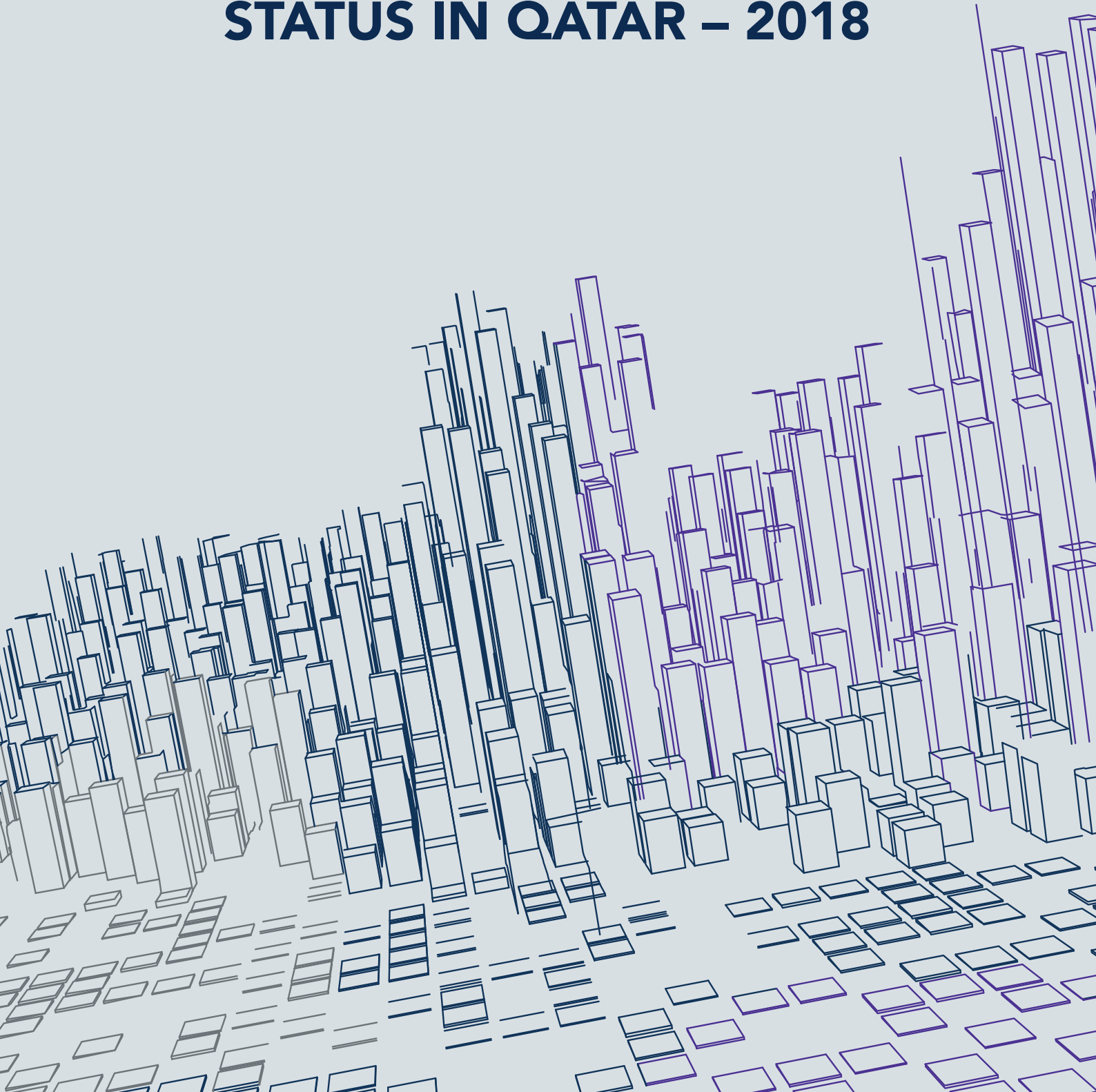
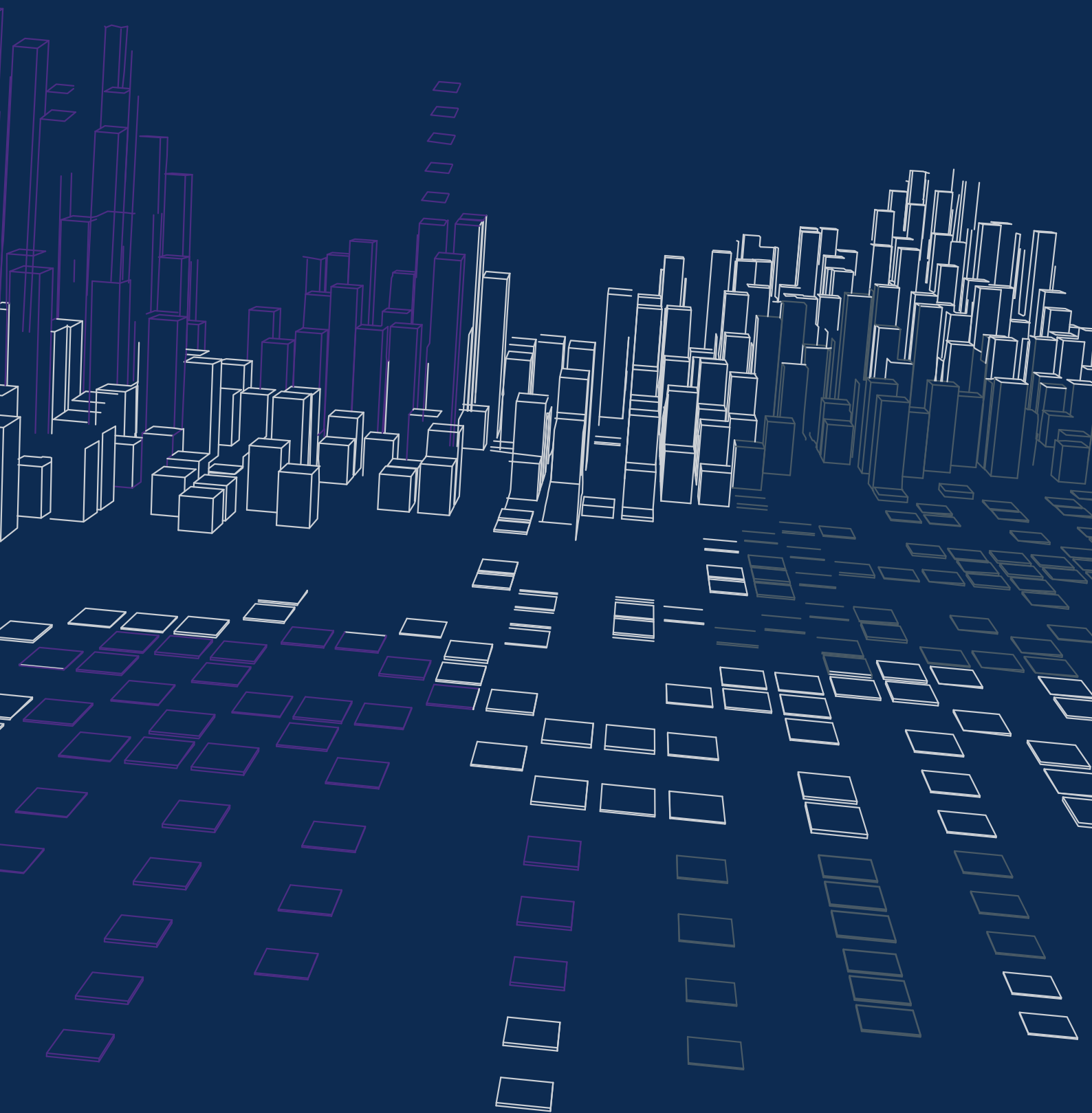




