

Qatar Banking Sector report

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pwc

Introduction



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In common with banks around the world, the banking sector in Qatar has had an eventful twelve months. There has been a rapid shift away from what seemed an almost perennial low interest rate environment, which has impacted many of the fundamental elements of the banking sector. Higher borrowing costs have revealed marked differences in the ability of banks to successfully manage emerging risks. Some Qatar banks have been able to utilise higher interest rates to boost profits, whilst for other market participants the upward tick in interest rates has led to margin compression and pressure on returns.

The Qatar Banking Sector report 2023 details the differing impact that the changing economic environment has had on banks in the country. The report provides a unique and insightful snapshot on the banking sector in Qatar, zooming in on sector performance across key metrics such as asset growth, revenue and margins dynamics, changes in cost of risk, efficiency and returns. It also takes a deep dive into liquidity risk and its impact on sector performance.

In addition, the report also looks forward to 2024 and beyond, setting out our forecasts and predictions for the banking sector in Qatar. In our 2022 edition we highlighted six key trends: **new lifestyle, new values, new players, new technology, new money and new rules**. In our latest report, we have explored how these trends developed over the last year and which had the most impact. In this edition we have identified a seventh and new theme: **emergence of non-traditional risks**.

We believe these new trends will shape future direction and thinking in the banking sector and we are excited to witness how the system adapts and responds to new challenges.



2022 Financial sector performance





Executive summary

The financial sector in Qatar is expected to face some challenges in a post-World Cup and post-pandemic environment, but there are also some opportunities that could help it grow and develop. The long-term outlook for the sector is positive, but there will likely be some short- to mid-term volatility.

Balances



Banks' balances highlight growth across key financial indicators. Assets increased by 3.6%, reflecting expansion in the banks' overall holdings.

Gross loans and advances grew by 3.3%, indicating increased lending activities. Deposits rose by 2.7%, showcasing continued inflow of customer funds but at a slower pace than assets, due to remaining economic uncertainty and post-World Cup growth trajectory.

Stability



The stability of the sector presents a mixed picture. The average loans-to-deposits ratio remained stable while non-performing loans increased by almost 29.7%, signaling an increase in distressed portfolios due to realisation of corporate defaults previously suspended by COVID-19 relief measures and a stricter approach to loan restructuring and rescheduling.

The capital adequacy position remained strong though more vulnerable to potential liquidity shock, which is reflected in the short-term liquidity buffer.

An overall picture indicates gradual growth in key balance sheet items, such as assets, loans, and deposits. Earnings metrics, including gross income, operating income, and profit before tax, demonstrated significant uplift, reflecting high adaptability to the changing interest rate environment.

Despite some challenges, stability indicators, such as capital adequacy and cost of risk, remained favourable. However, growth in non-performing loans and contracting liquidity buffers reflect major system-wide risks that require close monitoring in the near future.

Overall, we remain confident that the financial sector in Qatar is well-placed to adapt to recent changes and will continue to grow in the years to come.

Earnings



Gross income surged by 25.6% due to rapidly rising interest rates, which most of the banks have been able to capitalise upon.

Operating income and Profit Before Tax increased by 18.1% and 20.2% respectively, showing improved operational efficiency as revenue growth has only been partially offset by repriced liabilities.

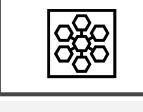
Profitability



System-wide margins, including net interest margin and returns on average assets and equity remained flat, though individual banks' performance has been highly disparate: those who managed to quickly turnaround and reprice their books received substantial benefits while others suffered margin compression and cost of risk hits.

Key financial performance highlights *

Values as of 2022YE (and YoY growth, %)**

Balances				
Assets	Gross Loans & advances	Deposits	Equity	
QAR 2.0 Tn (+3.6%)	QAR 1.4 Tn (+3.3%)	QAR 1.3 Tn (+2.7%)	QAR 0.2 Tn (+4.8%)	
Earnings				
Gross Income	Operating Income	Profit Before Tax	Net income	
QAR 99.0 Bn (+25.6%)	QAR 67.6 Bn (+18.1%)	QAR 31.1 Bn (+20.2%)	QAR 26.5 Bn (+8.3%)	
Stability				
Average Loans to Customers Deposits Ratio	Non-Performing loans	Cost of Risk	Capital Adequacy Ratio	Liquidity Coverage Ratio
116% (2.1%)	QAR 47.9 Bn (+29.7%)	1.09% (-4.6%)	19.2% (+0.01%)	135.6% (-31.2%)
Profitability				
Net interest margin	Cost-to-Income Ratio	Return on Average Equity	Return on Average Assets	
2.5% (-1.8%)	22.2% (-2.9%)	10.3% (-1.3%)	1.5% (+5.2%)	

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

** The aggregated values covers 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)

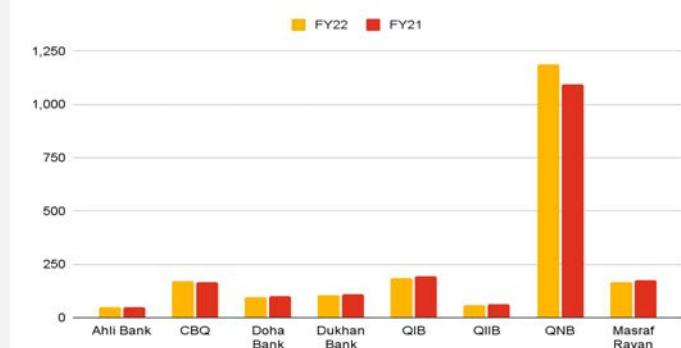
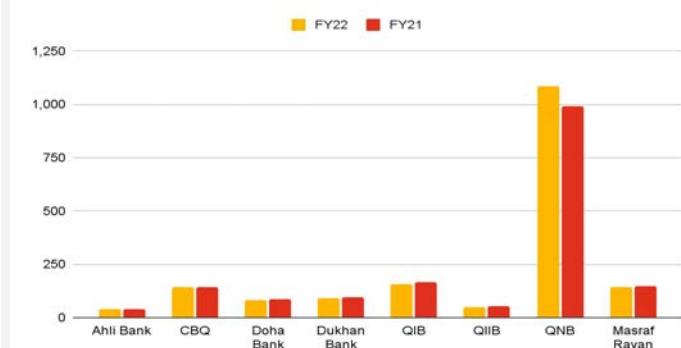


Figure 2. Total Liabilities (QAR Billions)



Qatari banks have experienced single digit growth of total assets and liabilities over the financial year of 2022 (FY 2022 vs FY 2021). Growth of aggregated assets accelerated in FY 2022 by 3.6% to QAR 2.02 Tn compared to QAR1.95 Tn for FY 2022, and by 3.3% CAGR over the three-year period (FY 2022 vs FY 2020) evidencing that the banking industry in Qatar has been expanding at a fast pace over the past three years.

These observations underscore the importance of effective capital allocation, risk management and responsiveness to market conditions in maintaining profitability and competitive advantage in the banking sector. Growth of aggregated liabilities accelerated in FY 2022 by 3.5% to QAR1.79 Tn compared to QAR1.73 Tn for FY 2021, and by 3.3% CAGR over the three-year period (FY 2022 vs FY 2020).

On another note, foreign liabilities accounted for 10.4% of the sector's funding FY 2022 (11.2% FY 2019) and net external debt decreased by almost 8% of Qatar's forecasted GDP FY 2022.

