase of 7.1%, reaching the level of Ahli Bank, CBQ and Doha Bank. This is mainly due to the increase in gross loans funded by an increase in retained earnings whilst customers deposits remained stable.

Figure 5: NPL Ratio: Non-performing loans/total loans

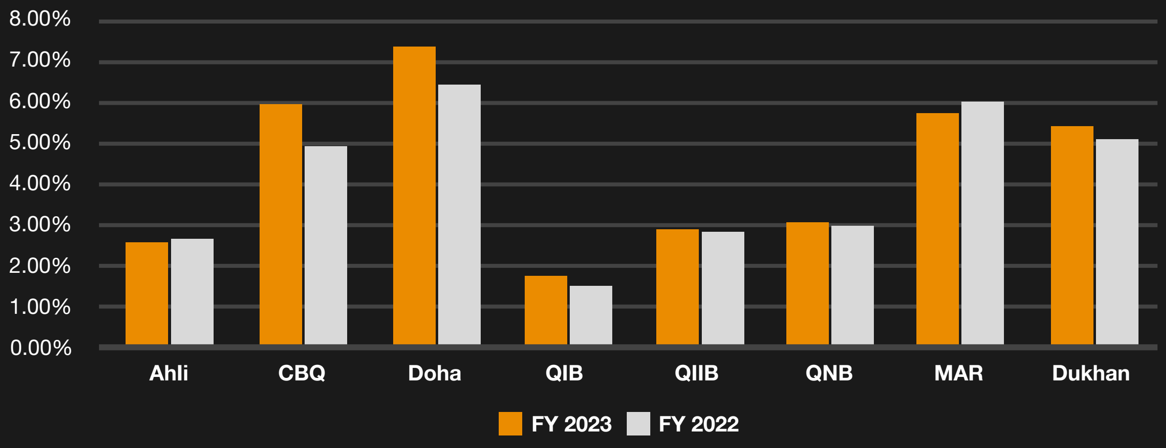
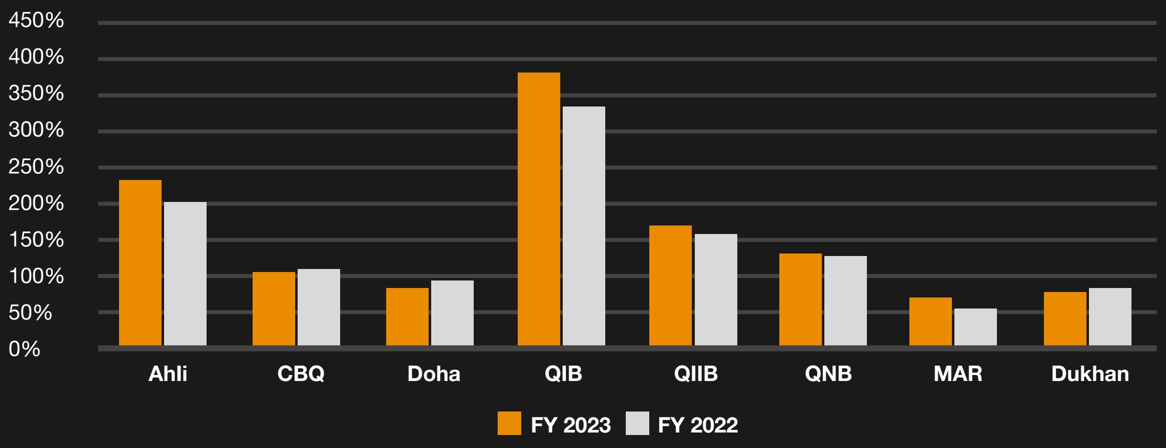


Figure 6: Bad debt coverage ratio: Impairment allowance/stage 3 loans



The lending portfolio trends reveal lingering pandemic effects, with some loans now categorised as bad debt due to repayment challenges. However, the improved Bad Debt Coverage Ratio (BDCR), rising from 142.8% in FY 2022 to 156.5% in FY 2023, indicates that Qatari banks have strengthened their financial buffers. This increase suggests greater prudence and resilience, as banks are better prepared to absorb potential losses from non-performing loans, reflecting a stronger recovery.

The average percentage of NPLs to total loans increased slightly from 4.0% in FY 2022 to 4.3% in FY 2023, reflecting a 7.1% rise. Most Qatari banks are making significant progress in addressing NPLs accumulated during the pandemic and blockade periods. The growth in NPLs has slowed considerably, indicating improved risk management in new loan disbursements. However, Doha Bank and the Commercial Bank of Qatar (CBQ) show differing trends. CBQ's NPL ratio increased due to a 6% decline in loans and advances exposure during the year. Conversely, Doha Bank's rise in NPLs is attributed to high exposure to vulnerable sectors like contracting and real estate, despite tightening underwriting standards from 2020 to 2023.

The BDCR variations among banks reflect differing risk assessments within their portfolios. CBQ experienced a significant increase in NPLs, reaching QAR 5.7 billion in FY 2023 from QAR 5.1 billion in FY 2022, a 20% rise.

While the coverage ratios for Dukhan Bank, QIIB, and Masraf Al Rayan remained stable, CBQ, Doha Bank, and QNB maintained consistent coverage ratios over the past year. Ahli Bank and QIB showed continuous improvement in their BDCRs, indicating stronger provision coverage compared to previous years.