A REPORT ON SMEs LENDING STATUS IN QATAR – 2018







Introduction

In the framework of adopting a standardized definition of small and medium-sized enterprises (SMEs) in Qatar, Qatar Central Bank (QCB) issued (no. 107/2015) 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 the information and banking statistics related to financial services and products issued by the banks will inevitably revert to that definition.

Henceforth, in August 2016, QCB issued circular (no. 46/2016) which mandated Qatar Development Bank ("QDB") to compile specific financial information from all financial institutions operating in Qatar related to SME transactions to be submitted to QCB every six months.

The SME Lending Report (the "report") provides an overview of the SME lending status and banks' exposure to this segment. The report aims at highlighting key information related to the share of SMEs lending to the aggregate debt financing portfolio, number of credit applications, credit acceptance ratio, purpose of credit applications and default ratio

This report depends on data collected from all banks operating under QCB supervision and that are offering financial services to SMEs. The data was collected through a standardized template supporting QCB circular.

Disclaimer

The analysis in this report relies on data obtained from banks operating in Qatar, based on the ownership of input, data remains with the providing bank and hence the accuracy of data remains the sole responsibility of the respective bank. 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.

SME Lending at a Glance

Key objectives of this report is to understand the key information of lending availed to this segment, SMEs' interest in traditional debt financing instruments. The analysis provides valuable information about the state of SMEs and their access to bank finance in Qatar.

Before delving into key findings of this report, as way of background, it is important to highlight information about the SME's, as clients of the banking sector from 2018.

Notably, about 4 thousand SMEs approached banks for various credit services in 2018 (figure 1), albeit that the number of companies have declined by 7% in comparison to 2017.

As summarized in the chart alongside, during 2018, small-sized enterprises accounted for the largest part at 43% out of the total enterprises whereas, micro-enterprises accounted for 31% followed by the medium-sized enterprises at 27% (Figure 2).

During 2018, the share of micro-enterprises over the three years exhibited the highest growth among the different sizes of companies.