Figure 3. Gross Total Loans and Deposits (QAR Billions)

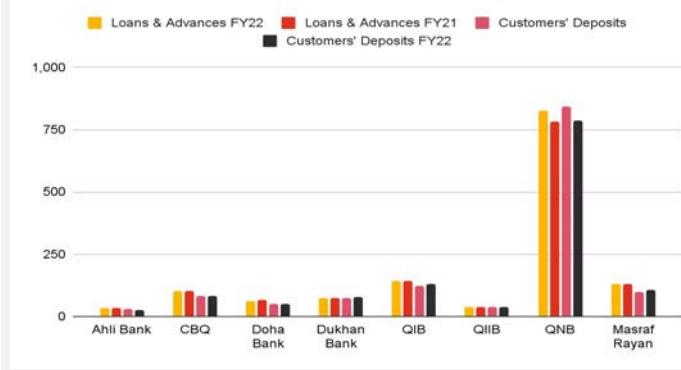
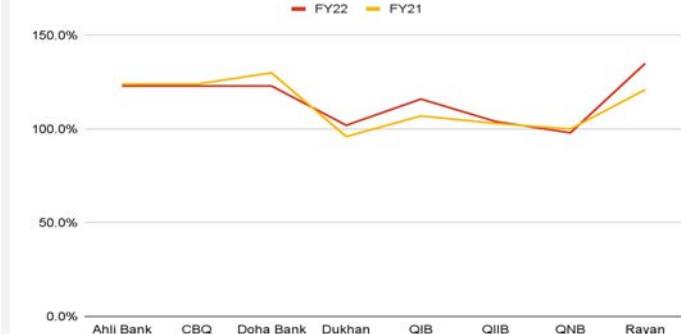


Figure 4. Loans-to-deposits (L/D) Ratio: Gross Total Loans / Total Deposits



The aggregated total loans and advances made by listed banks have experienced growth dynamics that have outpaced funding growth. Total gross loans and advances increased by 3.3% to QAR 1.41 Tn in FY 2022 from QAR 1.37 Tn, representing a three-year CAGR at 2.9%.

Portfolios continue to be primarily funded by customer deposits, which grew by 2.7% annually and 5.1% over a three-year period to reach QAR 1.34 Tn in FY2022 (up from QAR 1.30 Tn in FY 2021).

However, the Qatar Central Bank (QCB) has implemented several macro-prudential measures since (Spring of) 2022 to discourage banks from relying on non-resident deposits, especially of short tenors, which may have contributed to the contraction of deposits for several banks.

The dynamics for loans and deposits is in line with assets-liabilities evolution as portfolio has seen growth in FY 2022 along with consumer deposits balances that also accelerated.

This may highlight diminishing effects of the pandemic with most banks starting to show a pick-up in investing activities.

The average loan-to-deposit ratio has increased from an average of 113% in 2021 to 116% in 2022.

Figure 5. NPL Ratio: Non-Performing Loans / Total Loans (with 3-year CAGR)¹

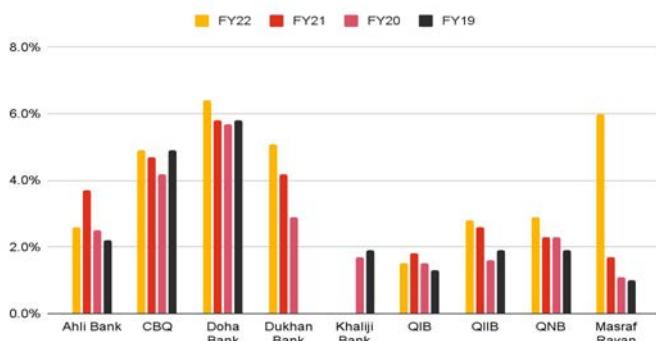
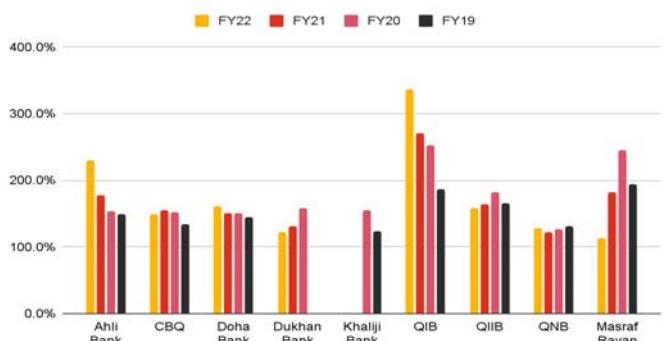


Figure 6. Bad Debt Coverage Ratio: Impairment Allowance / Stage 3 Loans (with 3-year CAGR)



Based on the dynamics of the lending portfolio, it can be observed that the market is still undergoing a recovery phase from the prolonged impact of the pandemic. This is evident as a portion of the portfolios that were accumulated in the preceding years are now categorised as having bad debt. This implies that a substantial number of loans extended during that period are facing difficulties in repayment, likely due to the economic challenges caused by the pandemic. The classification of these loans as bad debt highlights the lingering effects of the pandemic on the market, indicating a need for continued efforts to address and mitigate the impact of Covid 19 and its aftermath, on the lending sector.

The percentage of non-performing loans (NPL) to total loans increased from 3.4% in FY 2021 to 4.0% in FY 2022, a 20% increase. Overall, there is a clear trend of increase in non-performing loans across banks in Qatar with two exceptions – Ahli Bank and QIB – both of which are back to previous year levels.

The pattern of bad debt coverage ratio is not always the same, suggesting that various banks may have varying opinions on the riskiness of their portfolios. Masraf Al Rayan has shown the bulk of the overall NPL increase with its FY 2022 NPL reaching QAR 7.3 Bn from QAR 2.0 Bn for the similar period FY 2021, with a 256% increase. The high non-performing loan (NPL) ratio observed in Masraf Al Rayan could have resulted from a mix of general market trends and the absorption of stressed variables in the Al Khaliji Bank portfolio, especially those accumulated during the COVID-19 period.

The coverage ratios of Dukhan Bank, Qatar International Islamic Bank (QIIB) and Masraf Al Rayan are currently experiencing a decline. On the other hand, Commercial Bank Doha (CBQ), Doha Bank and Qatar National Bank (QNB) have managed to maintain their coverage ratios at a stable level. Furthermore, Ahli Bank and Qatar Islamic Bank (QIB) have shown continuous growth in their provision coverage.

The decrease in coverage ratios for Dukhan Bank, QIIB and Masraf Al Rayan suggests a potential increase in risk exposure or a decrease in provisions set aside for future losses. Conversely, the stable coverage ratios of CBQ, Doha and QNB indicate effective risk management practices and a sufficient level of provisions. Additionally, the growth in provision coverage for Ahli Bank and QIB reflects a proactive approach in managing potential credit risks.

¹ Non-performing loans and advances to total loans and advances are disclosed as presented in the financial statements. Whilst some banks depicted the ratio net of deferred profit, other banks disclosed this ratio as gross. With regards to QIIB, we note a change in values reported, due to a change in the formula used by QIIB for calculating the non-performing loans and advances (NPLs), which are now net of the deferred profits. The change in the formula can be identified by comparing the reported non-performing loans and advances between FY2022 and FY2020.

Profit Before Tax (PBT) within the waterfall chart does not include hyperinflation effects for QNB.



Figure 7. Gross Income from Financing and Fees (with YoY growth - QAR Billions)