Figure 7: Gross income from financing and fees (QAR billions)

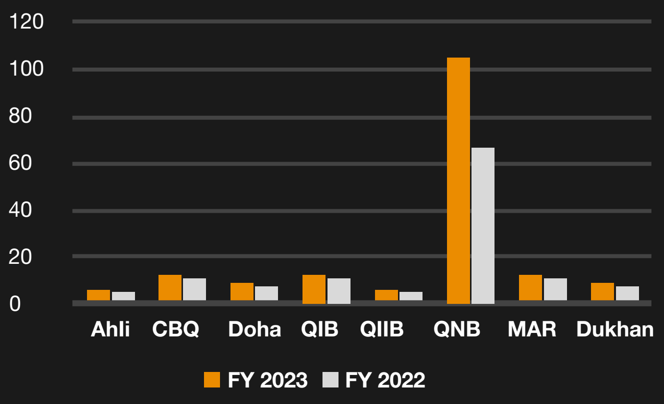


Figure 8: Gross fee contribution %: Gross fee income/ gross total income

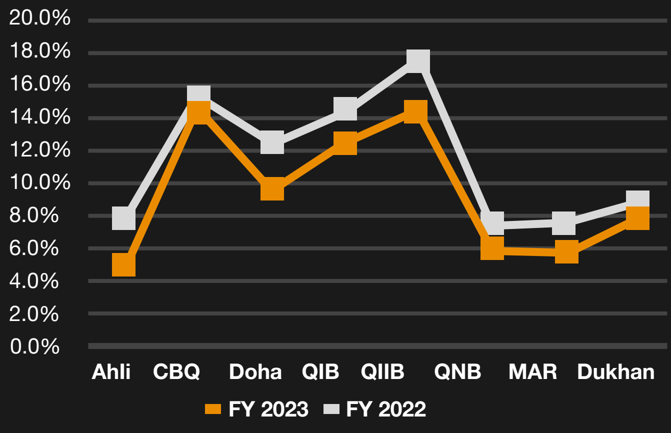
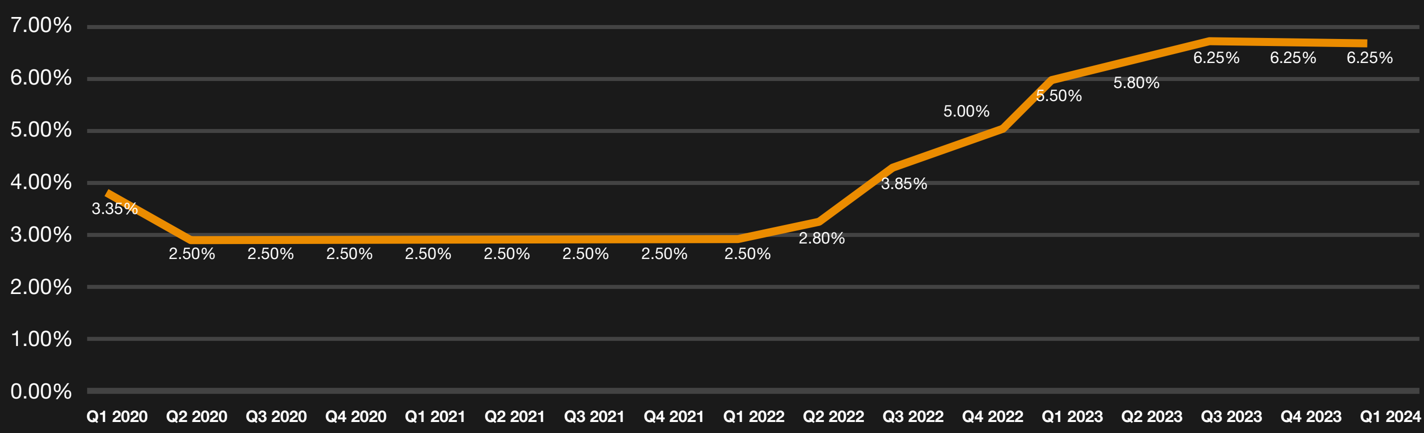


Figure 9: QMRL (Qatar Money Market Rate) (2020-2024 Q1)



The banking sector saw a remarkable 50.2% surge in gross income, rising from QAR 102.9 billion to QAR 154.5 billion. Even excluding QNB, the sector's main contributor, income still grew by 33%. This growth was largely driven by the rise in the Qatar Monetary Rate of Lending (QMRL), which led to loan book repricing and boosted interest income. The QMRL increased from an average of 3.5% in 2022 to 6.0% in 2023, significantly enhancing interest earnings and fueling the sector's income growth.

From Q2 2022, the QMRL rose sharply, reaching 3.85%, and continued upward to 5.00% by Q4. In 2023, it climbed to 6.25% by Q2, maintaining this level through Q1 2024. This rise not only spurred new lending at higher rates, but also increased revenue through the repricing of floating-rate loans, contributing to the sector's overall income boost.

The sharp increase in the QMRL likely aims to curb inflation by reducing borrowing and spending. Additionally, global interest rate trends from major central banks, like the Federal Reserve and the ECB, influence local rates to maintain capital inflows and currency stability.

