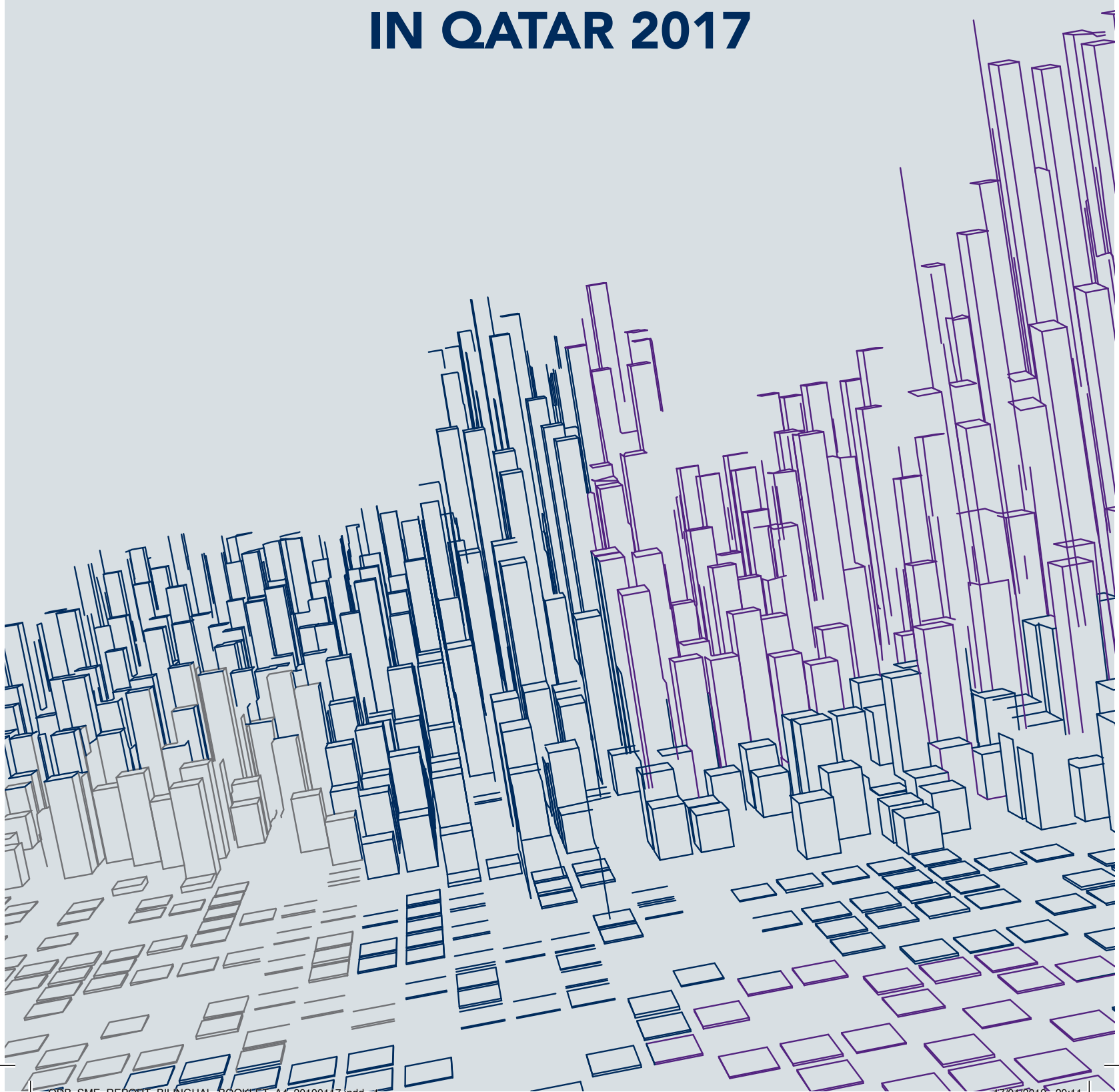
