QATAR UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

REDEFINING THE FUTURE OF BANKING IN QATAR: A COMPREHENSIVE ANALYSIS OF THE MASRAF AL RAYAN MERGER AND ITS IMPLICATIONS

BY

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A Project Submitted to

the College of Business and Economics

in Partial Fulfillment of the Requirements for the Degree of

Master of Business Administration

June 2024

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ABSTRACT

AL-DERBAST, ALDANA A., Masters : June : 2024,

Master of Business Administration

Title: Redefining the Future of Banking in Qatar: A Comprehensive Analysis of the Masraf Al Rayan Merger and Its Implication

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In the fast-paced realm of Qatar's banking sector, the merger between Masraf Al Rayan and Al Khalij Commercial Bank P.Q.S.C. has drawn the interest of industry observers and market participants. This paper analyses the importance of the merger and its consequences on the stability of Qatar's banking sector and the overall economy. The report offers unique insights into the dynamics of bank mergers in Qatar by conducting a comprehensive analysis of motives, challenges, and outcomes. The study integrates captivating narrative with thorough examination, providing an intricate portrayal of the before and after the merger situation. The study examines the financial performance of the combined bank, the complexity of integrating post the merger, and the broader influence on the banking sector. The study utilizes financial overviews and ratio analysis, to provide a detailed analysis of the impact of the merger on the financial well-being of the merged firm and its potential consequences for the stability of Qatar's banking system. The findings not only enhance our comprehension of this particular merger but also provide insights into the wider context of bank mergers in Qatar's dynamic economy. This study is to provide resource for professionals who are interested in gaining insights into the intriguing realm of bank mergers and their effects on Qatar's banking industry and economy.

DEDICATION

To Dad, Mom, Mohammed, Lulu, and Abdulrahman

ACKNOWLEDGMENTS

"To *my father*, who has always been a role model, and to *my mother*, who continuously motivated me to achieve my dreams: your love and support are the heart of my dreams, for which I am eternally grateful.

To my backbone—*Mohammed*, *Lulu*, and *Abdulrahman*—I am always thankful for your unwavering support.

To *my best friends*, thank you for standing by my side, even on the days when I couldn't stand by myself.

I am deeply grateful to my friend, *Shaikha*, who's support throughout this journey has truly made a difference.

To *my manager and colleagues*, thank you for your continuous support and guidance throughout my Master's program.

A special thanks to my advisor, *Dr. Jalal Qanas*, for his expertise, guidance, and patience throughout the research process. Thank you for giving me the opportunity to discuss and explore our topic.

Finally, I would like to acknowledge Qatar University for providing all the necessary resources to meet the requirements of this study."

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Chapter 1: Introduction

Background

Qatar has implemented its National Vision 2030, which aims to elevate the nation to an advanced state by 2030 strategically. This transformation is intended to ensure the country's self-sufficiency in development and the provision of a superior quality of life for its citizens and future generations. Achieving human development, social development, a diverse economy, and environmental sustainability is contingent upon various factors (General Secretariat For Development Planning, 2008). The financial industry has witnessed significant growth due to the extraction of oil and natural gas. Out of sixteen banks, four of them are Islamic banks in Qatar's banking industry. These Islamic banks function in conjunction with domestic conventional and foreign banks, as well as specialized banks. Qatari Islamic banks dominate the market, boasting over 66 branches both locally and regionally. Three of these Islamic banks rank in the top ten internationally in terms of asset size. As of 2022, Qatar Islamic Bank ("QIB") holds the fifth position among the major Islamic banks worldwide. Masraf Al Rayan is ranked sixth, while Dukhan Bank holds the tenth position (Beit Al Mashura FCC, 2022).

Mergers and acquisitions ("M&A") are widespread worldwide, with a notable rise in industrialized nations and a clear presence in the GCC countries. Mergers and acquisitions ("M&A") have garnered significant attention since the late 1980s, following the substantial downfall of corporations and the ineffectiveness of business strategies that had a profound impact on the global economy (Bindabel, W, 2020). M&A have been recognized as a strategic move for growth and consolidation in the financial sector. Thus, Qatar's Islamic banking sector have experienced two bank consolidations. The first merger between International Bank of Qatar ("IBQ") and Barwa Bank, now known as Dukhan Bank, completed in 2019. The second merger between Al Khalij Commercial Bank P.Q.S.C. ("Al Khaliji") and Masraf Al Rayan,

still known as Masraf Al Rayan, completed in 2021.