(000' companies)

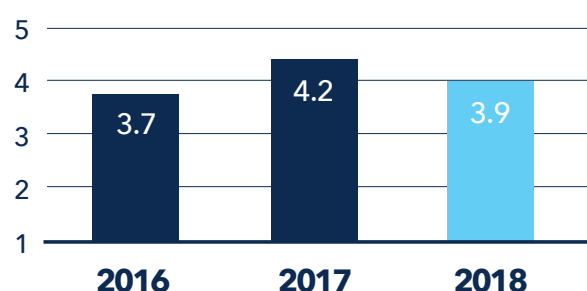


Figure (1): No. of SME's that approached banks for credit services (2016-2018)

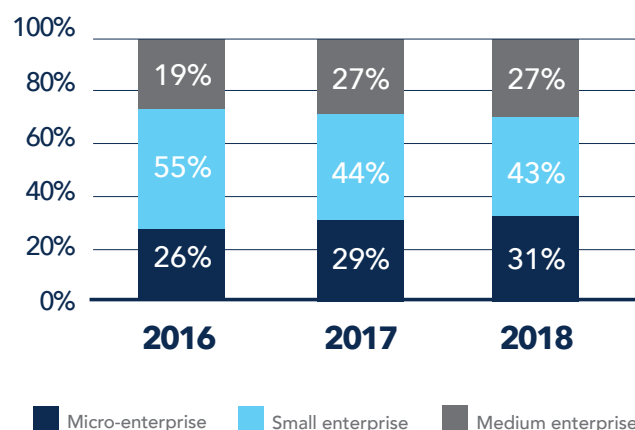


Figure (2): Relative distribution of SME's that approached banks for credit services (2016-2018)

Credit Applications

The year 2018 witnessed significant growth in total credit applications compared to 2017, with over 24.5 billion Qatari Riyals of accepted credit applications in 2018, as compared to roughly 20.6 billion Qatari Riyals in 2017; i.e. 19% growth.

Thus, credit applications have maintained their growth over the past three years at a CAGR of around 39%.

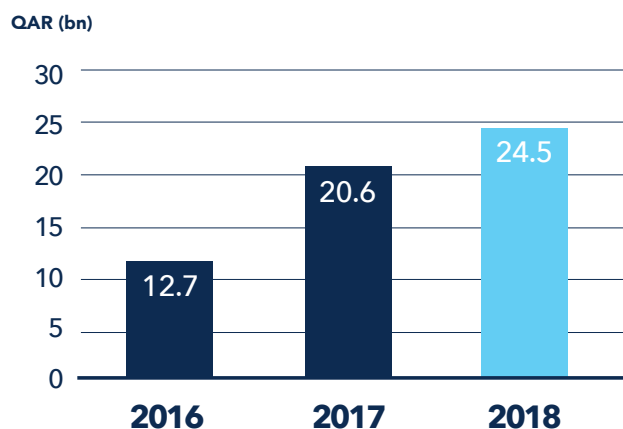


Figure (3): Evolution of accepted credit applications for SME's (2016-2018)

In 2018, in terms of value of accepted credit applications, medium-sized enterprises accounted for 71% of the total value of accepted credit applications, followed by small businesses with 27% (Figure 4).

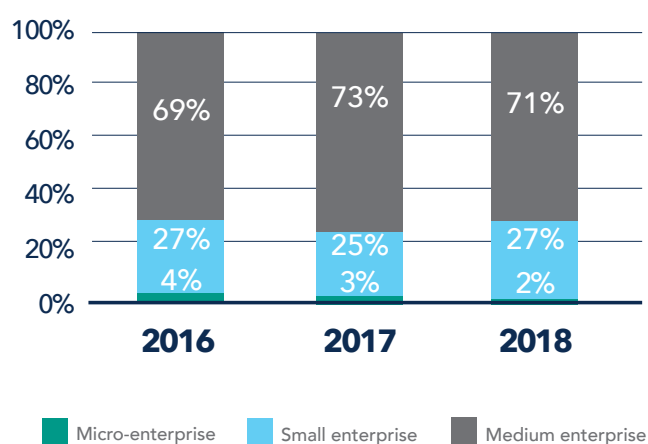


Figure (4): Distribution of the value of accepted credit applications according to the size of the company

The number of accepted credit applications for medium and small companies has grown by 17% and 29%, respectively, over the last two years (2017/2018), while the number for micro-enterprises remained the same (Figure 5).