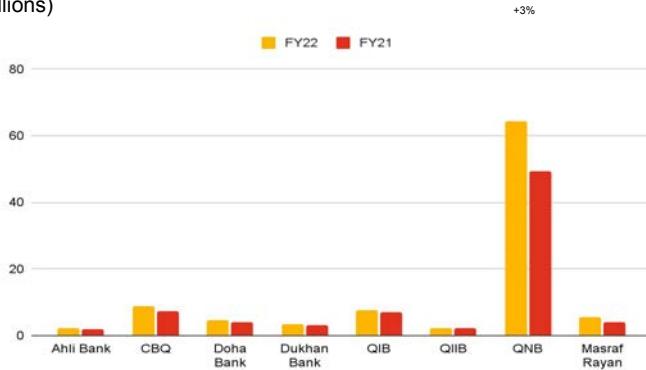


Figure 8. Gross Fee Contribution %: Gross Fee Income / Gross total Income

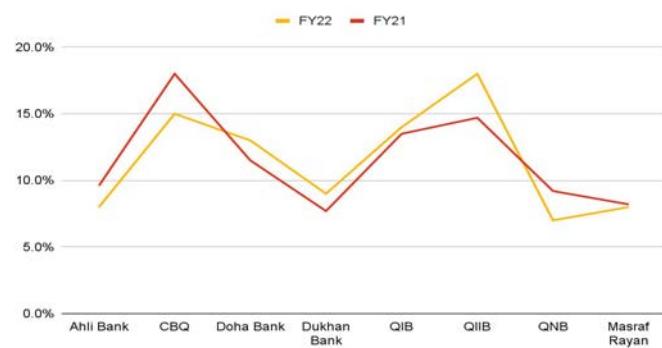
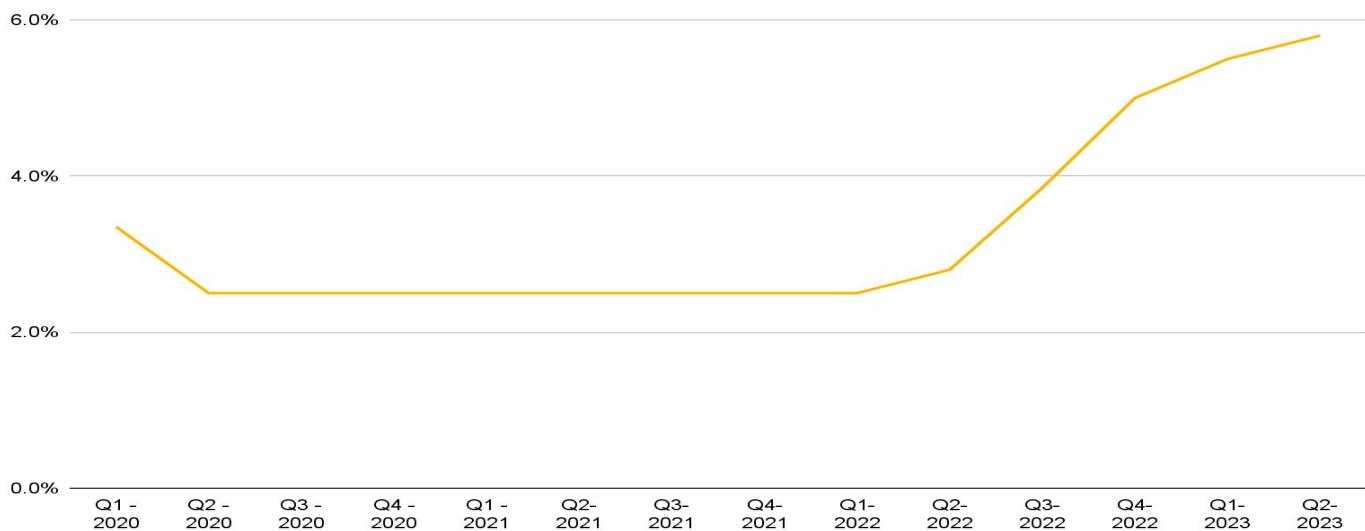


Figure 9. QMRL (Qatar Money Market Rate) graph 2022-2023 Q1)



Throughout the year there was a notable 42% increase in the average Qatar Money Market Rate for Lending (QMRL), increasing to 3.5% compared to the previous year's 2.5%. This development had a dual impact on the financial market.

First, new lending activities were carried out at higher interest rates, which resulted in an overall income boost.

Second, the repricing of the floating rate portion of existing portfolios further contributed to the increased revenue across the financial landscape. The significant contribution to this revenue growth came from QNB having the largest share of market profits.

Existing portfolios mainly comprised floating-rate loans that were fully repriced, except for government and personal loans, overdrafts, and discounted invoices, while the remaining part consisted of fixed-rate loans. On the other hand, new issues constituted a portion of the old portfolios that were repriced with the new rates, resulting in approximately half of the total year-end volumes.

With these factors in mind, the estimated effective revenue multiplier reached approximately 24%, aligning with the available data.



Figure 10: Operating Income (QAR Billions)

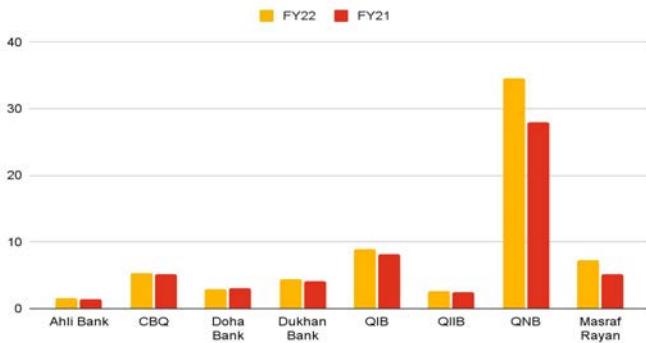
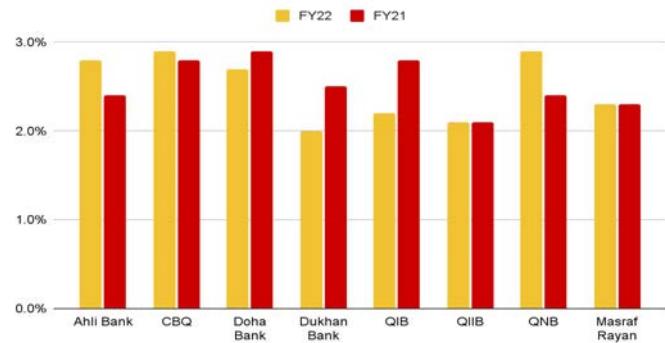


Figure 11: Net Interest Margin: Net Interest Income / Average Earning Assets



From an operating income and margin dynamics perspective, the market remains in the comfort zone as the growth displayed has been much faster than gross top-line due to overall contraction of funding costs and funding diversification by certain players.

The market has shown an 18.1% YoY improvement in operating income, reaching QAR 67.6 bn in FY 2022 compared to QAR 57.2 bn in FY 2021, landing at 2.5% average net interest margin.

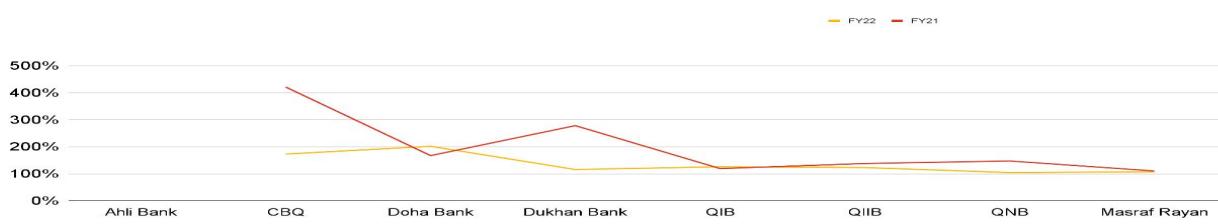
QNB, the major player in Qatar's banking market, reflected in its ability to obtain low-cost government funds and effectively lend at new high market rates, boosting its operational revenue volumes and margins. Masraf Al Rayan has outperformed the market with a strong 42% increase in operating income, explained through an increase in the average profit earning assets.

QNB expanded its portfolio by 24% in operating income whilst increasing margins by 17%. Excluding Doha Bank, the remainder oscillated around the market average within the 4-11% range. Margin compression for Dukhan Bank is most likely due to the impact of the recent mergers which took place in 2021.

QNB has leveraged the availability of a large amount of government funds and extended loans at new high market rates. This strategic move has resulted in a rapid growth in operational revenue volumes for the bank. Furthermore, this approach seems to have led to a notable uplift of 50 basis points (bps) in net interest margins, even when considering the average as a denominator.

In contrast, other players in the market were not able to swiftly adapt and reposition the fixed portion of their portfolios when faced with higher funding costs. Consequently, these market participants experienced a decrease in margins. However, exceptions can be found among those who have demonstrated highly efficient asset-liability management (ALM) practices, such as CBQ.

Figure 12. Liquidity Coverage Ratios: (Stock of high quality liquid assets / Total net cash outflows over the next 30 calendar days) <= 100%



Overall, the banking sector in Qatar showed a positive change on the liquidity coverage ratio. On one side there have been banks that faced an increase in their LCR ratio such as QIIB, QNB, CBQ and Dukhan Bank where the last two showed an approximate increase of 2.5X. On the other hand, only two banks, Doha Bank and QIB, showed a slight decrease.

CBQ experienced a significant normalisation in its liquidity coverage ratio from 421% in 2021 to 173% in 2022, likely due to a significant reduction in the net cash flows arising from reduction in proceeds acquired from the issue of debt instruments in 2022 vs 2021, along with a steep reduction in cash and other balances with the central banks by QAR 8bn (more than 50%).