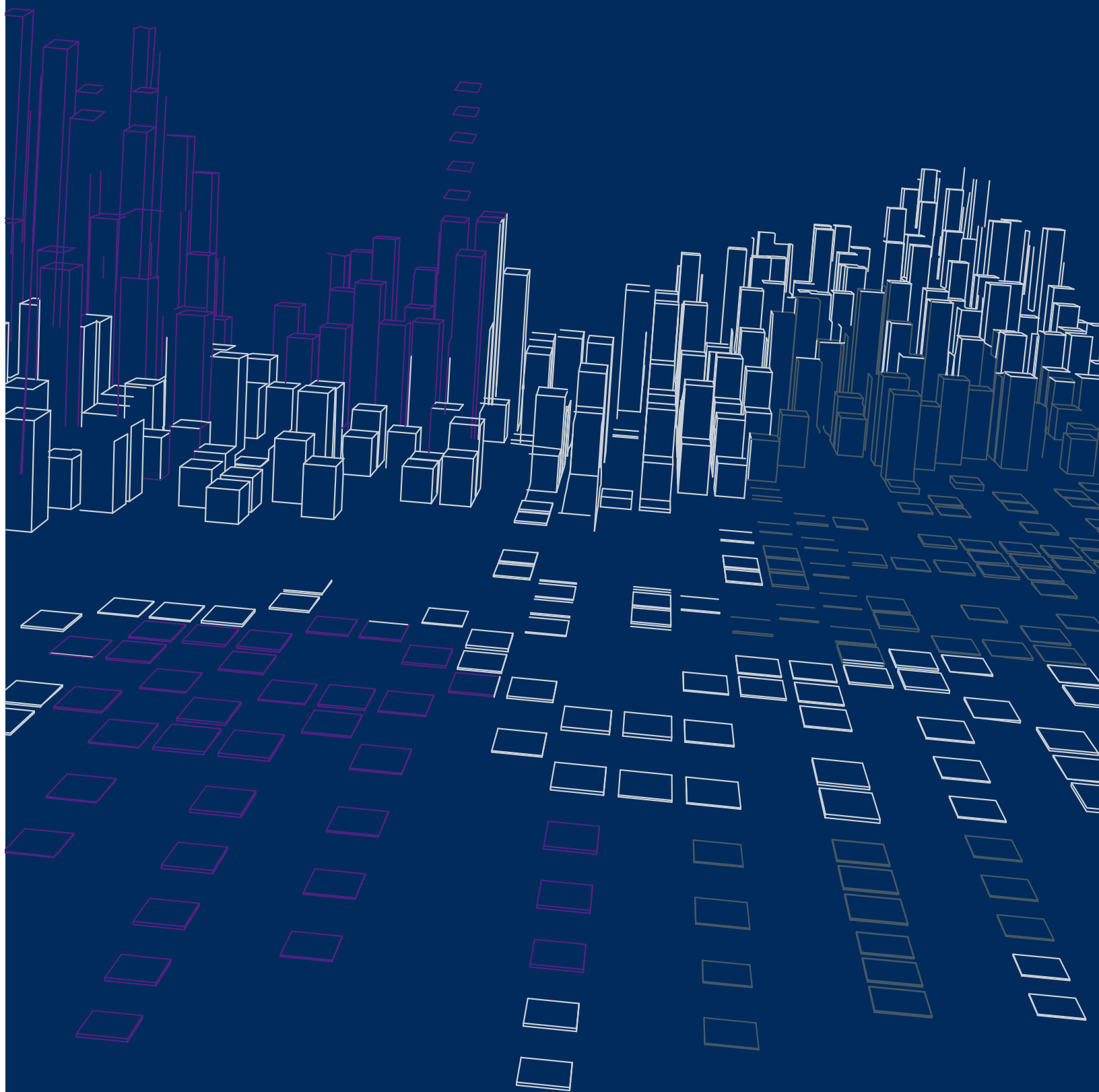