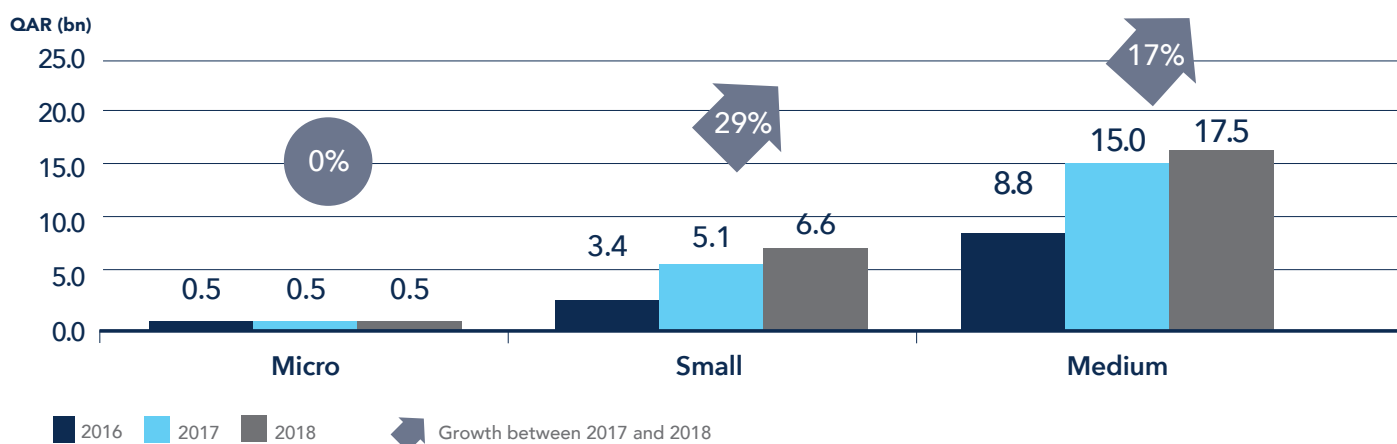


Figure (5): Evolution of the value of accepted credit applications by company size, and growth rate between 2016 and 2018

Credit Application Approval / Rejection Rates

In 2018, approximately 92% of total credit applications submitted by SMEs have been accepted, with no difference registered compared to 2017 (Figure 6).

Upon reviewing the credit applications approval rates (Figure 7), the data reveals that medium and small-sized enterprises account for the highest

approval rates of credit applications, as the banks accepted roughly 95.8% and 94.4% respectively of their credit applications.

While approval rate for micro-enterprises witnessed a decline to 72% in 2018, down from 89% in 2017.

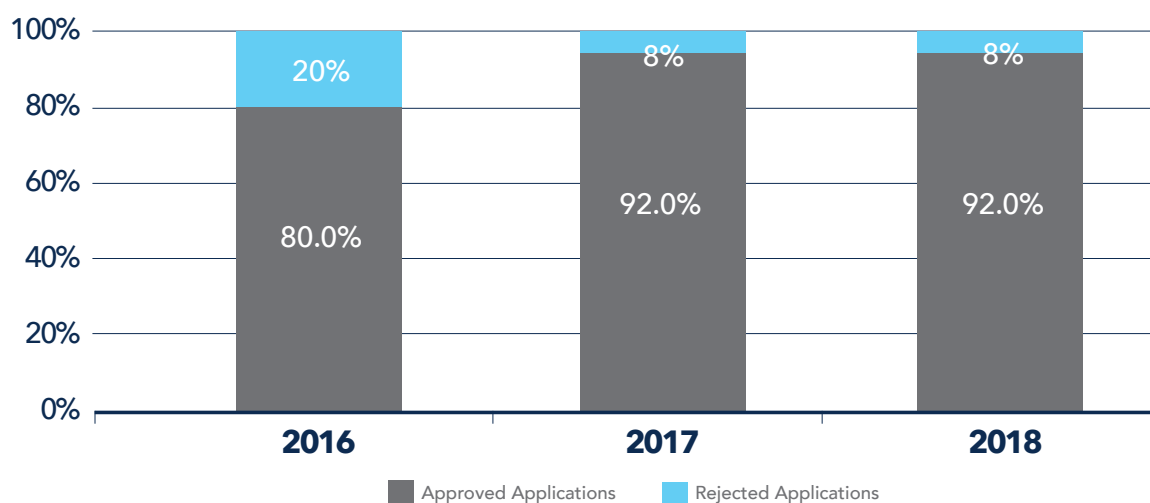


Figure (6): Status of SME credit applications for SMEs (2016-2018)

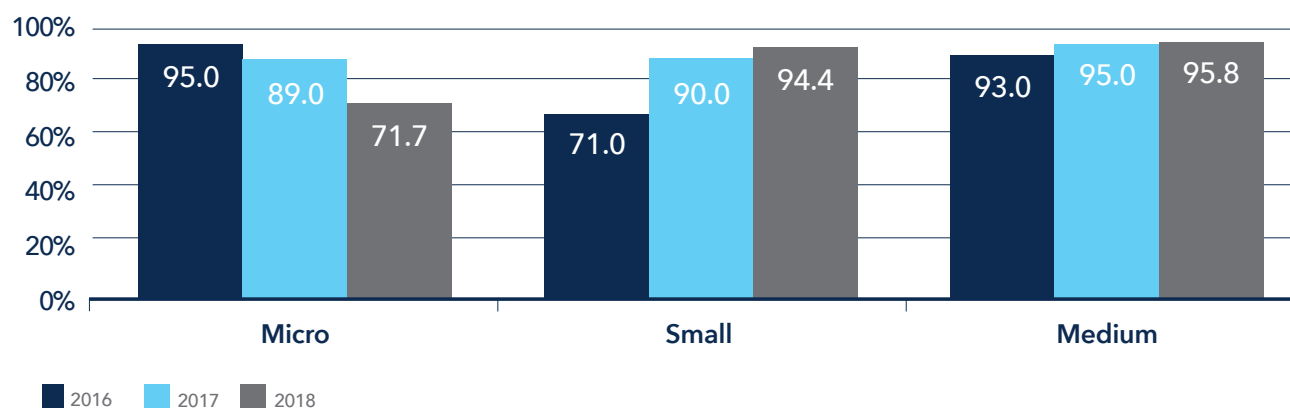
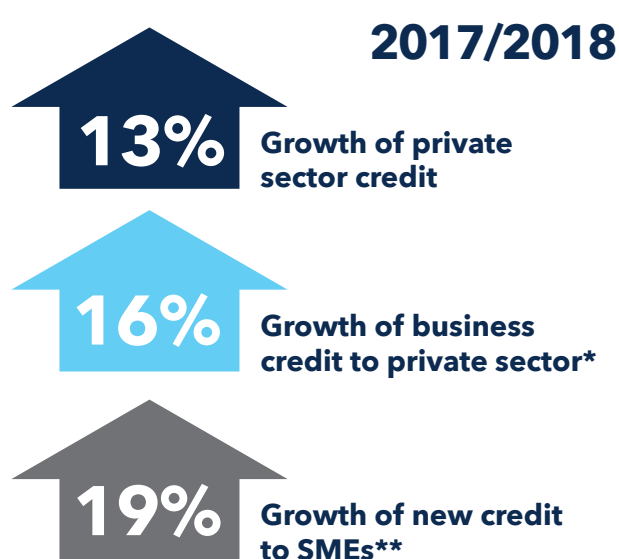