On the other hand, Doha Bank increased its ratio from 167% to 201%, benefiting from its focus on retail banking and attracting new deposits and loans. QIB showed a slight increase from 119% to 126%, while QIIB experienced a decline from 138% to 123%. QNB's liquidity ratio notably decreased from 147% to 104% which indicates signs of suboptimal ALM. Masraf Al Rayan maintained a stable ratio of 107%, reflecting its focus on retail banking, while Dukhan Bank saw a significant decrease from 278% to 115% due to a reduction in its interbank settlements and REPO position with QCB significantly by 4 Bn and 750 Mn respectively.

Monitoring liquidity coverage ratios and analysing deviations is crucial for effective liquidity management in banks.

Figure 13. Cost-to-Income Ratio: Operating Cost / Pre-Impairment Operating Income

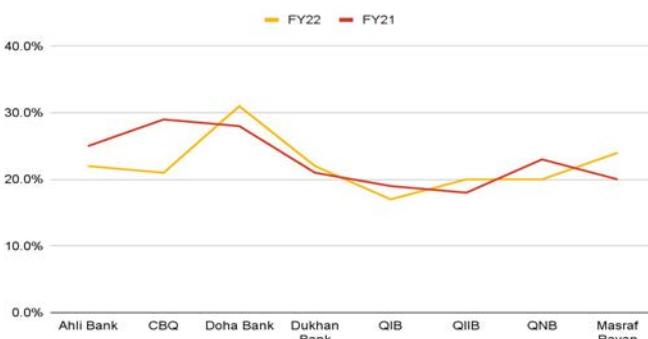
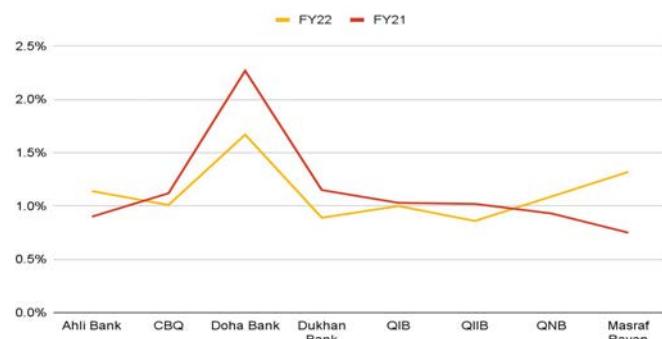


Figure 14. Cost of Risk: Impairment charge / Gross Total Loans



The Cost to Income ratio across all banks has seen an aggregated 2.9% reduction reaching 22.2% in FY 2022 compared to 22.9% in FY 2021. This still shows a growing momentum from banks' continuous effort in efficiency optimisation.

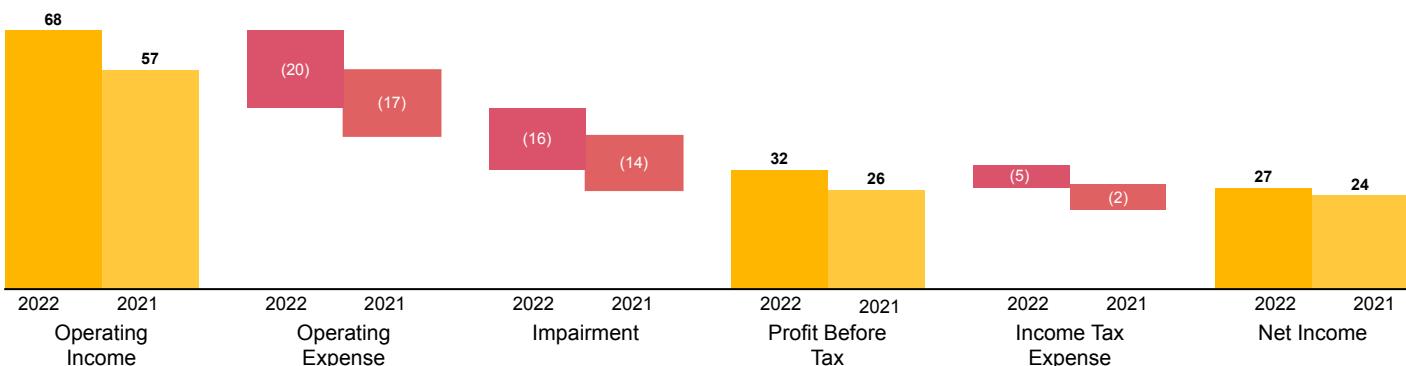
For CBQ specifically being the outlier, it had accrued a QAR 0.3 Bn one-off expense in FY 2021 to introduce a longer-term compensation plan for staff.

The non-performing loan (NPL) books of the banks experienced significant growth, expanding by 29.7%. This indicates an increase in the volume of loans that are not being repaid.

However, when considering the relative impact of these factors on earnings, it is important to note that NPLs reduced as a proportion of total loan portfolios. This reduction is attributed to the turbo-growth observed in loans and advances. Despite the growth in the NPL book and impairment charges, the earnings generated from the increased volume of loans and advances outpaced the negative impact of the NPLs.

The aggregated average cost of risk ratio in FY 2022 witnessed a 4.6% decrease hitting 1.1% in FY 2022 compared to 1.2% in FY 2021. Masraf Al Rayan has taken a large hit recognising losses on accumulated portfolio in addition to adsorbing the risk cost from the acquisition of Al Khaliji Bank. Doha Bank on the other hand has seen significant improvement in its cost of risk ratio, which could be a reason for the bank adapting a more risk-averse approach.

Figure 15: Aggregated Profit and Loss Waterfall and Dynamics (QAR Billions)



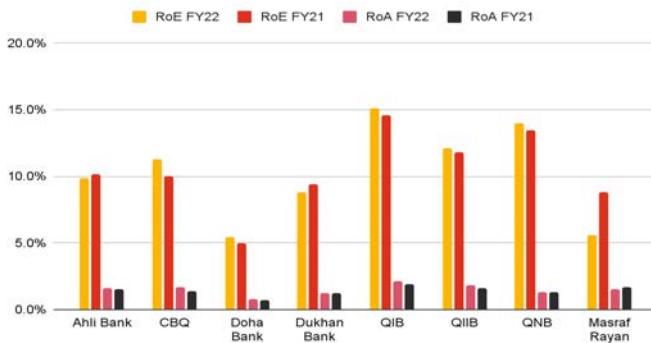
Overall, banks' financial performance improved in 2022 compared to 2021. Banks' profit before income tax increased by 23.1% from QAR 26 Bn in 2021 to QAR 32 Bn in 2022. This was due to a combination of factors, including increased operating income of 18.1%.

Structurally, there has not been any major deviations versus last year indicating no fundamental changes in the composition of profit before tax as the rapid increase in revenues has been counterbalanced by the corresponding repricing of liabilities.

Much of the net income increase is derived from QNB and the performance of its international subsidiaries. Notably, there was a significant hyperinflation impact of QAR 1.7 Bn related to Turkey.

This indicates that the inflationary environment in Turkey, along with increased income tax expenses from European operations of QAR 1.4 Bn, underscore the challenges and considerations that the organisation faces in managing its global operations and financial performance.

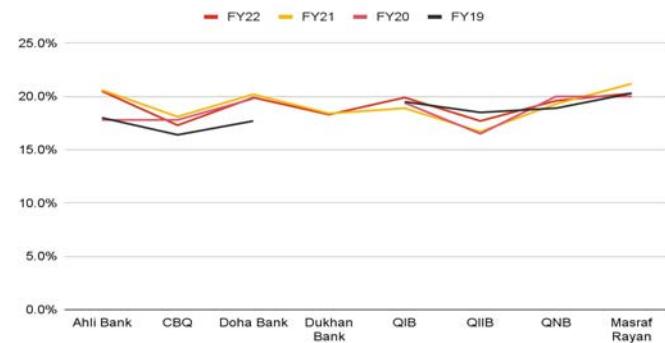
Figure 16. Return on Average Assets and Return on Average Equity



The aggregated profitability ratios across all banks have proven to be broadly stable over the period. Overall RoAE reduced by 1.3% reaching 10.3% in FY 2022 compared to 10.4% in FY 2021 with RoAA on the other hand showcasing positive dynamics: 5.2% growth to 1.5% in FY 2022 from 1.4% in FY 2021.