Figure 10: Operating income (QAR billions)

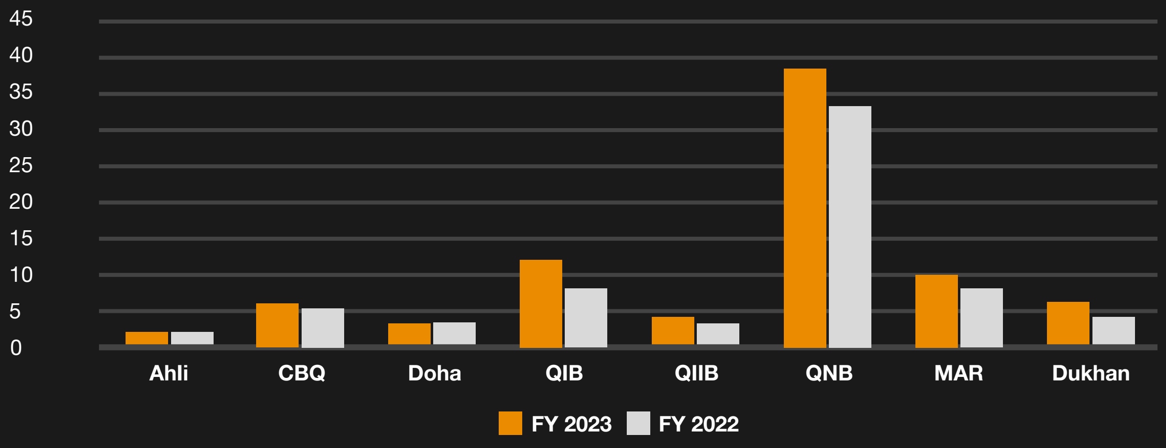
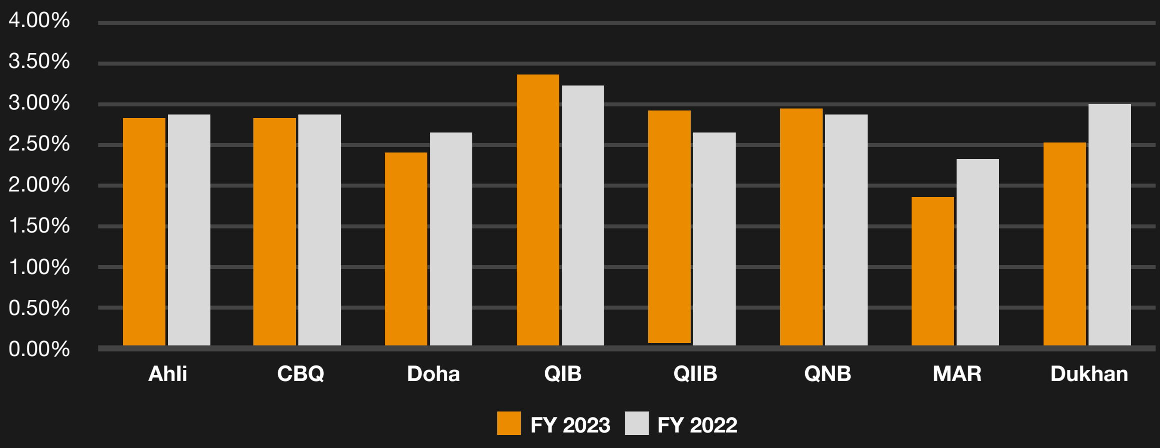