Figure (7): Distribution of credit applications approval rates by company size 2016-2018

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



* represents the total private sector credit after excluding individuals' credit (consumption)

** represents the accepted credit applications for SMEs

SME Share in the Credit Market

The value of SME share in credit market is increasing year after year, with the value of accepted credit applications - as mentioned earlier - at QAR 24.5 billion Qatari Riyals in 2018, showing an increase of about 19% compared to 2017.

In addition, the share of SME accepted credit applications in total private sector credit was about 4.5% in 2018, moving up from about 4.3% in 2017 and 2.8% in 2016 (Figure 8).

On a national level, the value of total private sector credit reached QAR 541 billion Qatari Riyals in 2018, a growth of 13% compared to 2017.

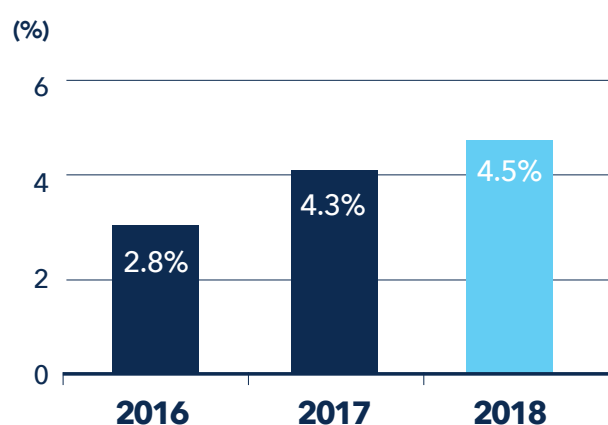


Figure (8): Share of SME's accepted credit applications to the total private sector's credit

Distribution of SME Accepted Credit Applications by Sector

The sectorial analysis of SME's share in terms of accepted credit applications for the period between 2016 and 2018 reveals that enterprises operating in trade, services, and construction sectors dominate the main share of accepted credit applications (new credit), at a percentage of 82% in 2018.

As such, the manufacturing sector kept dominating a steady share of credit applications between 15% and 17% in the period of 2016 to 2018. Agriculture also witnessed growth from 1% in 2016 to nearly 3% in 2018, reflecting therefore an existing interest in this sector since 2017.

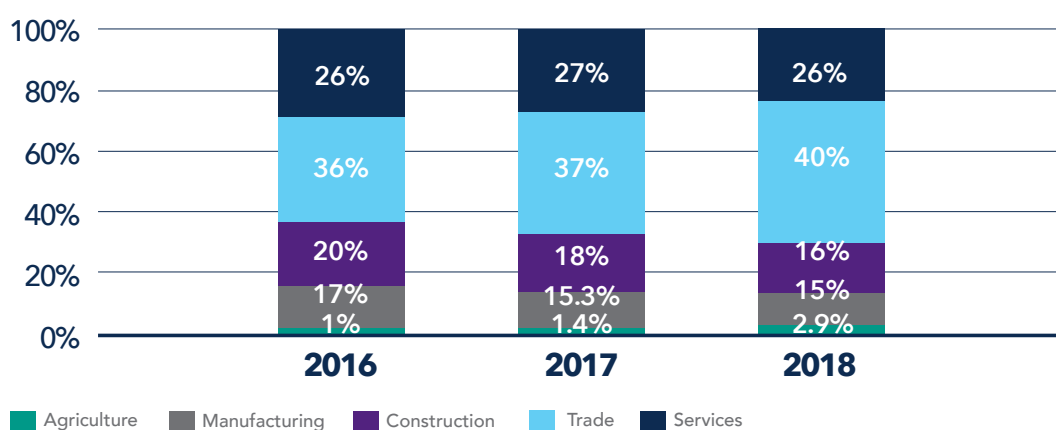


Figure (9): Distribution of SME accepted credit applications by sector (2016-2018)

Purposes of Credit Applications

The purposes for which SMEs apply for credit vary. For the last three years (2016 to 2018), data shows that a large number of these applications were for Growth and Expansion purposes, accounting for around 38% of total credit applications in 2018, followed by Working Capital requirements at 23%.