The Problem and Motivation of this Study

Mergers are a prevalent global occurrence, encompassing a wide range of deals that span from local to cross-border, occurring in both developed and developing nations. Consider Qatar as an illustrative case of a developed nation with the highest GDP per capita globally. The country has had significant economic growth and has made major investments in various sectors like infrastructure, education, healthcare, and commerce. These investments are seen in the development of highways, the Hamad port, the Hamad International Airport project, the Hamad Medical Corporation, the Qatar Foundation, and many other projects. In addition to these investments, Qatar’s future is anticipated to contain increased merger and acquisition transactions within its comparatively expansive banking industry, relative to the nation's magnitude. However, thus far, there are just two merger and acquisition deals that have occurred. Therefore, it is imperative to analyze the effects of the bank merger on the stability and resilience of Qatar’s banking sector and the economy, taking the case of Masraf Al Rayan as the main study of this research.

The Significance of the Research

The research on mergers and acquisitions is predominantly confined to specific sectors and areas. Hence, locating materials that delve into merger and acquisition instances and analyzing the ramifications of these transactions on the banking industry and overall economy in the Gulf Cooperation Council (“GCC”) nations poses a considerable challenge. The concept of mergers and acquisitions continues to be novel in Qatar's banking sector, irrespective of its scale and the prominent entities operating within it. It is imperative to analyze and investigate the effects of the Masraf Al Rayan merger case on the banking industry and the economy to guide potential future bank mergers within the industry.

Research Goal and Purpose

The objective of this study is to examine the role of mergers and acquisitions within the Gulf Cooperation Council (“GCC”) framework, focusing specifically on the case of Qatar. Considering the merger of Masraf Al Rayan, this analysis focuses on Qatar's banking sector, encompassing its products, prominent participants, and market rivalry. The primary aim of this research paper will be to investigate the unique case at hand.

- Determine the primary metrics for evaluating the financial performance after mergers.
- Provide a comparative analysis of the performance of bank mergers in Qatar and assess their impact on financial stability.
- Analyze the constraints and restrictions associated with bank mergers.
- Suggest strategies to shape the future of bank merger in the banking industry of Qatar.

Research Question

The primary objective is to address the question, “How do bank mergers impact the overall stability of Qatar’s banking sector and the broader economy?” This study examines the correlation between mergers in Qatar's banking industry and their potential impact on the nation's financial stability. This provides an opportunity to examine different facets, including the underlying reasons for bank mergers, their consequences for the banking industry's stability, the influence on systemic risk, and the overall effect on the nation's financial system.

Research Approach

The study is divided into seven chapters. The first chapter is titled "Introduction," in which the study's background and motivation are examined. The second chapter, titled "Literature Review," offers a comprehensive analysis of mergers and acquisitions,

encompassing their definitions, motives, post-performance aspects, and constraints. Chapter three, titled "Methodology," outlines the specific approach employed to conduct a study on the financial stability following mergers and acquisitions. Chapter four of the study is titled "Findings," whereby the significant findings that would substantiate the suggestions are emphasized. The fifth chapter, titled "Recommendation," addresses the research issue and offers a recommendation. The sixth chapter, titled "Limitations and Future Works," provides an account of the absence of contextual information for the entirety of the study, and suggestions for further research on the topic. The last chapter is “Conclusion,” which provides a wrap up of the whole study and highlights the most important findings.

Chapter 2: Literature Review

Definitions: Mergers, Acquisition, Economic Stability, Financial Stability and Overview on Banking

The concept of merger and acquisition, though not new, has gained significant visibility within the economy. Its application as a new operational method is particularly noteworthy in many emerging markets (Abumughli & Aysan, 2022). A merger, for instance, is the result of two or more firms combining to form a single legal entity under a corporate name. On the other hand, an acquisition occurs when a company acquires ownership of another company's stocks to gain control over its management (Abumughli & Aysan, 2022). While M&A has universal implementations, its prevalence and impact are most pronounced within the banking sector (Abumughli & Aysan, 2022).