Figure 11: Net interest margin: Net interest income/average earning assets

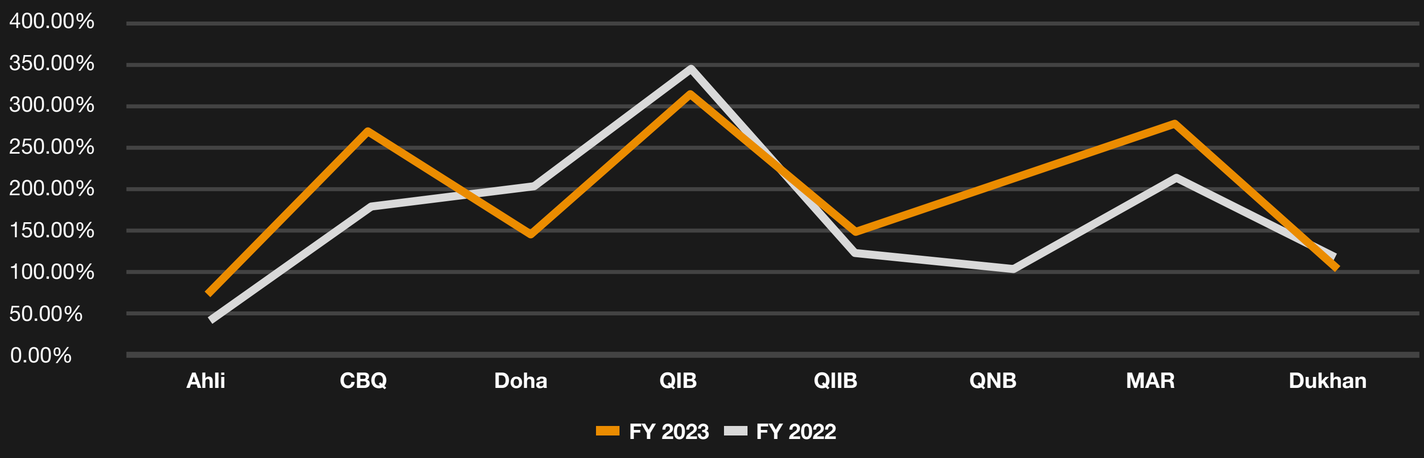


Operating income and margin dynamics remain stable, with a slight 3.9% average reduction in NIM. This drop reflects the rising cost of funds due to increased interest rates from lending and deposit QMRL dynamics. The overall rise in operating income is driven by higher interest income from an expanding lending portfolio and increased market rates.

The market saw a 16.6% year-over-year improvement in operating income, reaching QAR 78.7 billion in FY 2023 from QAR 67.5 billion in FY 2022, with a 2.7% average NIM. Masraf Al Rayan, Dukhan, and QIIB outperformed with a strong 34.8% average increase in operating income, due to higher profit-earning assets and a surge in market rates – evidenced by a substantial increase in QMRL during 2023. QIIB expanded its portfolio by 34%, boosting margins by 12%. Excluding Masraf Al Rayan and Dukhan Bank, other banks showed stable to positive NIM increases.

The overall operating income growth for Qatari banks from FY 2022 to FY 2023 shows double-digit growth, mainly from repricing variable rate portfolios and higher rates for new facilities due to a rise in QMRL.

Figure 12: Liquidity coverage ratios: (Stock of high-quality liquid assets/total net cash outflows over the next 30 calendar days) <= 100%



Liquidity coverage ratio (LCR) for all banks rose by 16.3%, from 163.3% in FY 2022 to 190.0% in FY 2023, indicating improved liquidity positions. Monitoring these ratios remains crucial for effective liquidity management.

LCR trends for Qatari banks in FY 2023 show varied results. Ahli Bank's LCR rose significantly from 38.75% to 68.34%. CBQ's ratio surged from 172.78% to 264.40%, showing robust liquidity. Doha Bank's LCR fell from 201.47% to 142.38%, indicating liquidity challenges. QIB's ratio decreased slightly from 339.30% to 312.10%, while QIIB's LCR improved from 123.00% to 149.00%. QNB's ratio increased significantly from 104.00% to 206.00%. Masraf Al Rayan's ratio rose from 211.50% to 277.50%, showing strong liquidity growth, while Dukhan Bank's LCR fell from 115.40% to 100.00%, indicating reduced liquidity.