REPORT ON SME LENDING STATUS IN QATAR 2017







Introduction

In the framework of adopting a standardized definition of small and medium-sized enterprises (SMEs) in Qatar, Qatar Central Bank (QCB) issued a circular on the standard definition of SMEs in 2015, which has been adopted by the banking sector in Qatar ever since. In light of that, all information and banking statistics related to financial services and products issued by the banks will inevitably revert to that definition. Henceforth, in 2016 QCB issued a circular to all the banks under which the latter are required to provide financial information related to SME transactions.

This report presents a summary of the most important information regarding

SME lending within the banking sector for the year 2017. Overall, this report aims at highlighting the SME bank lending status in Qatar; identifying the share of SME's within the aggregate lending portfolio, credit applications, credit acceptance ratio, purpose of credit applications and debt defaults as well as other related information.

This report depends on the data collected from all the banks operating in the State of Qatar which provide credit services to SMEs. The data was collected through a standard template sent to all relevant banks through a QCB circular.

Disclaimer

This Report describes the data obtained from various banks in Qatar, based on the circular issued by Qatar Central Bank. In this context, we would like to assert that the responsibility for accuracy of the data contained in this Report is assumed by the participating banks and financial institutions. Hence, Qatar Development Bank has collected and analyzed that data according to its availability, taking into consideration the potential defects of certain data or the failure of one or more banks to fill out the data collection form.

Summary of Lending Statistics for SMEs in 2017

This summary sheds light on the key findings that can be drawn out from the banks' data about the financing of SMEs. These results represent valuable information about the status of SMEs in the bank lending sector in Qatar.

Before delving into the main results of this report, as way of background, it is important to highlight some information about the SME as a banks' clients.

Notably, more than 4,000 SMEs approached banks for various banking services. Taking a quick glimpse at the classification of these companies in terms of size, we found that 29% of them were micro-enterprises, while the small-sized enterprises accounted for the largest part at 44% out of the total enterprises that are the banks' clients, and the medium-sized enterprises were roughly 27%.

Notably, in 2017, medium-sized enterprises' share of the total SME sector increased from 19% in 2016 to 27% in 2017, given the significance of medium-sized enterprises, it represent an important category that have higher capabilities, including their ability to export overseas, and to meet local needs.

Credit Applications

The year 2017 witnessed significant growth in total credit applications compared to 2016, with over 20.6 billion Qatari Riyals of accepted applications in 2017, as compared to roughly 12.7 billion Qatari Riyals in 2016; i.e. 71% growth.

Number of SMEs that dealt with banks in 2016 and 2017

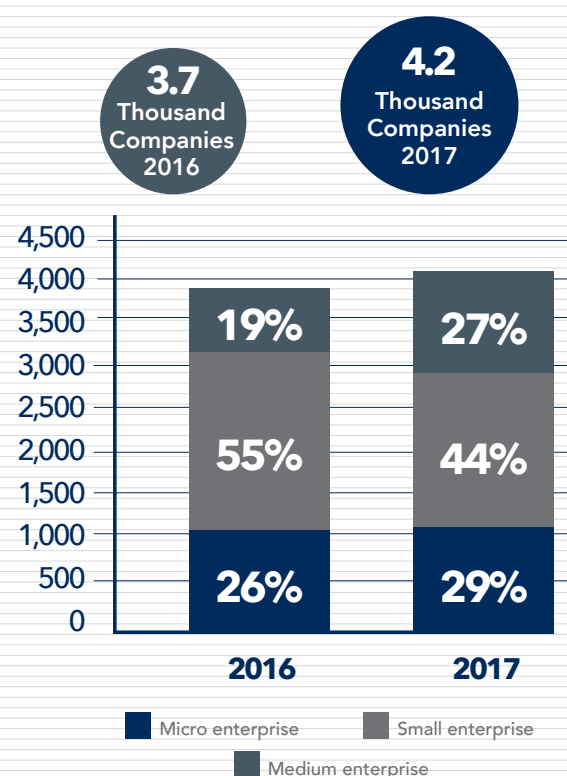
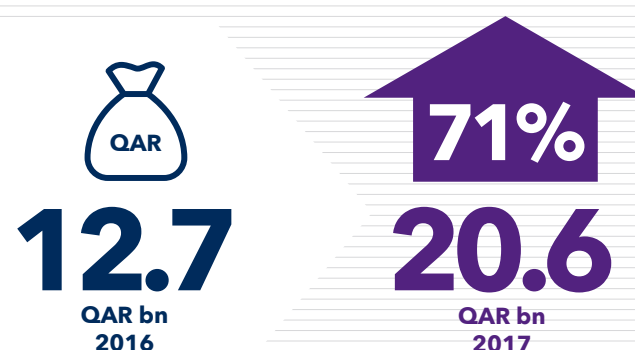


Figure (1): The relative distribution of the number of SMEs that dealt with the banks in terms of size (2017, 2017).



71% increase in total value of accepted credit applications in 2017.

In 2017, in terms of value of accepted credit applications, medium-sized enterprises accounted for 73% of the total value of accepted credit applications, followed by small, then micro enterprises (figure 2), while in terms of number of accepted credit applications, small enterprises accounted for around half of them (51%).

Credit Application Approval / Rejection Rates

Approximately 92% of total credit applications submitted by SMEs have been accepted, thus boosting the accepted applications as compared to those of 2016 which were 80%.

Upon reviewing the credit applications approval rates, the data reveals that medium-sized enterprises account for the highest approval rates of credit applications, as the banks accepted roughly 95% of their credit applications.