The definition of economic stability may be elusive, but its importance cannot be overstated. It can be succinctly described as the absence of substantial oscillations or unpredictability in critical macroeconomic indicators. These indicators include a low

unemployment rate and generally stable prices devoid of significant or accumulating fluctuations, such as low inflation (Ğdikut Ozpence, 2017). Furthermore, consistent levels of economic expansion are evaluated by increments in outputs, resources, production capacity, and consumption. The stability of these macroeconomic factors is a crucial determinant of the overall economic performance and profile of a nation (Ğdikut Ozpence, 2017).

In two distinct methods, financial stability may be defined. The first definition of *financial stability* is the absence of significant fluctuations, strain, or emergencies within the financial system. The second definition provides a more comprehensive assessment by characterizing financial stability as the seamless operation of the intricate network of connections between financial markets, associated stakeholders, and applicable legal, fiscal, and accounting structures (Gadanecz & Jayaram, 2009). Financial stability pertains to a macroeconomic state in which the financial system demonstrates resilience against disruptions and resolves financial difficulties (Gadanecz & Jayaram, 2009).

The banking sector is an exceptional segment of the economy, as it controls financial affairs across all sectors, and investments often occur within it. There is an evident shift in the attitude towards M&A worldwide; today, the best performers in the economy are engaged in M&A (Abumughli & Aysan, 2022). The shift of attitudes is directly linked to changes in micro and macro-economic factors that arose due to globalization. Scholars also propose that the inception of banks can be attributed to the innate desire to facilitate lending and savings (Abumughli & Aysan, 2022). Nevertheless, circumstances have been altered to include investments, real estate transactions, and financial services provided by the government, among other things that Banks offers (Abumughli & Aysan, 2022).

Characteristics of Merger and Acquisitions

Various categories of mergers and acquisitions; nonetheless, it is necessary to ascertain the specific types that pertain to the business sectors of the involved organizations. A horizontal merger refers to consolidating two companies operating within the same industry (Rompotis, 2015). Horizontal mergers involve corporations making significant endeavors to enhance their market share inside their initial operational area or to extend their commercial operations to additional geographical locations. They also do not result in significant changes to products and services (Rompotis, 2015). However, the occurrence of such mergers may result in a decrease in rivalry among enterprises, leading to the rationalization of prices and an enhancement in the quality of products and services. Overall, it facilitates the expansion of oligopolistic or monopolistic markets (Rompotis, 2015).

In contrast, a vertical merger is characterized by the absence of overlap between the acquiring corporation and the targeted enterprise within the same industry (Rompotis, 2015). This particular form of merger exemplifies the strategic objective of a corporation to expand its operations into novel economic areas, sometimes known as a "conglomerate merger" (Rompotis, 2015). Furthermore, vertical mergers manifest in either a forward or backward direction. Another aspect of mergers and acquisitions (“M&A”) pertains to the classification of firms involved, namely whether they are private or public companies, commonly known as "privatization" (Rompotis, 2015). Suppose the transaction involves a publicly traded corporation. In that case, its shares are removed from the stock market due to violating regulatory mandates when a single buyer acquires most of a company. This stipulation facilitates the expansion of shareholder diversity inside the market.

Furthermore, the question arises as to whether a purchase or merger is amicable

or antagonistic. The classification is contingent upon the consent of the target entity to the transaction. Suppose the buyer does not consent to the purchase offer. In that case, the transaction is commonly known as a "hostile takeover," in which the buyer forcefully assumes complete authority over the purchasing company (Rompotis, 2015). The contract's classification is contingent upon how it is conveyed and interpreted by the corporation's stakeholders. An alternative form of transaction is called a "reverse takeover," wherein a smaller corporation assumes control of the management of a more prominent firm that predates the purchasing entity (Rompotis, 2015). Likewise, we have the "reverse merger" concept, which allows privately held corporations to transition into publicly traded companies (Rompotis, 2015). A "buyout" refers to a form of acquisition in which larger corporations assume control over smaller entities to use their industry-specific knowledge and experience (Rompotis, 2015). This is also known as using the collective resources of the smaller organization. The term "Leveraged buyout" pertains to a firm's expansion and advancement through debt (Rompotis, 2015). Put differently, the chosen method of financing entails bank loans or any other type of debt, which will simplify the acquisition process. It is well recognized as a high-risk endeavor that typically leads to unsuccessful outcomes rather than successful ones.