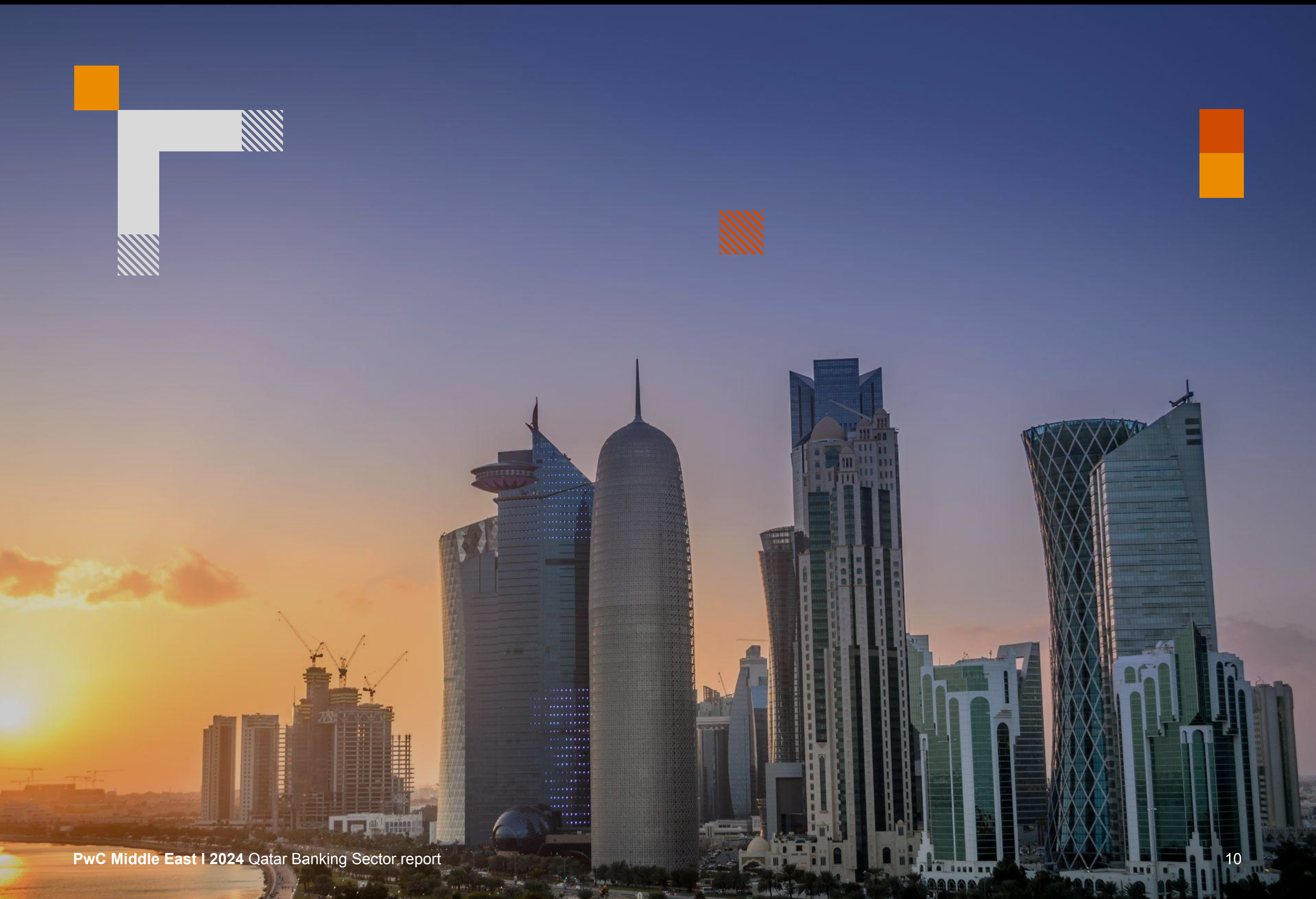


Figure 13: Cost-to-income ratio: Operating cost/pre-impairment operating income

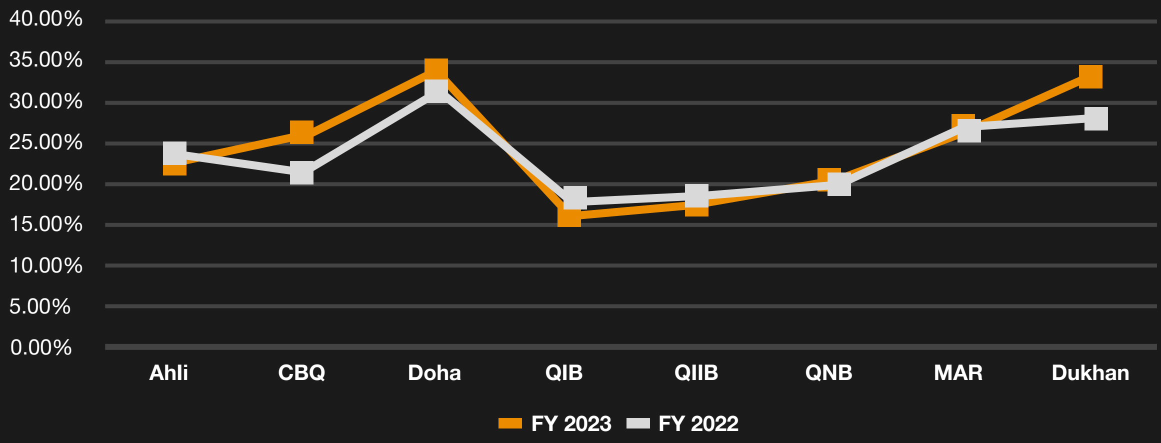
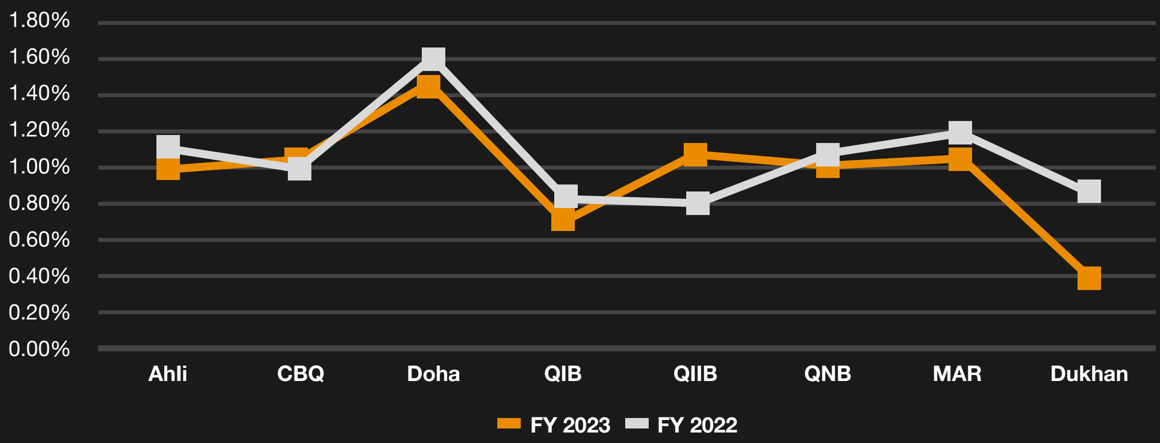


Figure 14: Cost of risk: Net impairment charge/gross total loans



The cost-to-income ratio across all banks has seen a 5.0% increase on aggregate, reaching 24.5% in FY 2023 compared to 23.3% in FY 2022. Overall most banks have shown stable cost-to-income ratios, underpinning an increased spend on further development and innovation.