The percentage share of credit applications for the purpose of restructuring of loan shows a significant increase to reach 11% after being at 2% between the years 2016 and 2017. Other credit application purposes, including grace period adjustment for loans and real estate related credit applications, represented 24% of the total share (Figure 10).

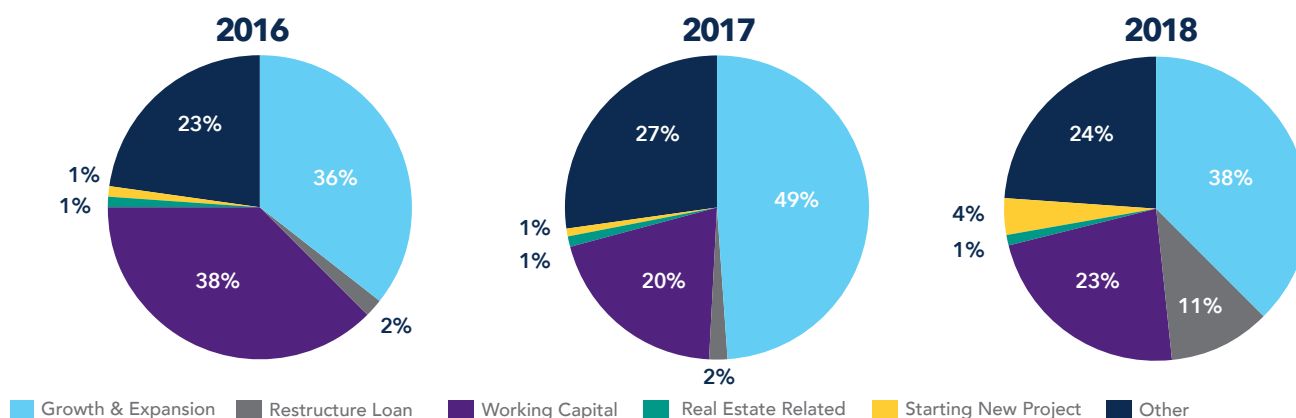


Figure (10): Distribution of reasons for credit applications

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

Applications 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, and higher costs) compared to medium-sized enterprises.

However, credit required for Restructuring of Loans / Credit purposes came third in the categories of small and micro-sized enterprises at 25% and 17% respectively.

Credit Products

With regard to credit products, Invoice Discounting was the most demanded product in 2018 with 26% share compared to the rest of credit products. Enterprises often resort to this kind of product in order to increase their received cash flow, and therefore be able to pay employees' salaries, suppliers' bills, or to face other late customer receivables related issues (Figure 11).

On the other hand, applications for Renewals / Restructures of Existing loans and New Loan products regressed to occupy the second and third place at 24% and 21% respectively in terms of the most demanded products. Additionally, Vehicle Finance product is no longer the top five demanded products in 2018 compared to the last two years.

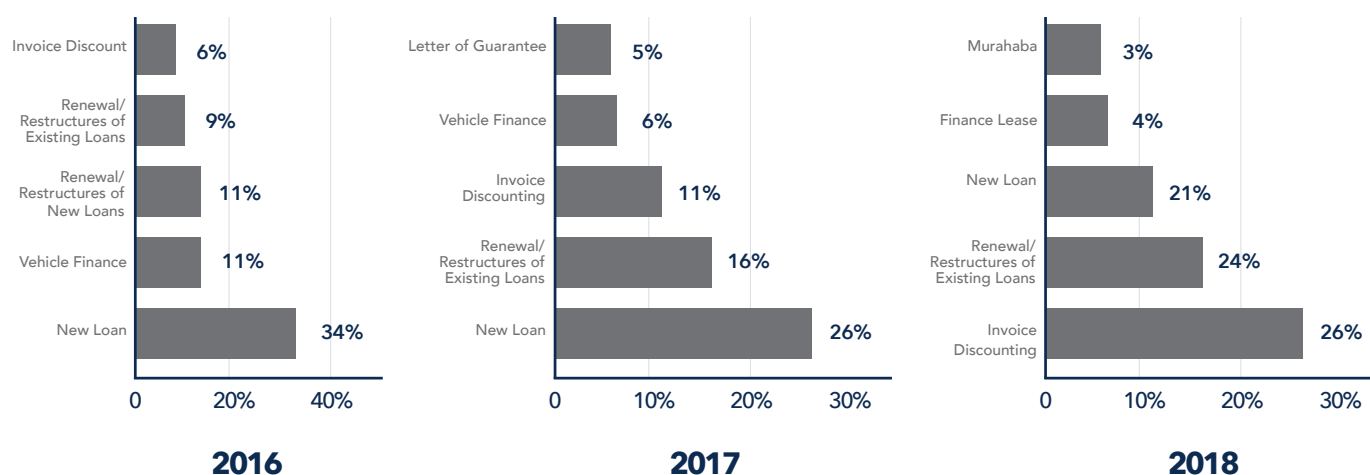
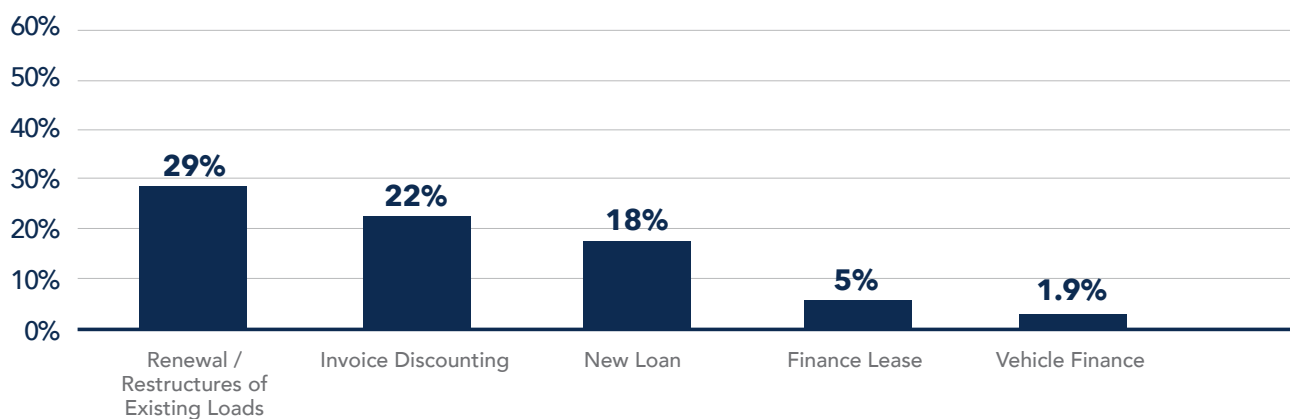