The approval rate of micro and small sized enterprises was 89% and 90% respectively. In 2017, the approval rate of small-sized enterprises witnessed a remarkable rise, moving up from about 71% (2016) to 90% (2017).

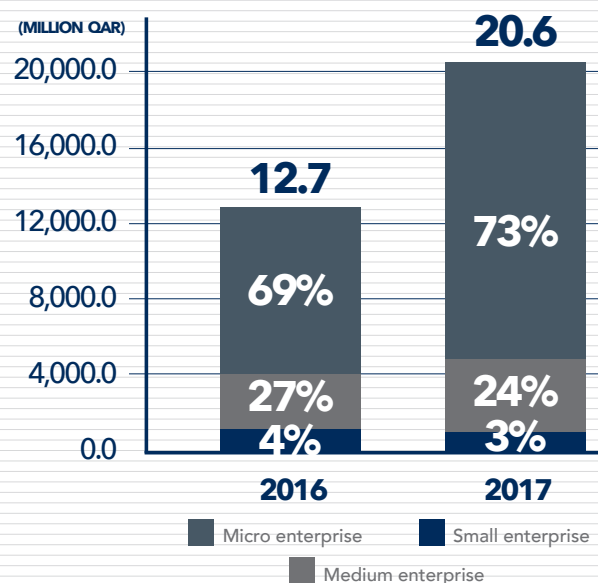


Figure (2): Distribution of the value of accepted credit applications according to the size of the company (In Million Riyal).

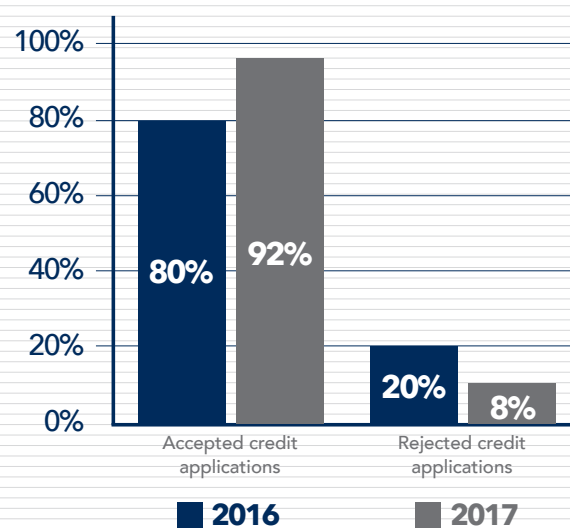
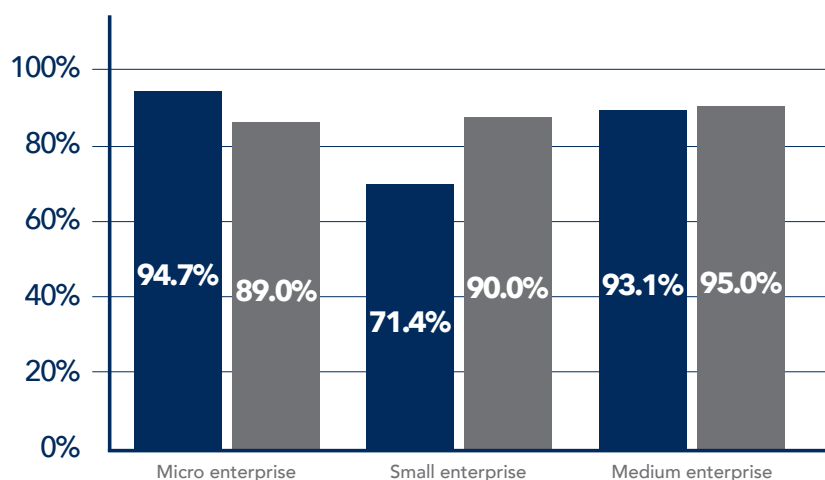


Figure (3): Status of SME Credit Applications, 2016, 2017.



■ 2016
■ 2017

Figure (4): Distribution of Credit Application approval rates by company size for the years 2016 and 2017.

According to OECD, credit application rejection rate asserts to the complexity of credit conditions and denotes the extent of banks' willingness to give loans. In actual fact, rejection rates depend on factors associated with both demand and supply factors, as the demand factors may include the performance of credit applicant as well as their ability and skills to deal with the banks and apply for finance.