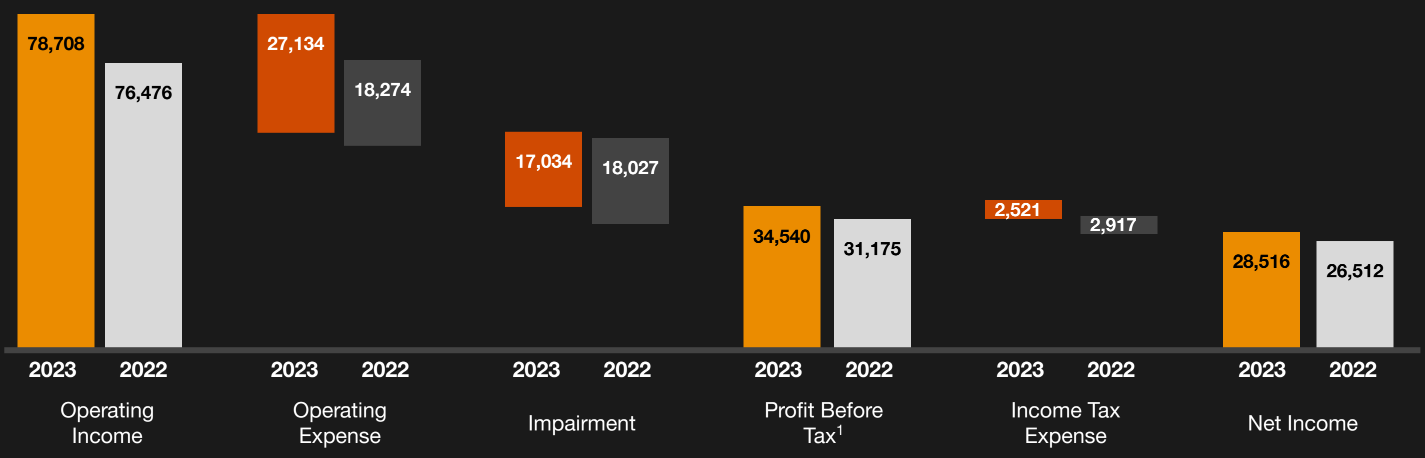
For CBQ specifically, being the outlier was mainly due to inflation-related and one-off expenses in Turkey and the bank’s continued digital investments.

The aggregated average cost-of-risk ratio in FY 2023 witnessed an 8.6% decrease, hitting 0.95% in FY 2023 compared to 1.04% in FY 2022. QIIB and Dukhan Bank stand out as the main outliers in the market.

QIIB’s increase in cost of risk appears to be primarily due to absorbing the cost from elevated charges predominantly attributed to significant impairments within the corporate segment. This has resulted in a notable rise in QIIB's overall cost of risk.

Dukhan Bank on the other hand has seen significant improvement in its cost-of-risk ratio, which could be a reason for the bank adopting a more risk-averse approach.

Figure 15: Aggregated profit and loss waterfall and dynamics (QAR millions)



Overall, banks' performance in FY 2023 improved significantly, with total operating income rising by 16.6% from QAR 67.5 billion in FY 2022 to QAR 78.75 billion in FY 2023. This growth was primarily driven by a spike in QMRL, leading to the repricing of loan books and increased interest income.

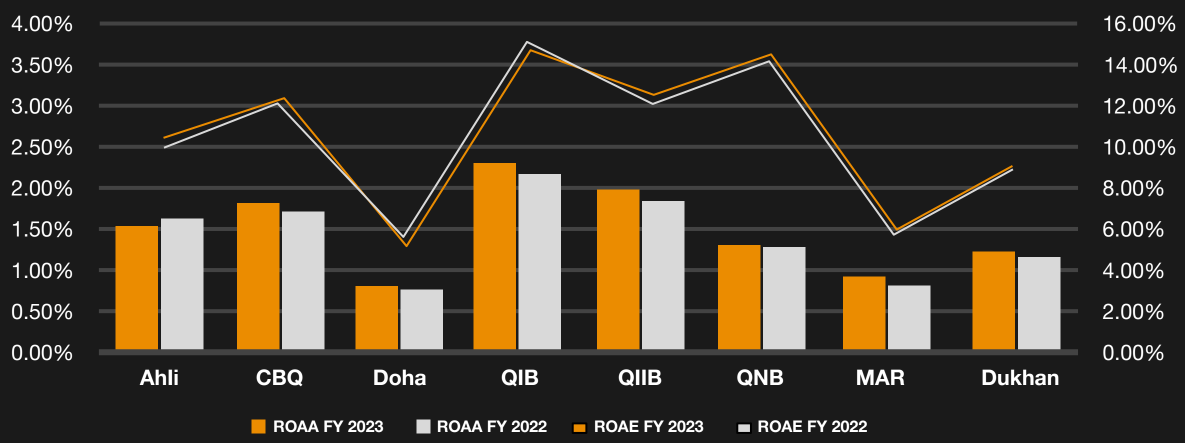
QIB's interest income increase was driven by an approximately 3% expansion in its lending portfolio. Operating expenses rose by 48.5%, from QAR 18.3 billion in 2022 to QAR 27.1 billion in 2023, due to higher market rates. Impairments slightly decreased, indicating better loan performance and credit risk management.