Figure (11): SME Credit Applications by most demanded product types (2016 – 2018)

In terms of bank categories, Invoice Discounting was the most requested credit product on the level of Islamic banks, attaining a share of 34%, while Renewals / Restructures of Existing Loan was the top demanded product in terms of conventional banks with a share of 29%. (Figure 12).

CONVENTIONAL BANKS 2018



ISLAMIC BANKS 2018

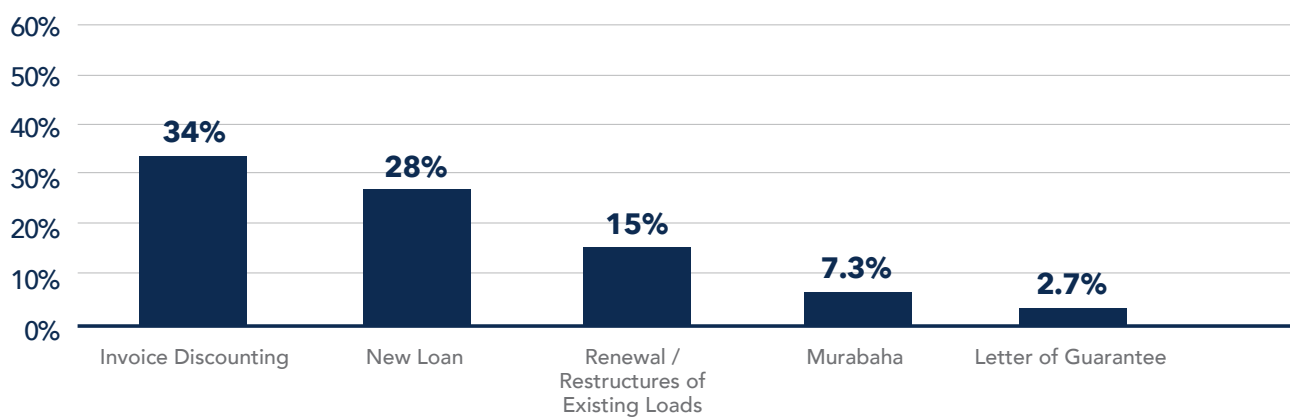


Figure (12): The most SMEs requested credit products types in conventional and islamic banks (2018)

Conventional banks kept the biggest share value in terms of the accepted credit applications, reaching 69% against 31% for Islamic banks in 2018.