On the other hand, the supply factors may include the level of national economy performance, as in financial

crisis times, banks tend to limit the credit application approval rates.

On the national level, the results indicate that credit application rejection rates of SMEs in Qatar were 8%, marking a significant decline compared to the rejection rate in 2016 which accounted for about 20%.

Figure No. (5) reveals that medium-sized enterprises have lower rejection rates as compared to micro and small-sized enterprises, as the latter marked, higher rejection rate.

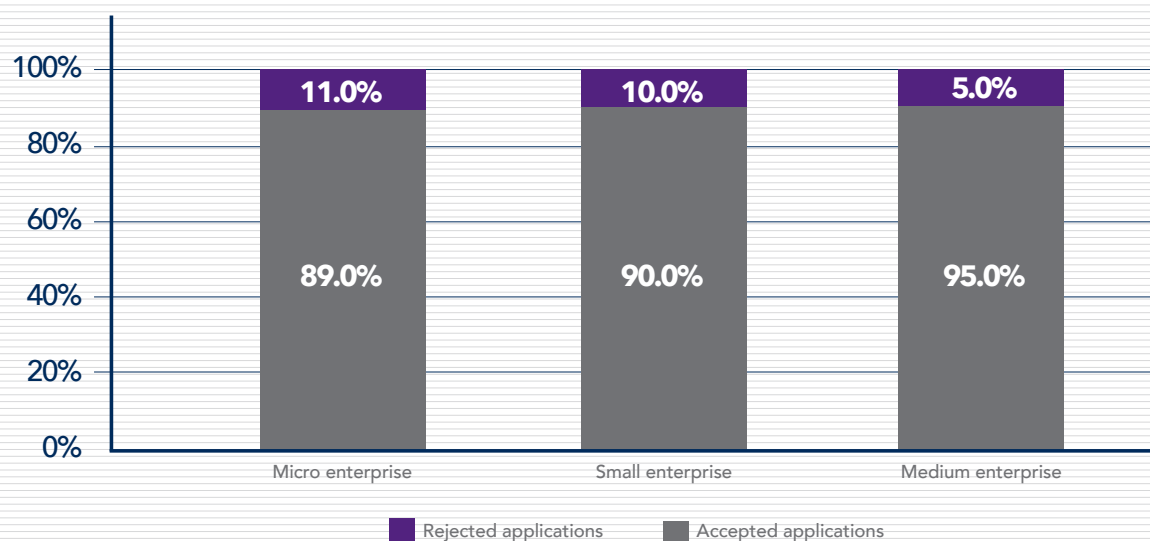


Figure (5): Status of SME credit applications by company size, (2017).

SME Share in the Credit Market

As mentioned earlier, the value of accepted credit applications of SMEs was about QAR 20.6 billion Qatari Riyals, which represents roughly 4.3% of total credit value of the private sector, marking a rise compared to the past year's rate (2016) which was about 2.8%.

In addition, the share of SME accepted credit applications in total domestic credit (which includes the public sector) was about 2.5% of total domestic credit in 2017, moving up from about 1.7% in 2016.

Distribution of SME Accepted Credit Application by Sector

The sectorial analysis of SME share in accepted credit applications for 2017 reveals that the enterprises operating in the trade sector account for a large share of accepted credit applications, representing 37% out of total SME share, followed by the service sector representing about 27%, and then the construction sector which accounts for 18%.

As compared to 2016, we find that the construction sector has moved from the first place in 2016 to the third place in 2017, but 2017 marked a remarkable rise for the services sector's share, moving up from about 8.6% in 2016 to around 27% in 2017.

The same is also true for the industry sector, whose share moved up from 3.3% (2016) to about 15% in 2017.

Share of SME's Accepted Credit Applications to the total private sector's credit applications (2016, 2017).