Additionally, a "joint venture" can be classified as a form of merging (Rompotis, 2015). This phenomenon arises when multiple organizations reach a consensus to pursue a shared goal despite being regarded as high-risk commercial ventures characterized by uncertainty. Finally, it is essential to note that a "demerger" or "spin-off" is a form of merger that occurs when a single corporation divides into two distinct listed entities (Rompotis, 2015).

All in all, the different types of mergers, the various categorizations, and dimensions all have different securing control over the companies' assets, which apply

different tax and regulatory requirements. The entity is responsible for defining its merger and acquisition motive and applying the suitable form to achieve its objectives. Both mergers and acquisitions provide opportunities and ideal conditions to use human capital in expertise, socialization, communication, work culture, skills, and personality traits. Therefore, when mergers and acquisitions ("M&A") take place, they encompass not just tangible advantages but also intangible benefits that are manifested in the overall success of the M&A process (Abumughli & Aysan, 2022).

Merger and Acquisitions Motives

Existing research has identified various elements that motivate corporations to participate in mergers and acquisitions. The influence of capital market dynamics is a significant component, as evidenced by the correlation between the increase in mergers in the United States and the capital market condition (Rompotis, 2015). The surge in acquisitions has also been shown to be influenced by the misevaluations in the stock market. The primary impetus for mergers and acquisitions is the anticipation that the acquiring companies can enhance their financial performance. The advantages of mergers and acquisitions ("M&A") can be categorized into three distinct groups: the immediate, intermediate, and enduring effects (Rompotis, 2015).

In the short run, advantages encompass several financial and economic indicators, such as earnings per share ("EPS") and price-to-earnings ratio ("P/E"), which serve as indicators of the shareholders' value (Rompotis, 2015). In the short term, there can be beneficial effects on liquidity, production costs, and sales. Operating synergies result from combining economies of scale, vertical integration, and transferring managerial skills and information. Companies may also engage in mergers and acquisitions ("M&A") to broaden their operations, enhance shareholder value, and hold managers accountable through purchases (Rompotis, 2015). Additionally, cross-

selling opportunities would emerge, resulting in a boost in sales volume and profitability. Another incentive is to overcome the obstacle of entering the market and obtain tax advantages.

In the medium run, mergers and acquisitions can generate economies of scale and scope, leading to cost reduction, enhanced profit margins, and increased bargaining leverage with suppliers (Rompotis, 2015). It is assumed that the financial performance of the acquiring firm would likewise experience improvement, resulting in a reduction in debt levels and an enhanced capacity to obtain cash. Over time, mergers and acquisitions (“M&A”) can improve a firm's competitive standing, notably when the transaction reduces the number of market participants. If synergies are implemented effectively, there will be enhanced prospects for productivity and profitability (Rompotis, 2015).

Major firms engaged in mergers and acquisitions are more equipped to confront the challenges of globalization and international competition and are frequently involved in hostile takeovers (Rompotis, 2015). Considering the underlying reasons for mergers and acquisitions and the resulting benefits, the concept of M&A generates additional value for the acquiring company's shareholders. However, the implications for the business and society are complex and occasionally controversial, requiring careful examination (Rompotis, 2015).