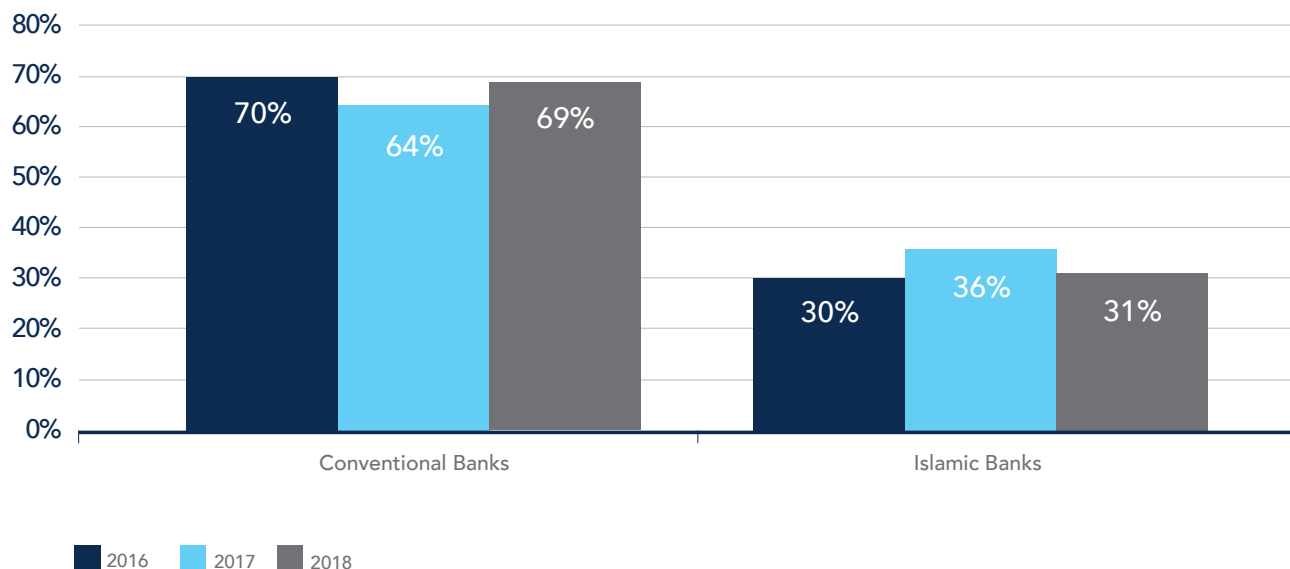


Figure (13): Evolution of relative shares of Islamic and conventional banks in value of accepted credit applications (2016-2018)

Non-Performing Loan (NPL) Ratio

The data in (Figure 14) shows that the ratio of NPL for SMEs in Qatar registered 5.9% of the credit portfolio in 2018, compared to 5.3% in 2017.

The Figure also shows that small-sized enterprises had the lowest NPL ratio (4%), compared to micro and medium-sized enterprises, which registered for 6.7% and 11.7%, respectively.

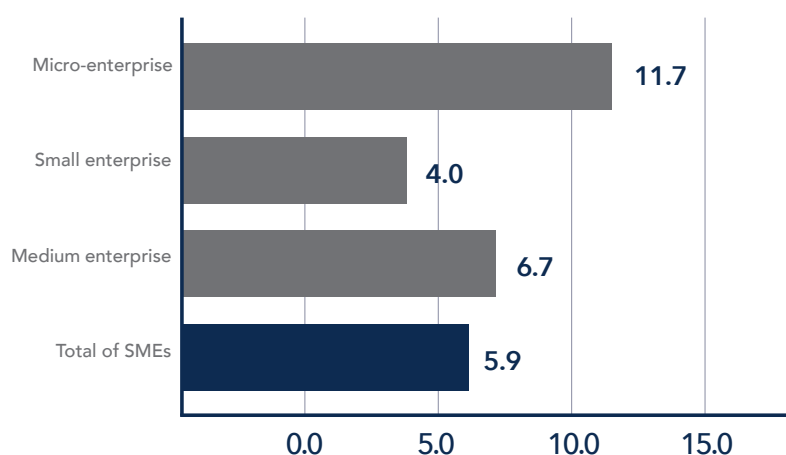


Figure (14): NPL ratios by Company Size (2018)



Highlights

Based on the information provided in this Report, the key results can be summarized as follows.

- In terms of SMEs that have approached banks for credit services in 2018, small-sized enterprises constituted about 43% of the total small and medium-sized enterprises (SMEs), followed by medium-sized enterprises at 27%, while micro-enterprises represented a share of 31%.
- In terms of credit applications value, medium-sized enterprise dominated with a share of 71% of the total value of applications submitted by SMEs in 2018, followed by small-sized enterprise with a share of 27%.
- Accepted credit applications value witnessed an increase in 2018 for both medium-sized and small-sized enterprises, with a growth of 17% and 29% respectively in the last two years (2017/2018), whilst micro-enterprises credit value remained the same.
- Credit applications acceptance rate did not register any change between 2018 and 2017, with an acceptance rate of nearly 92% in both years.
- The value of accepted credit applications in 2018 was QAR 24.5 billion Qatari Riyals, marking a 19% increase from 2017, and making about 4.5% of the total credit value of private sector, comparing to 4.3% and 2.8% in 2017 and 2016 respectively.
- On a sectorial level, no major changes were witnessed in terms of business sector shares, as the sectors of trade, services, and construction kept dominating most credits devoted

to small-sized and medium-sized enterprises. Agriculture, however, grew its credit share from 1% in 2016 to 3% in 2018.

- The main reasons for credit applications for medium-sized and small-sized enterprises in 2018 were Growth and Expansion with a share of 38%, even though it decreased from 2017, followed by Working Capital at 23%, and then Restructure of Existing Loans with a share of 11%.
- In terms of credit products, Invoice Discounting was the top demanded product in 2018, making up 26% of the

total demanded credit products. Enterprises often resort to this product so they can enhance their received cash flow, and as a result enhance their capability to pay the salaries of their employees, suppliers' bills, and face any other issues related to delayed receivables.

- Non-performing loans in Qatar registered 5.9%, with micro-enterprises having the least non-performing loans ratio (4%) in comparison with medium-sized and small-sized enterprises which had an NPL percentage of 6.7% and 11.7% respectively.