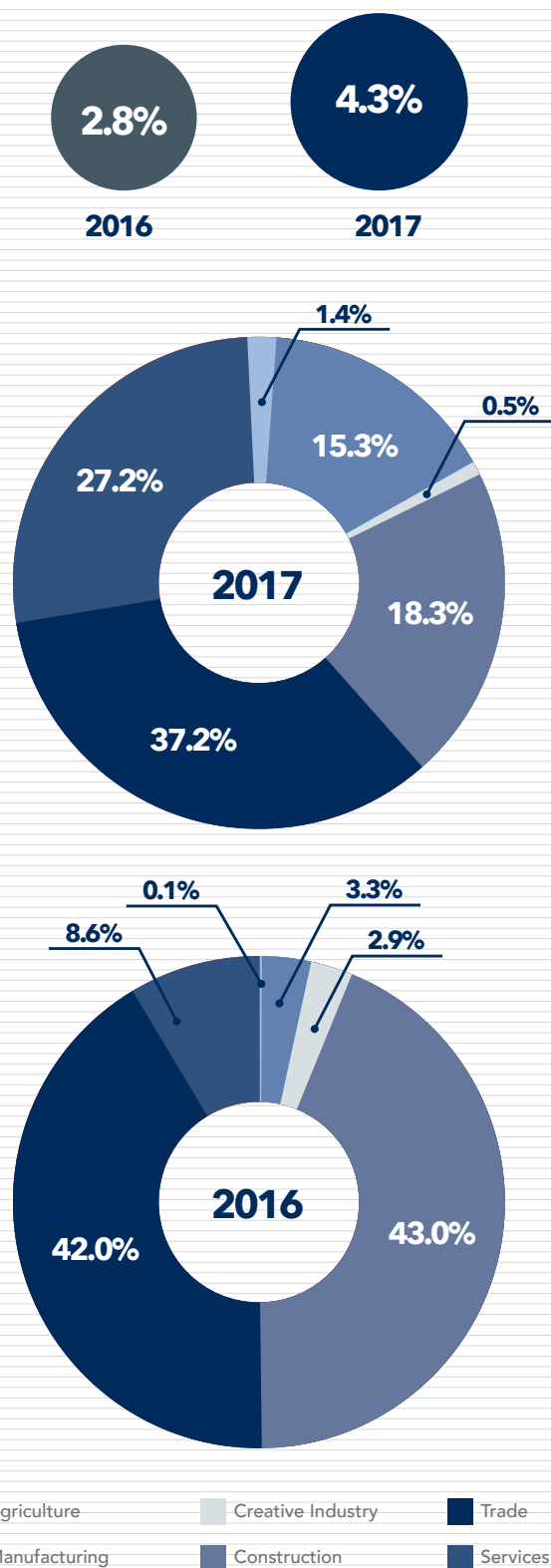


Figure (6): Distribution of SME Accepted Credit Applications by sector (2016, 2017).

Purpose of Credit Application

The purpose for which SMEs apply for bank credit vary essentially. Data shows that a large number of these applications were for growth & expansion, and that purpose accounted for about 49.1% of total credit applications, followed by credit

applications for working capital purposes at 19.9%. Other reasons for application accounted for 29.3%, which include, for example, applications for adjusting the grace periods of a loan and real estate related credit applications.

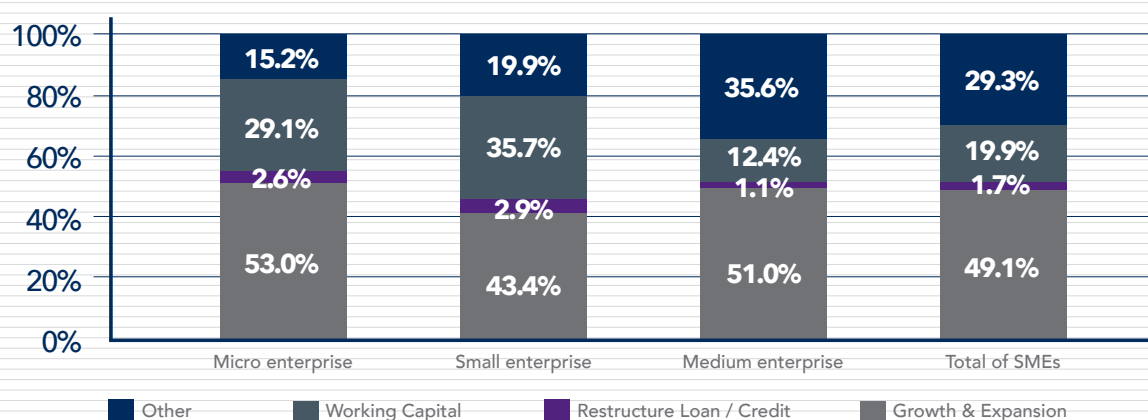


Figure (7): Reasons for credit applications by company size (2016, 2017).

The data collated shows that there are similarities between the different sized enterprises in terms of the purposes of credit applications, as the Growth & Expansion reason came first representing the most important reason for the companies to apply for bank credit.