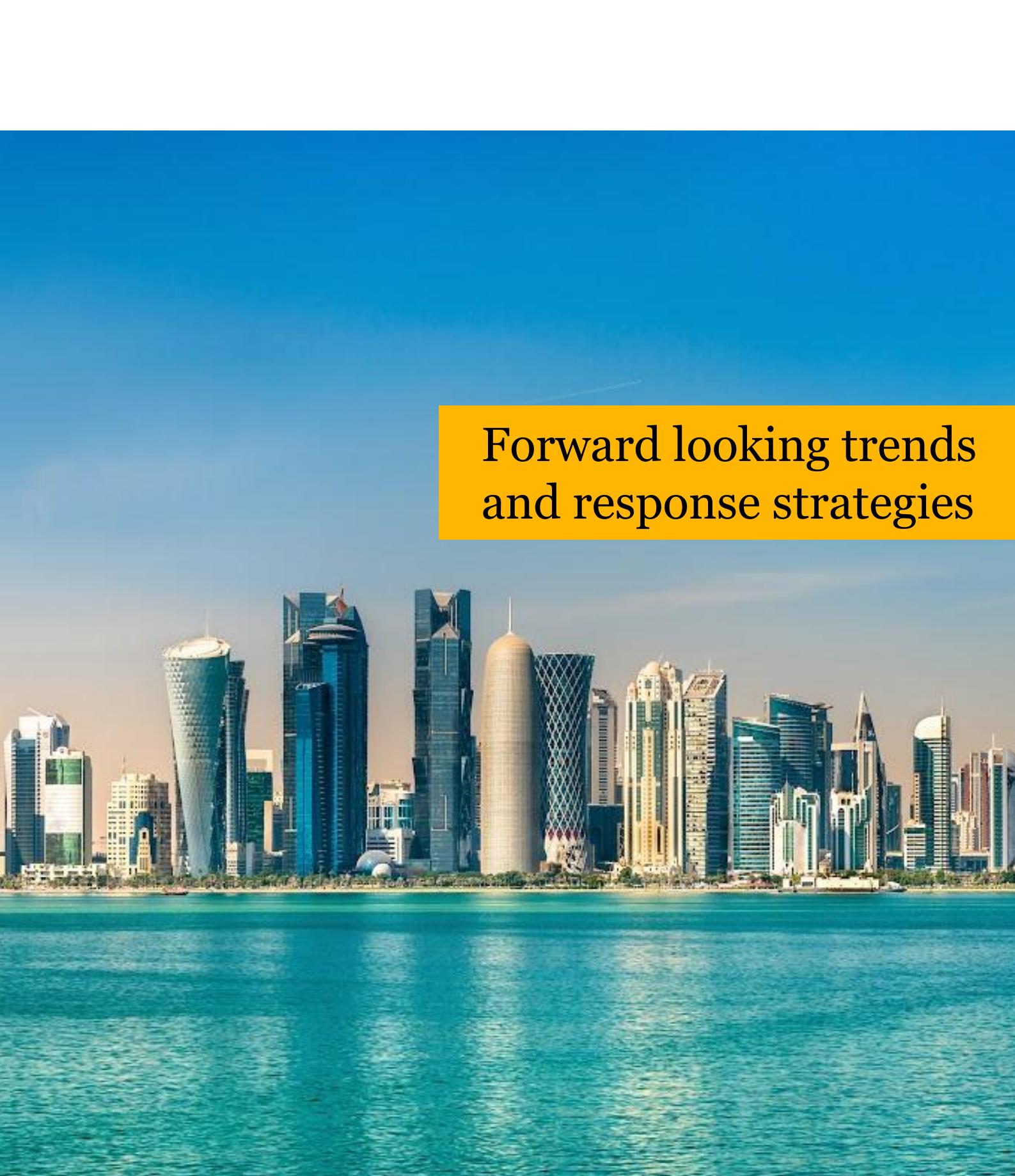
CBQ has shown the best performance due to quick top-line extension and managed risk followed by QIIB gaining efficiencies from acquiring high performance portfolio of International Bank.

Figure 17. Capital Adequacy Ratios



All Qatari banks have shown capital adequacy figures well above both statutory QCB and Basel thresholds, evidencing a very well capitalised banking sector.

However, this may manifest some sector-wide capital utilisation inefficiencies – especially for those who diverge from the recommended levels like Ahli Bank, Doha Bank, QIB, QIIB and Masraf Al Rayan.



Forward looking trends
and response strategies

Executive summary

Qatar's banking sector has made significant strides in enhancing customer experience and embracing digital innovation, particularly during the FIFA World Cup 2022. By prioritising customer-centric approaches and digital innovation, banks in the country have solidified their positions as leaders in digital development.

Developing new digital products, embracing open banking mindset, strategic partnerships with FinTech companies and sustainable investments, guided by complementary regulations, are all helping strengthen their positions.

The country recognises the potential of FinTech and has established initiatives to foster a strong and sustainable FinTech ecosystem. While challenges remain in managing emerging risks, Qatar is strategically positioning itself as a leading FinTech hub in the Middle East and a pioneer in digital transformation and sustainability within the financial services sector.

New lifestyle:

01

Banks in Qatar have made significant advancements in customer experience and digital innovation, particularly during the FIFA World Cup 2022. They seek to offer an enhanced banking experience to customers and partners, facilitating seamless data and payment sharing.

New values:

02

Qatari banks have embraced ESG (Environmental, Social, and Governance) practices and are adopting sustainability measures. Leading banks have integrated ESG factors into their strategies and reporting, aligning with global frameworks and supporting green financing and social inclusion.

New players:

03

As the financial services landscape evolves with the emergence of alternative players such as FinTech, telecommunications, retail, e-commerce, and big tech companies, traditional banks have two choices: engage in fierce competition or leverage it by adopting a strategic partnership approach. This will create new strategic alliances in the banking sector.

New money:

05

Not yet legalised in many countries in the Middle East, including Qatar, cryptocurrencies face regulatory challenges. In addition, efforts to combat money laundering and terrorist financing require strong controls, advanced analysis capabilities, and continuous training for authorities to establish a robust regulatory framework. That being said, Qatar performed strongly in the recent FATF (Financial Action Task Force) country review.

New technology:

04

Qatar's digital transformation is making considerable progress towards achieving its National Vision 2030 of building a digital economy. Strategic initiatives like the Doha cloud region by Google Cloud and the implementation of OpenAI's GPT technology in the Azure Qatar Cloud are expected to empower Qatari companies with long-term benefits.

However, while embracing emerging technologies, banks must also consider risk mitigation and regulatory policies for successful implementation.

Emergence of non-traditional risks:

07

Qatari banks have historically excelled in managing traditional credit risks, but they face challenges in effectively managing emerging non-traditional risks such as liquidity, cyber, and operational risks.

To address these challenges, there is a need to implement necessary tools for controlling and mitigating these risks.

New rules:

06

In the MENA (Middle East and North Africa) region, including Qatar, supervisory efforts focused on core banking activities, with initiatives aimed at customer and data protection, data infrastructure establishment, and promoting ESG practices.

Qatar's regulators took proactive steps to strengthen the financial system and launched initiatives for sustainable finance, green finance, and FinTech development.

We are expecting further execution guidelines to be issued in the digital banking and FinTech areas.

01

New lifestyle

Respond to fundamental change in customer expectations and behaviours

Banks in Qatar have made significant advances in enhancing customer experience, particularly during the FIFA World Cup 2022. Qatar's leading banks have proactively embraced digital technologies, integrating them into their regular operations, which has gathered increased attention and appreciation from their customers.⁴

By prioritising customer-centric approaches, digital innovation and sustainability, banks have solidified their positions as innovators in digital technologies.

To cater to evolving customer preferences for digital platforms, banks in Qatar have optimised their customer experience through digital innovation. The introduction of contactless, personalised, and diverse digital payment options aligns with customers' changing demands. Banks' commitment to enhance customer satisfaction is reflected in the improved Net Promoter Score (NPS) in the financial services sector.