Despite a 16.6% surge in operating income, profit before tax rose by 10.8%, offset by a 48.5% increase in operating expenses and a 5.5% reduction in impairment charges.

QNB faced a QAR 3.5 billion hit due to hyperinflation in Turkey, affecting its overall financial results.

[1] Profit before tax within the waterfall chart does not include hyperinflation effects for QNB.

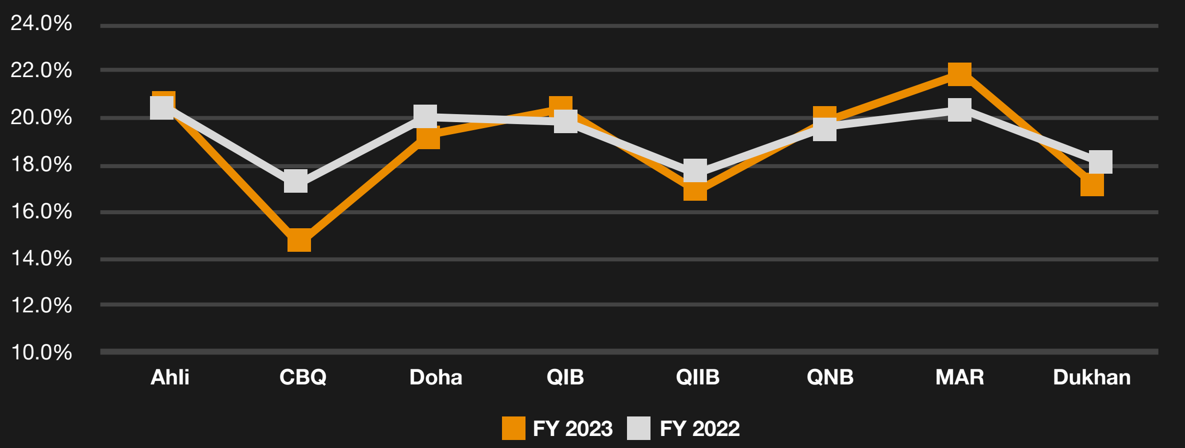
Figure 16: Return on average assets and return on average equity



Aggregated profitability ratios across all banks improved during this period. Overall RoAE increased by 2.5%, reaching 10.6% in FY 2023 compared to 10.4% in FY 2022. RoAA also showed positive dynamics, growing by 4.8% to 1.5% in FY 2023 from 1.4% in FY 2022.

CBQ performed well, with improved net income and well-managed risk, followed by QIIB, which gained efficiencies from acquiring and enhancing asset quality, showing a stable NPL figure during the year.

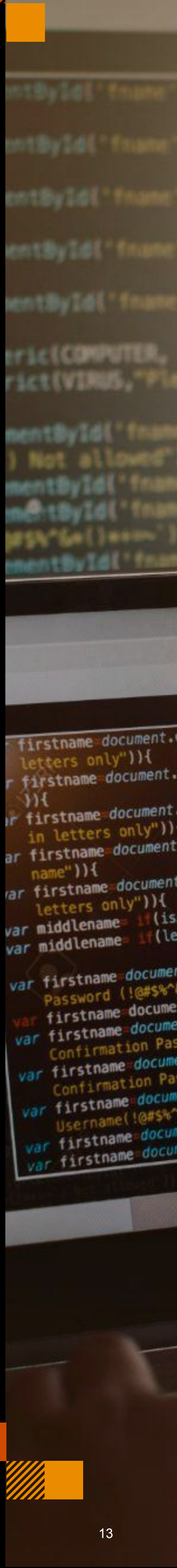
Figure 17: Capital adequacy ratios



All Qatari banks maintained capital adequacy ratios well above the statutory requirements set by the QCB and Basel Committee standards, demonstrating a robustly capitalised banking sector.

CBQ was an outlier, recording a significant drop in its capital adequacy ratio compared to 2022, primarily due to the Employee Incentive Phantom Shares Scheme. This cash-based incentive plan mirrors employee share ownership without issuing actual shares, granting notional shares that rise and fall in value with the company's performance.

Masraf Al Rayan showed significant improvement in its Capital Adequacy Ratio (CAR), primarily due to a 4.4% reduction in risk-weighted assets for credit risk and a 2.9% increase in capital.



Macro-driven trends for 2024

Macro behaviour on the interest rate environment

Following the recent decrease in the US federal interest rate, central banks globally have been adjusting their policies in response to the evolving economic environment.

On a macro level, the reactions across central banks reflect the balancing act between managing inflation and fostering economic growth:

US Federal Reserve (Fed):

The Fed initiated rate cuts to counter slowing inflation, a cooling labour market, and weaker economic growth. This approach has been cautious, reducing rates incrementally, with expectations of further cuts as inflation trends downward and labour market data softens.

European Central Bank (ECB):

In the Eurozone, the ECB has also started to signal a shift from its aggressive tightening phase. Despite earlier rate hikes to combat inflation, the ECB is now taking a more measured approach, signaling that further hikes may be unnecessary as inflation begins to cool down.

Bank of England (BoE):

Similarly, the BoE has hinted that it may slow or pause its rate hikes after a long period of tightening. As inflation in the UK starts to stabilise, there are growing expectations that the central bank might follow the Fed's path and begin rate cuts in the near future.