Application for Working Capital came second, although its relative importance was higher for micro and small-sized enterprises, due to low cash flows (probably due to limited revenue, delayed receivables, higher costs) compared to medium-sized enterprises.

Credit Products

In regards to the credit applications, data collated shows an increase in the number of applications for some products like 'invoice discounting' and 'renewal / restructures of existing loans'. On the other hands, applications for 'new loans' has been relatively stable with a very minor decrease, whereas application for 'vehicle finance' and 'renewal / restructures of existing overdrafts' have witnessed a decline in 2017 compared to 2016.

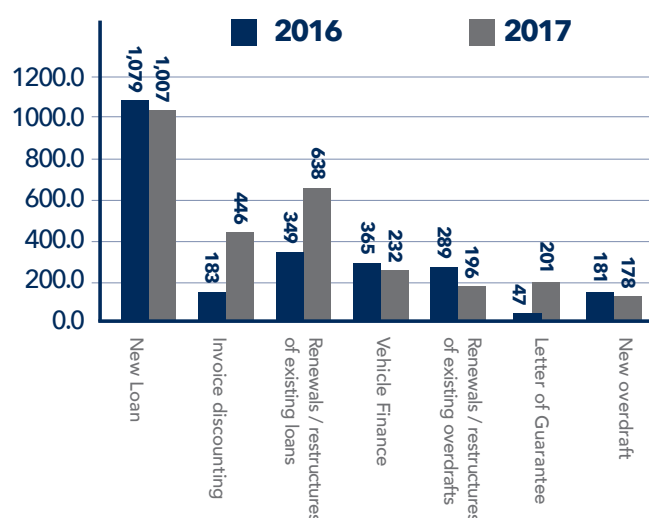


Figure (8): SME Credit Applications by product type (2016, 2017).

In terms of conventional and Islamic banks' share in total value of accepted credit applications, the share of Islamic banks moved up from 30% in 2016 to about 36% in 2017. However, conventional banks are still in the lead of total credit applications, accounting for 64% in 2017.

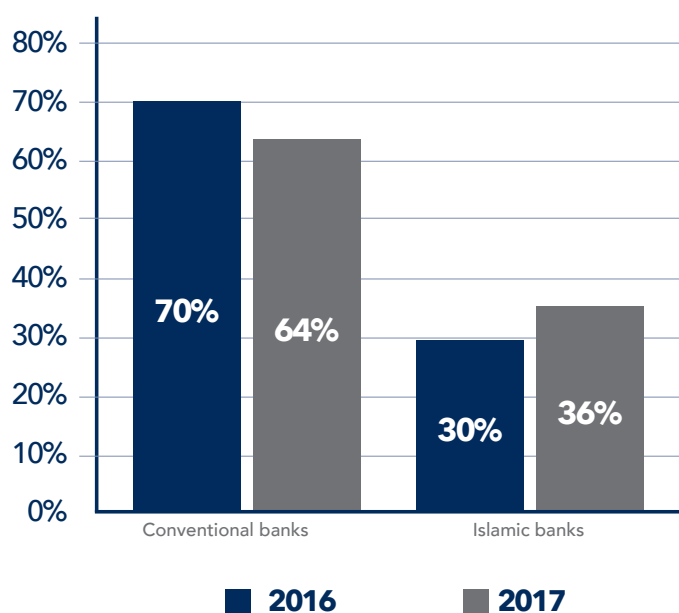


Figure (10): Relative shares for Islamic and traditional banks of SME Credit Applications (2016, 2017).

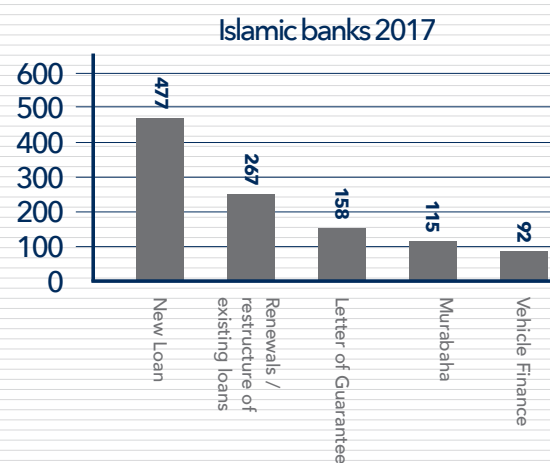
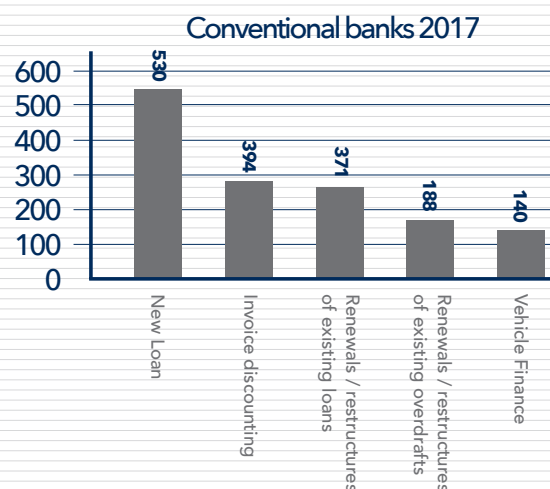