Theories Related to M&A

Mergers and acquisitions (“M&A”) are linked to several theories that have the potential to make significant contributions to the business sector. The theories mentioned include Differential Efficiency Theory ("EDT"), Inefficient Management Theory ("IMT"), and Agency Theory (Letaifa, 2017; Raja, 2018). The Efficient Dominance Theory (“EDT”) posits that when a company demonstrates high levels of effectiveness and operates

within the same industry, the more productive firm will enhance the efficiency of the less efficient firm by facilitating a takeover (Abumughli & Aysan, 2022). EDT emphasizes the importance of both organizations achieving comparable levels of efficiency to enable a successful and productive merger and acquisition. IMT, however, focuses on situations when there is an acknowledged inefficiency in a corporation, and M&A can be used to improve the organization's efficiency level (Abumughli & Aysan, 2022).

In addition, the concept of M&A can also be elucidated by the Agency Theory, which posits that bosses or agents are motivated by a desire to acquire and are essential participants in the process (Abumughli & Aysan, 2022). Therefore, enhancing their values and responsibility is vital to maximize their contribution to the company's productivity and efficiency (Abumughli & Aysan, 2022).

In another view, mergers and acquisitions are defined based on decisions planned and made during the integration process. The scholar Nahavanadi et Malekzadeh (1988) proposed typologies with various degrees to specify the degree of autonomy and interdependence between firms that participate in M&A operations. The four main types suggested by the Scholar Nahavanadi et Malekzadeh are separation, assimilation, integration, and deculturation.

1. Separation refers to the act of maintaining the culture and organizational practices of the target business, allowing it to stay independent from the acquiring entity. In this scenario, the company being acquired may transform into a subsidiary of the acquiring company;
2. Assimilation refers to the scenario in which the target firm fully embraces the identity, culture, and organizational practices of the acquiring company;
3. Integration refers to the process in which the stakeholders of the target company

aim to maintain their organizational values, cultures, and practices while also being included in the acquirer's organization and value system structurally;

4. Deculturation refers to the absence of cultural convergence amongst companies.

The world of merger and acquisition (M&A) is not a static one, but it is a dynamic field that is constantly evolving. The definition and structures connected with M&A differ across scholars (Haspelagh & Jemison, 2012; Thelisson 2022). For instance, Haspelagh and Jemison (1991) analyzed the levels of relationship between two merging enterprises in terms of the strategic outcome of the operation. Their belief is that value is solely generated after a merger or acquisition takes place, and the outcome of the execution of M&A is influenced by the process of integration. The requirement for organizational autonomy and strategic interdependency arises from three forms of integration, namely rationalization, characterized by high dependence and low autonomy (Thelisson, 2022). Preservations exhibit a low level of dependency and possess a strong sense of autonomy, since both organizations are cautious and protective of their own unique features. Symbiosis refers to the coexistence of dependency and autonomy (Thelisson, 2022). These variations in definitions are not just academic debates, but they are the key to understanding the nuances of M&A.

The Impact of M&A on Firms' Performance

The effects of mergers and acquisitions vary between financial and non-financial outcomes. The outcomes of mergers and acquisitions are significant and crucial for the newly formed company. Nevertheless, when the decision to merge takes place, the primary objective for any company in any sector is to optimize profit and generate value. The study "The Impact of Merger and Acquisitions on Value Creation: An Empirical Study" examines the effects of post-merger and acquisition activities on value creation by the authors Isha Gupta, Nandita Mishra, and Naliniprava Tripathy.

The authors employ the System Generalized Method of Moment model to analyze a dataset consisting of 64 Indian firms spanning from 2012 to 2018. The authors emphasize that mergers and acquisitions ("M&A") have substantially restructured industries globally. This has prompted policymakers and scholars to investigate several disciplines to understand the underlying causes.

The M&A market, despite its cyclical nature, holds significant potential for value creation. The key findings (Gupta et al., 2021) indicate a significant contradiction to the classical concept that suggests the acquisition of enterprises diminishes shareholder value rather than enhancing it. Contrary to this, according to the study's findings (Gupta et al., 2021), mergers provide a favorable value for the acquiring companies post-merger. Additionally, delayed synergy has a beneficial impact on future synergies. Put simply, the sales of a firm in the previous year have a favorable impact on the sales of the firm in the following year. Furthermore, if the acquiring company successfully integrates and harnesses the resources of the acquired company, it can generate value and achieve synergy.