Emerging markets:

Central banks in emerging economies, such as Brazil and India, have been more aggressive in cutting rates. These economies are particularly sensitive to global monetary shifts, and they have responded to the Fed's moves by loosening monetary policy to support growth and manage inflation.

Gulf region:

In the GCC, including Qatar, central banks have typically mirrored the Fed due to the currency peg to the US dollar, reducing their rates to align with the Fed's decisions. This has eased financial conditions, promoting economic activity while keeping an eye on inflation.

Qatar Central Bank:

In line with this trend, the QCB also implemented a significant reduction in its interest rates. As of September 19, 2024, QCB cut its deposit rate, lending rate, and repo rate by 55 basis points each. This was part of an effort to align with global economic conditions and ensure continued financial stability within Qatar.

Focus on sustainability

Overview of Qatar's strategic sustainability agenda

The Qatari banking industry is at the forefront of embracing Environmental, Social, and Governance (ESG) principles. With a sharp focus on sustainability, financial institutions are launching green bonds, eco-friendly loans, and social responsibility initiatives, reflecting their dedication to sustainable investment and environmental conservation.

Deeply rooted in Qatar National Vision 2030, the country has commenced a proactive drive to strengthen the domestic debt market in light of the “encouraging” potential for local bonds and Sukuks, announcing US$75 billion in investments in sustainable finance in FY23 and aiming for a significant presence in the global market by 2031[2]. This progressive path underscores Qatar's commitment to sustainable growth and investor protection, highlighting a major stride toward economic and environmental stewardship.

The role of banks in promoting sustainable development

Qatari banks are key players in driving sustainable development and social responsibility. By issuing green bonds and loans, they are not only prioritising financial gains but also focusing on benefiting the environment. Collaborations in sustainable finance and support for projects such as clean technology, recycling plants, and renewable energy sources show the banking sector’s dedication to environmental responsibility. These initiatives, often with reduced rates tied to sustainability goals, reflect Qatar's broader commitment to green growth.

Qatar National Bank (QNB) led the market by issuing the country’s first-ever green bond in 2020, valued at US$600 million, marking a pivotal step in promoting sustainable finance. This bond issuance highlights QNB’s leadership in driving sustainable finance in Qatar and sets a benchmark for other financial institutions in the region.

Qatar International Islamic Bank (QIIB) followed suit with the issuance of a US$500 million sustainable "Oryx" sukuk and launched a green financing offer for electric and hybrid vehicles, showcasing its commitment to promoting sustainable finance and a carbon-neutral future.

Doha Bank has demonstrated its commitment to sustainable finance through various avenues, scoring 100% in the Qatar Stock Exchange Sustainable Stock Exchanges initiative from 2018 to 2022, receiving a medium ESG risk rating by Morningstar Sustainalytics as well as an MSCI ESG Rating of BB for its progress on sustainable development goals. Additionally, Masraf Al Rayan introduced Qatar’s first sustainable finance framework among Islamic banks, offering funding opportunities to support ESG-linked projects, positioning the bank as a leader in promoting responsible finance.

We also find Qatar Islamic Bank (QIB) making significant progress on the sustainability front. Recognised as Qatar’s Best Bank for ESG by the Euromoney Awards for Excellence in 2023, its efforts are further supported by a dedicated sustainability committee, the integration of ESG risks into its risk management framework and the adoption of the Equator Principles, which guide responsible project financing.

QCB’s role in driving ESG and climate risk management

With the issuance of the ESG and Sustainability Strategy for the Financial Sector, and the supervisory principles on ESG, the Qatar Central Bank (QCB) is advancing national standards in climate risk management and sustainable finance. This aligns with the Third Financial Sector Strategic Plan, which highlights ESG and sustainability as one of the five cross-cutting themes essential for building a resilient, stable, and progressive financial system. Qatari banks are aligning their operations with ESG principles, demonstrated by significant actions like the issuance of green bonds and the sustainable sukuk, reflecting a strong commitment to sustainable finance and efforts to minimise carbon footprints, which align with Qatar's transformative National Vision 2030.

[2] Green banking: Qatar eyes $75bn investment in sustainable finance in 2023”, Doha News, 2023.

Climate risk management: Next steps

In light of the Basel Committee's guidelines on managing and supervising climate-related financial risks and the International Sustainability Standards Board's (ISSB') Climate-related Disclosure Requirements (IDRS S1 and S2), there is a global emphasis on banks to integrate climate risk management across their operations. These guidelines serve as a roadmap for banks to effectively manage and supervise climate-related financial risks.

Currently, Qatar's financial sector is in the early stages of aligning with these standards. Qatari banks are currently adopting a proactive approach towards understanding and mitigating climate-related risks and enhancing their climate risk disclosures. This involves not only assessing and managing risks associated with climate change effectively but also embedding these considerations into their governance structures, risk management frameworks, and strategic planning.

As a critical next step, Qatari banks have the opportunity to strengthen their operations by embedding climate risk considerations within all aspects of credit and investment management. This move is essential to ensure that the financial sector's resilience is robust against the evolving landscape of climate risks, marking a significant stride towards sustainable banking practices.

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