Figure (9): SME Credit Applications for some of product types in conventional and Islamic banks (2017).

Non-Performing Loan (NPL) Ratio

The data shows that the ratio of NPL for SMEs in Qatar accounted for 5.3% of the credit portfolio, compared to 3% in 2016.

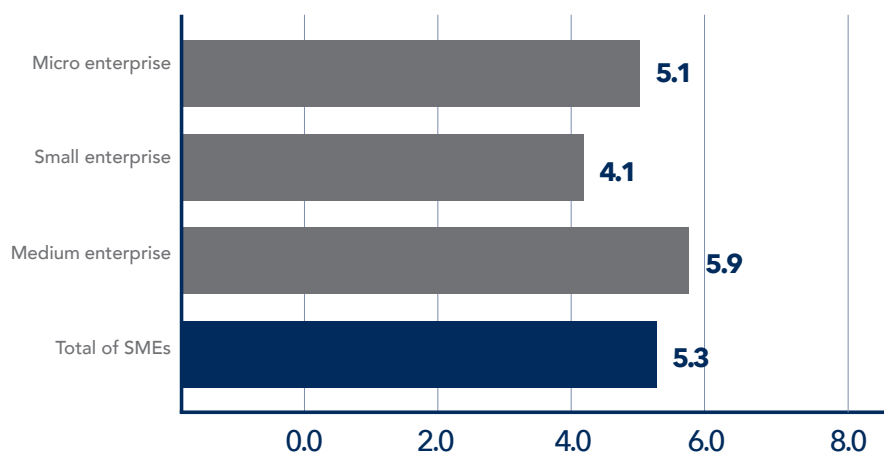


Figure (11): NPL ratios by Company Size (2017).

Figure 11 shows that small-sized enterprises have the lowest NPL ratio (4.1%), compared to micro and medium-sized enterprises, which accounted for 5.1% and 5.9%, respectively.



Highlights

Based on the information provided in the previous presentation, the key results can be summarized as follows:

- In terms of SMEs approaching banks for various banking services, small-sized enterprises constituted about 44% of the total small and medium-sized enterprises (SMEs), followed by the medium enterprises at 27%, and the micro enterprises constituted 29% of the total. In 2017, the percentage of medium enterprises increased 27%, from 19% in 2016 showing an increase in activity in this type of enterprises.
- The majority of the number of credit applications were from small-sized enterprises at 51%. Whilst medium-sized enterprises applications were at 36% and a mere 13% application submitted by micro-enterprises. However, in terms of the value of credit applications, the medium-sized enterprise take 73% of the total value submitted by SMEs in 2017.
- The rejection rate in 2017 was around 8% which has decreased from 20% in 2016.
- The share of SMEs in the total private sector credit in 2017 makes up around 4.3%; scoring an increase in the credit rate compared to that of the previous year (2016), which scored around 2.8%.

- The sector of trade came in the lead as the top sector seeking credit with a total percentage of 37% of the total credit applications, followed by services sector, which was 27%, and finally the construction sector was around 18%, which indicates an increase in the credit share of services sector.
- The main reasons of credit applications were for “growth and expansion” purposes at 49% followed by “working capital” at 19.9%.
- In regards to the credit applications, data collated shows an increase in the number of applications for some credit products like ‘invoice discounting’ and ‘renewal / restructures of existing loans’. On the other hands, applications for ‘new loans’ has been relatively stable with a very minor decrease, whereas application for ‘vehicle finance’ and ‘renewal / restructures of existing overdrafts’.
- The ratio of NPL of SMEs reached 5.3% in Qatar with micro-size enterprises occupying the smallest percentage of NPLS at 4.1% compared to medium and micro enterprises at 5.9% and 5.1% respectively.