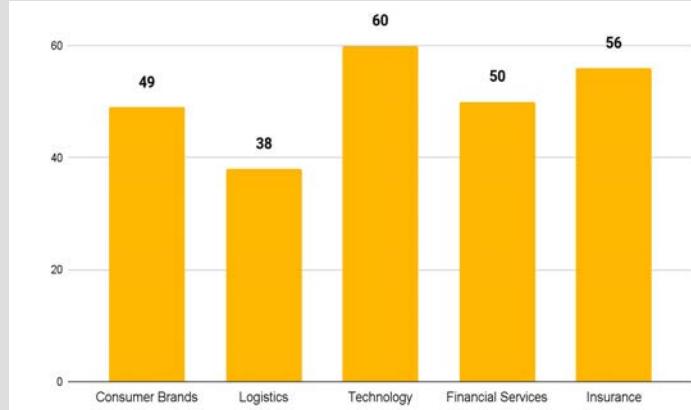
Banks in Qatar have begun to embrace open banking as a crucial initiative to enhance customer satisfaction. By launching open banking platforms, these institutions are providing an enhanced banking experience to their customers, as well as partners and emerging FinTech players in Qatar.

Through enhanced API (Application Programming Interface) infrastructure, different financial services are integrated allowing for a better customer experience and a smooth journey from sourcing to disbursement, enabling integration with various financial services and facilitating seamless sharing of customer data and payments between organisations. Open banking not only meets the changing consumer demands, driven by the lifestyle habits of the younger generation, but also delivers tangible value by offering flexibility in payments and providing a single financial portal for all banking needs across multiple institutions.

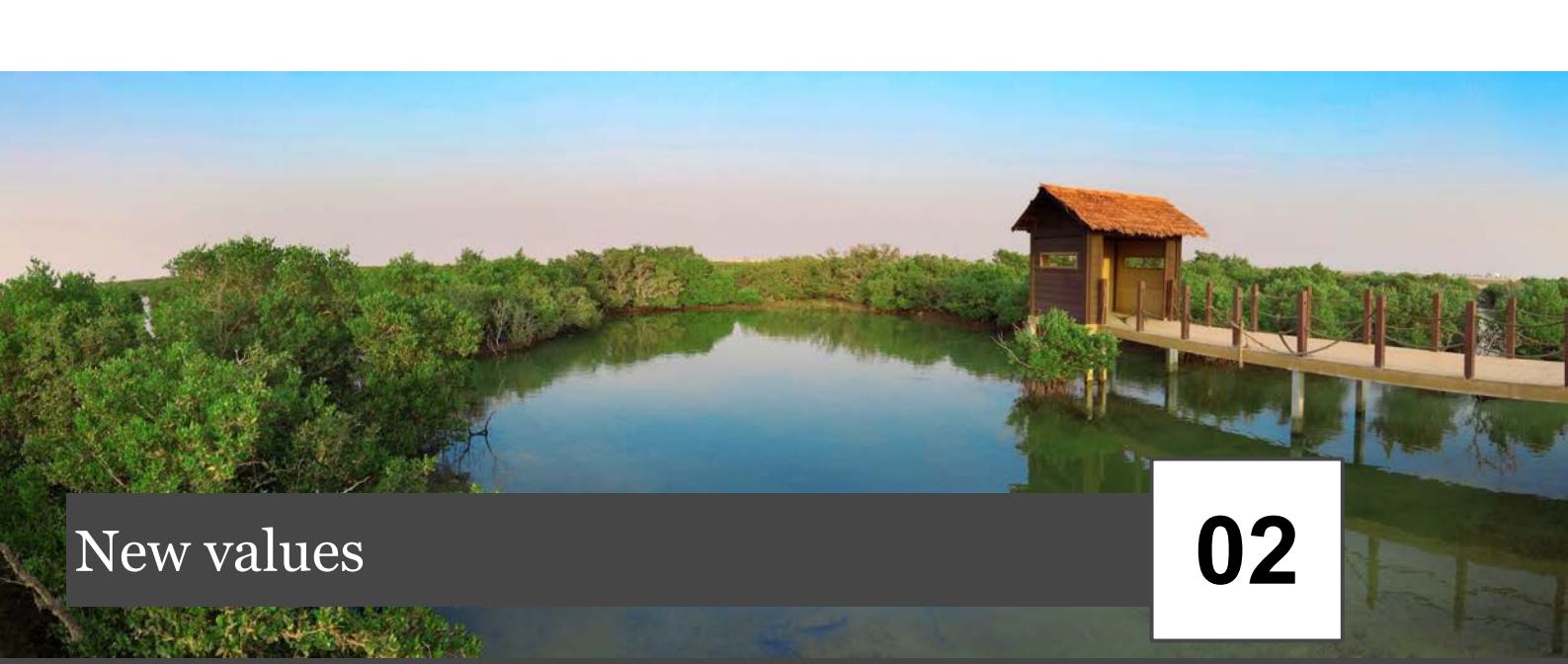
Banks' strategic partnerships and advanced analytics solutions go beyond traditional banking products, further enhancing customer insights and tailored financial instruments.

One notable partnership that highlights Qatari banks' commitment to improving customer experience is the collaboration between Qatar's leading bank and a well-known blockchain-based financial technology company. This partnership has resulted in the launch of a remittance service that enables near-real-time international transactions.

By leveraging FinTech's cross-border funds transfer technology, the bank aims to provide its customers with an advanced and convenient payment experience. Through the integration of FinTech as an API connection, international money transfer services are significantly expedited, with transactions being completed instantly. The bank's initiative not only enhances cross-border payments, but also demonstrates the bank's dedication to digital and cross-border payment improvements, financial inclusion efforts, and sustainability.



Source: Customer Guage, Qatar Industries, 2023



New values

02

Embrace ESG and ethical banking at the core of bank's operations

The banking sector in Qatar has witnessed a significant evolution in terms of ESG practices. Recognising the importance of sustainable investments and environmental protection, Qatari banks are actively adopting ESG initiatives such as issuing green bonds, providing green loans and mortgages and implementing ESG disclosures.

Although the regulatory framework is still developing, banks in Qatar are taking proactive steps to meet the expectations of international investors, customers and stakeholders. They are working towards developing comprehensive ESG policies, risk management frameworks and annual reports. By internalising ESG strategies at the core of their operations, Qatari banks aim to build a sustainable future and maintain their competitive edge.

One of Qatar's largest banks has been recognised for its excellence in integrating ESG factors into its strategy, operations, and reporting. The bank has implemented a comprehensive ESG policy and framework aligned with the United Nations Sustainable Development Goals and the Qatar National Vision 2030.

The bank has launched innovative products and services that support green financing, social inclusion and responsible investment. Moreover, the bank has enhanced its corporate governance structure, practiced transparency, accountability and stakeholder engagement. The bank's sustainability reports are aligned with globally recognised frameworks such as the GRI Universal Standards and the Qatar Stock Exchange (QSE) ESG reporting methodology.

In the context of Qatar's preparations for the FIFA World Cup 2022, the government emphasised the importance of sustainability. The Gulf Organisation for Research and Development (GORD) and its Global Sustainability Assessment System (GSAS) played a crucial role in ensuring third-party verification of sustainability initiatives when it comes to building and development.

Qatar's second-largest retail bank has signed a memorandum of understanding with GORD to launch Shariah-compliant green and sustainable real estate finance programmes. Project owners and developers integrating GORD's sustainability assessment into their designs can access loans at lower interest rates.

Additionally, Qatar's state-owned bank has signed its own MOU with GORD, offering green loans for projects related to clean tech, recycling plants, and renewable energy assets. These loans come with discounted rates tied to sustainability targets, further reinforcing the commitment of Qatari banks to sustainable practices.

However, while banks are incorporating ESG principles into their strategies and offering sustainable products and services, the market is yet to witness widespread implementation. Challenges remain including the complexity of ESG data and the need for robust data governance frameworks to ensure transparency and high data quality standards.

Nonetheless, by establishing comprehensive data governance solutions and prioritising use cases, banks can streamline data collection and reporting processes while maintaining consistency and adhering to regulatory requirements.