The study (Gupta et al., 2021), also establishes the significant role of managers in the M&A process. Managers should not anticipate all the potential issues that may develop throughout the merger (Gupta et al., 2021). Hence, when contemplating acquisitions, businesses must clearly communicate the synergy agenda to board members and management. Managers will bear a higher level of responsibility for the growth, acquisition, and integration of the firm (Gupta et al., 2021). They will carefully analyze the potential synergies, timetable, and integration process, including the post-merger procedures. Mergers and acquisitions ("M&A") often provide acquiring or merging organizations with fresh expertise that can be leveraged to enhance the firm's competitive advantage and generate value. Acquiring knowledge can enhance various

areas such as technology, research and development, communication, and the overall corporate culture through the dissemination of knowledge (Gupta et al., 2021).

On the other hand, the study “The Impact of Mergers in Banking Evidence from a Nationwide Sample of Federally Chartered Banks,” by Scholar Peter S. Rose (1987), highlights a significant problem in the existing research literature on this subject. It emphasizes that most literature is descriptive or relies on empirical tests restricted to specific regional samples and cannot be generalized. The researcher presents an alternative perspective on the outcomes of mergers and acquisitions that challenges the idea that such integration would result in the highest possible profits or value creation. The present literature suggests that the incentive for M&A activities includes protecting market shares, imitating aggressive financial organizations, and the desire for qualified management and low-cost market extensions.

Subsequent research also revealed that the purchasing banks were typically larger than those they purchased (Rose, 1987). Acquiring banks exhibited higher risk and lower liquidity than acquired banks, primarily emphasizing consumer loans and savings accounts with fewer transactional services. Ultimately, the literature stresses the lack of evidence supporting traditional risk-return arguments on the financial consequences of merger choices. Consequently, research indicates that mergers do not enhance efficiency or profitability, contrary to popular belief (Rose, 1987). The study The Impact of Mergers in Banking Evidence from a Nationwide Sample of Federally Chartered Banks (1987) also reveals that commercial bank mergers have experienced a rise in recent years. This trend may be attributed to various variables, including deregulations, cost pressures, and heightened operating risks. This conclusion is drawn from analyzing relevant literature and a study on national bank mergers.

Furthermore, it was discovered that acquiring banks had inferior operational

efficiency and productivity compared to non-merging banks (Rose, 1987). This indicates that the motivation behind mergers was influenced by reasons unrelated to performance or efficiency. Furthermore, the merger did not lead to an improvement in profitability. However, it did increase credit availability, loan losses, deposit services, and interest rate risk. However, it could have delivered a significant advantage to the general population. Finally, merger operations raised the risk level for stockholders and corporate and real-estate credit. (Rose, 1987).

Factors Influences Post-Merger Performance

The evaluation of companies' performance before and after a merger is a subject of debate and a method of assessing the effectiveness of mergers. Consequently, a firm's performance plays a crucial role in determining the outcome of mergers or acquisitions. Hence, it is critical to comprehend the financial implications of mergers and acquisitions and the various aspects that will impact the performance after the merger. Prior research has been undertaken to comprehensively understand the performance outcomes of many organizations across different geographical areas following merger transactions (Ajabani, 2023). Borodin et al. (2020) examined the financial performance of corporations in the United States and Europe, revealing a decrease in Return on Sales after mergers and acquisitions.

The study conducted by Mahesh and Prasad (2012) examined Indian airline firms and observed that there was no significant improvement in the return on equity ("ROE"), earnings per shares ("EPS"), net profit margin, interest coverage, and dividends per share of the merged entities following the merger and acquisition ("M&A"). Yadong et al. (2019) observed that the performance of Chinese companies tends to enhance following mergers and acquisitions ("M&A"). The researchers concluded that both horizontal and conglomerate mergers exhibit a favorable

correlation with company performance. Beverly et al. (2019) assessed non-finance firms listed in the Indonesian market and found that M&A deals showed enhanced financial performances in terms of profitability ratios and debt ratios. Nevertheless, minimal fluctuations were observed in expenses, activities, and liquidity ratios).