New players

03

Effectively navigate in an evolving landscape of FS (Financial Services) challengers

The financial services landscape is undergoing a profound transformation with the emergence of FinTech and the increasing involvement of non-financial service providers. Qatar recognises the potential of FinTech and has taken proactive measures to foster a strong and sustainable FinTech ecosystem.

To achieve this, Qatar has established a national task force dedicated to nurturing the FinTech sector. The country sees immense opportunities in areas such as digital payments, money management and e-lending.

Collaboration between traditional financial institutions and FinTech companies is crucial to enhance the customer experience to remain competitive in this evolving landscape. Qatar's regulatory framework supports FinTech innovation whilst aligning with international standards, enabling the rapid growth of the sector.

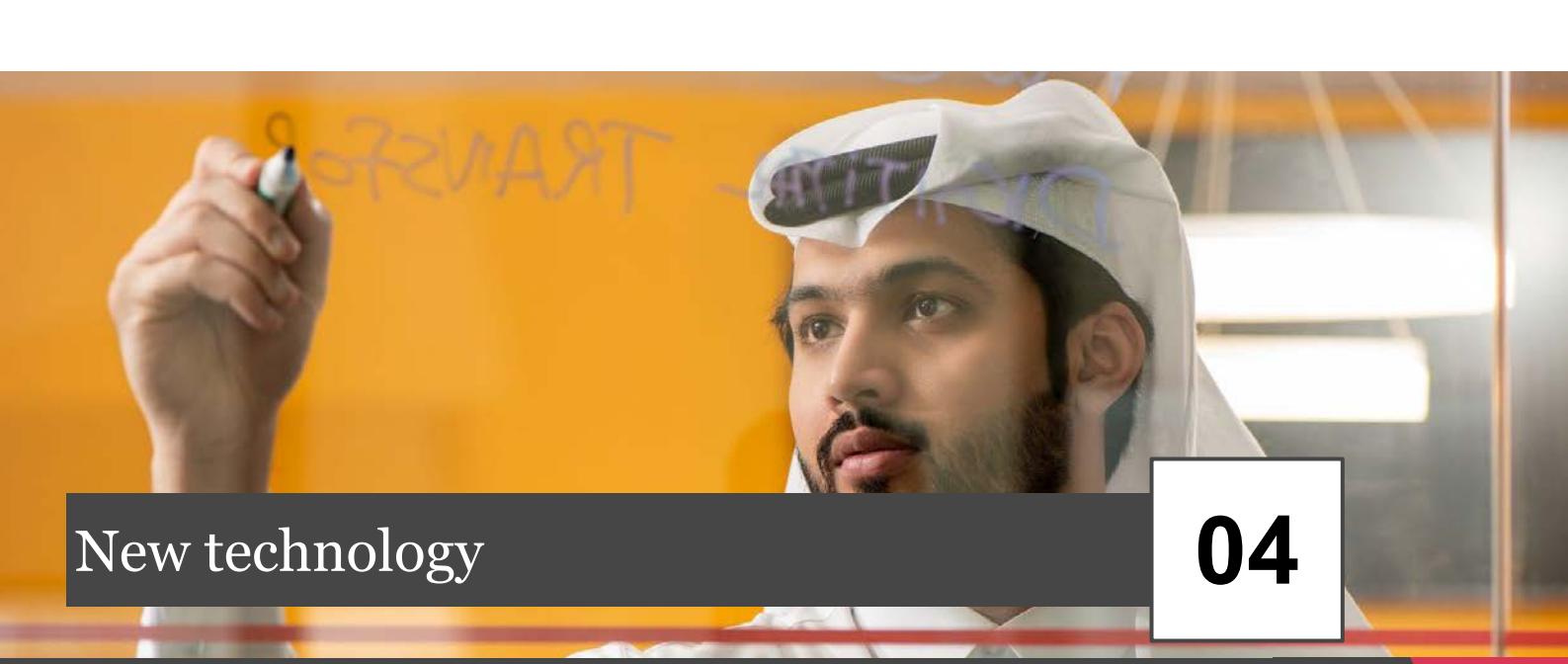
Telecom companies and big tech players are disrupting the traditional banking value chain, adding to the transformation of the industry. To stay relevant and meet evolving customer expectations, banks in Qatar are considering actively seeking partnerships with these non-financial services challengers.

Qatar's recognition of the significance of FinTech is evident in its strategic plans, including the Strategic Plan and Qatar National Vision 2030, which prioritise economic diversification.

The Qatar FinTech Hub (QFTH), managed by the Qatar Development Bank (QDB) under the QCB, plays a pivotal role in fostering FinTech innovation. It has become the second largest FinTech venture investor in the MENA region.

In 2022, Qatar witnessed the launch and licensing of several FinTech companies, contributing to the development of a robust FinTech ecosystem in the country. For example – and not limited to – CWallet, a mobile wallet facilitating seamless money transfers and financial management and iPay by Vodafone Qatar, a digital payment platform enabling mobile phone payments.

These launches demonstrate Qatar's commitment to nurturing the FinTech sector and positioning itself as a leading FinTech hub in the Middle East.



04

New technology

Digitise yourself to digitise the market

Qatar has undergone a significant digital transformation in the past year, marking a major step toward realising Qatar's Vision 2030 of establishing a digital economy. Google Cloud's recent announcement of the Doha cloud region has established a firm foundation for future technological advancements.

This initiative is projected to generate \$18.9 Bn between 2023 and 2030, strengthening Qatar's tech industry. The Ministry of Communications and Information Technology (MCIT) and Microsoft have also implemented OpenAI's GPT technology in the Azure Qatar Cloud, further enhancing Qatar's technological landscape. These strategic moves are expected to yield long-term benefits, empowering Qatari companies to leverage them for their own innovative endeavours.

The financial sector in Qatar is witnessing new developments and innovations such as the Qatar Stock Exchange (QSE) launching a new trading system in collaboration with the London Stock Exchange Group. Doha Bank has also launched its Q-Trade platform based on that new trading system that allows the people of Qatar to buy and sell stocks listed on QSE.

There are also commercial banks in Qatar, such as QNB, that are upgrading their core banking systems as part of their operations. These core banking systems allow for features like mobile and internet banking that improve the customer experience. They can also be cloud-based core banking systems that give banks the ability to handle large volumes of data and are more cost-effective for them. They will also enable banks to offer banking as a service (BaaS), where banks offer their infrastructure to third parties like FinTech startups or tech startups or even businesses that would like to offer their customers some kind of loyalty program.

Another new technology adoption by an innovative Qatar bank includes Personal Finance Management (PFM) the integration of PFM in banks globally has proven to add to the customer experience by analysing patterns and trends in their spending habits and giving personalised recommendations and give them interesting financial insights.

With all these emerging technologies, it is important to remember that while the adoption of emerging technologies offers numerous benefits, banks must find a balance between innovation and risk mitigation. QCB's introduction of policy and regulations as part of its FinTech strategy will assist with this.





New money

05

Make the best use of crypto and digital currencies

During discussions at the Qatar Economic Forum, it was concluded that the establishment of a global regulatory system for cryptocurrencies was unlikely. Instead, it was suggested that individual countries should take the responsibility of regulating the cryptocurrency industry within their jurisdictions.

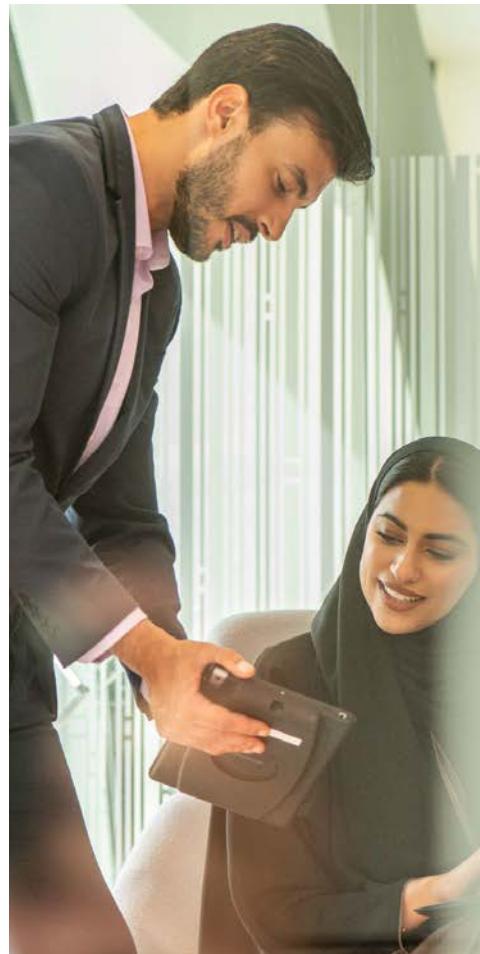
However, participants expressed positive views on the recent implementation of comprehensive cryptocurrency regulations by the European Union, seeing it as a step in the right direction.

The forum emphasised the importance of adopting an optimistic stance towards cryptocurrencies, as it would foster growth and open investment opportunities. Currently, cryptocurrencies are considered illegal by many countries in the Middle East, including Qatar, due in part to concerns regarding weak compliance with AML and CFT regulations.

In contrast, countries like Singapore were lauded for their supportive regulatory environment, while the United States was deemed less favourable for crypto businesses due to political involvement and regulatory complexity. The market downturn experienced by cryptocurrencies in 2022 was similar to the financial crisis, with the absence of a backstop like the Federal Reserve being cited as a contributing factor.

In order to effectively combat money laundering and terrorist financing, Qatar's regulatory authorities continue to enhance their understanding of complex techniques used in these illicit activities. This calls for a comprehensive approach that involves continuous training and awareness programs to keep pace with evolving financial crime trends and to establish a robust regulatory framework that effectively mitigates risks associated with money laundering.

By enhancing its regulatory measures, Qatar can strengthen its financial system and contribute to a more secure and transparent global financial landscape. Qatar received a positive review from FATF in its recently published country report showing that it was taking AMF and CTF very seriously.





New rules

06

Foresee and contribute to evolving regulatory landscape

In 2022, the global financial system faced significant challenges due to the on-going recovery from the COVID-19 pandemic and the war in Ukraine, leading to an impact on economies worldwide.

Recognising the need to strengthen their financial systems, regulators faced the task of adapting to the evolving nature of financial institutions, their operations, and customer expectations.

The increasing complexity of financial services, the emergence of neobanks and the broader financial ecosystem called for a shift in supervisory approaches.

Regulators, including central banks, expanded their supervisory perimeters to encompass non-financial institutions providing financial services and extended their oversight to cover the entire value chain of the financial services sector, including clients, vendors, and competitors. For example, Qatar introduced the Payment Services Regulations regulating payment services whether provided by banks or non-bank providers.

This marked a significant development in a previously unregulated area. This shift toward vertical and horizontal integration is aimed to ensure comprehensive oversight and regulatory compliance.

In the MENA region, known as "Wave 1," initiatives, supervisory efforts primarily focused on core banking activities. These initiatives centered around crucial areas such as customer and data protection, establishing data infrastructure, and promoting environmental, social, and governance (ESG) practices. These measures aimed to enhance the stability and integrity of the financial system in the region.

Within Qatar, the QCB took proactive steps in 2022 to strengthen the financial system and protect depositors and investors. One of its key priorities was ensuring that banks had sufficient capital to withstand potential shocks. The QCB increased capital requirements for banks, issuing Circular No. 2/2022 on the revised Basel III framework, Pillar (I) Capital Adequacy.

This framework outlined new requirements for banks to maintain enhanced levels of capital, providing a protective cushion against potential losses. Moreover, recently, QCB announced its soon to be implemented supervisory enhancement project (Risk-Based Supervision) based on risk parameters. This initiative encompasses the constant evolving risk environment around the financial and non-financial sector in Qatar. The main aim of such a lead is to transfer the regulatory process to become forward-looking and more proactive to cover and secure the needs of the relevant institutions.

Improving liquidity in the financial system was another crucial focus for the QCB. Liquidity, the ability of banks to meet their obligations, was enhanced through measures such as providing liquidity support to banks and encouraging the holding of more liquid assets.

Circular No. 10/2022 introduced amendments to the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), reinforcing the requirements for banks to hold liquid assets and fund their activities with stable sources of funding.

Additionally, the Qatar Financial Centre (QFC) launched significant initiatives in 2022 to promote sustainable finance, green finance, and FinTech development.

The QFC Regulatory Framework for Sustainable Finance (QFC RFSF) facilitated the issuance of sustainable sukuk and bonds, mobilising capital for sustainable projects. The QFC Regulatory Framework for Green Finance (QFC RFG) guided firms in managing and disclosing environmental risks, aligning financial activities with Qatar's national climate change goals.



New rules

06

Foresee and contribute to evolving regulatory landscape

In early 2022 the QCB released the FinTech strategy for 2023, aiming to leverage the State of Qatar's strengths and its existing business ecosystem. The primary goal is to foster growth and enhance diversity and competition in the financial technology and financial services sector within the country.

This objective will be achieved through the promotion of development in the financial market infrastructure, achieved by effectively harnessing the expertise and competencies in the field of financial technology.

Moreover, the strategy aims to create new avenues in financial technology, recognising its significant impact on society. By strategically employing and utilising FinTech capabilities, Qatar aims to bolster its financial services industry, ensuring it remains at the forefront of technological innovation and development.

The Qatar Financial Centre Regulatory Authority (QFCRA) has also launched a new FinTech strategy that aims to position Qatar as a leading global hub for FinTech innovation.

The strategy sets out several key objectives, including facilitating the growth of FinTech in Qatar, promoting collaboration between FinTech firms and traditional financial institutions, attracting global FinTech talent to Qatar, and developing Qatar's FinTech ecosystem through education and training programs.

The QFC FinTech Regulatory Sandbox (QFC FRS) provided a controlled environment for FinTech firms to test their products and services, encouraging innovation and the growth of FinTech in Qatar.

These collective efforts by regulators in Qatar aim to strengthen the financial system, promote economic development, and improve the lives of citizens of Qatar. By focusing on capital adequacy, liquidity, sustainability and FinTech innovation, Qatar is seeking to build a robust and sustainable financial ecosystem that can withstand future challenges.



Emergence of non-traditional risks

07

Qatar banks have a strong record of accomplishment in effectively managing traditional risks, which they have excelled at historically. However, in recent times, there has been a notable rise in non-traditional risks such as liquidity risks, cyber risks, and operational risks, where Qatari banks are facing challenges in capturing and monitoring these risks. The QCB is aware of the need to introduce additional regulations to continue to mitigate these risks.

Liquidity risk:

During a stable period of historically low and stable interest rates, financial institutions globally took liquidity and balance sheet management for granted. However, as interest rates rose and uncertainty increased, many institutions struggled with liquidity and appropriate balance sheet structures, leading to publicised bank failures and heightened awareness of liquidity risks.

Regulatory bodies are now focused on preventing future financial crises, necessitating better liquidity risk and balance sheet management from financial institutions for the benefit of their stability and the overall economy.

Additionally, in 2023, bank leaders are expected to concentrate on strategies to grow low-cost deposits and manage interest rate risks while facing growing concerns about cybersecurity and regulatory scrutiny of certain fees.

To effectively manage these risks, it is crucial for banks to implement proper tools and strategies. One such tool is the liquidity management module, which provides visibility into current cash positions and accurate forecasting of future cash flow and funding requirements.

By optimising liquidity across multiple bank accounts and currencies, banks can reduce risk and help corporate customers improve their business operations. Improved decision support and profitability are additional benefits of implementing a comprehensive liquidity management system.

By gaining better control over working capital and leveraging idle balances, banks can enhance profitability and make informed investment and borrowing decisions.

Technological / cyber risks:

With the increasing reliance on technology in the banking industry, Qatar's banks are facing new challenges in terms of technological and cyber risks.

The handling of sensitive customer and transactional data makes banks attractive targets for cybercriminals. To mitigate these risks, banks are adopting enhanced cybersecurity solutions specifically tailored for banking systems.

These solutions include security protocols, data compliance management, data encryption tools, AI-powered fraud detection, and anti-hacking software.

By integrating these technologies into their systems, banks can strengthen threat detection and response, protect customer data, and ensure a secure financial environment.



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