Various factors can impact a company's performance following a merger (Ajabani, 2023). The factors are as follows:

1. Financial Performance: The evaluation of a company's performance after M&A transactions heavily relies on its financial performance. The performance indicators, namely return on sales (“ROS”), return on equity (“ROE”), earnings per share (“EPS”), net profit margin, interest coverage, and dividend per share, serve as reflective measures.
2. Efficiency: Efficiency ratios play a crucial role in evaluating the efficiency of merged entities. Ratios on operational economies of scale assess how much a merger has enhanced efficiency levels.
3. Profitability: Profitability ratios are utilized to evaluate if mergers and acquisitions have resulted in improved financial performance and higher sales after integration compared to the levels before integration.
4. The assessment of financial stability and risk associated with the newly merged firm involves examining debt and leverage ratios. The new business's post-merger performance is significantly influenced by the current debt structure and leverage of both enterprises.
5. Liquidity ratios are crucial in assessing a company's capacity to satisfy its immediate financial obligations. They are also used to assess a company's longevity in terms of its performance after a merger.
6. Type of Merger: Many sorts of mergers can influence organizations' financial

performance. Mergers can be classified into three main types: horizontal, vertical, or conglomerate.

7. Market Conditions: Market factors and industry dynamics exert a direct influence on companies' success following a merger. Elements such as market share, competitiveness, and regulatory environment are encompassed within this framework.
8. Financing Method: Post-merger performance is influenced by the choice of financing mechanism for mergers and acquisitions, which may include cash, debt, mixed, or stocks.

Overall, the eight criteria directly influence the performance of post-merger or acquisition deals. Every aspect holds equal significance and is present in every merger and acquisition transaction as an evaluation of the newly formed firm (Ajabani, 2023).

Numerous scholarly works have mainly concentrated on examining financial performance in merger and acquisition transactions, with limited attention given to the intangible advantages of such deals. For instance, Shakoor, Nawaz, Zulqarnain Asab, and Khan (2014) and Ansari, Bilal, Khan, and Tahir (2021) have explored how banks utilize mergers and acquisitions (M&A) to bring about substantial improvements in their competitiveness. In contrast, Kayani, Javed, Majeed, and Shaukat (2013) argued that mergers and acquisitions (M&A) resulted in a decrease in shareholder wealth and had a detrimental effect on the financial performance of banks. The prevailing corporate landscape is predicated upon the notion that knowledge holds significant value as a commodity. In essence, information serves as a valuable instrument for investment. Mergers and acquisitions are also motivated by the transfer of essential company information. The technological acquisition exemplifies the facilitation of knowledge transfer, serving as a strategic mechanism for fostering innovation and enhancing the

capacity of the acquiring entity with the targeted entity.

Moreover, the capacity of an acquiring entity to effectively transmit and leverage knowledge from the targeted entity directly impacts its capacity to cultivate a lasting competitive advantage. Expertise and knowledge transfer have been characterized by numerous scholars, with the basic idea being that knowledge transfer and sharing are interconnected with knowledge management. The primary objective is to leverage intellectual assets and provide them accessibility across many organizations (Dzenopoljac et al., 2022). Knowledge transfer is often regarded as a crucial factor in determining the success of post-merger endeavors. Numerous studies have underscored the arduous yet valuable nature of the knowledge transfer process.

Managerial knowledge encompasses the established procedures and expertise required for the execution and accomplishment of tasks. In contrast, tacit knowledge pertains to unspoken or unexpressed knowledge that originates from one's intuition (Dzenopoljac et al., 2022). In essence, tacit knowledge refers to explicit knowledge acquired by firsthand observations, diligent efforts, personal experiences, and collaborative endeavors. Knowledge transfer mainly relies on the recipient's absorptive capacity, which refers to their ability to receive and assimilate information or expertise. The transmission of tacit knowledge between managers and their staff was found to have a good impact on the overall innovation performance of the organization (Dzenopoljac et al., 2022).

The research titled "Managerial Tacit Knowledge Transfer: A potential outcome of cross-border mergers and acquisitions in the GCC banking sector" also demonstrates that the degree of tacit knowledge transfer in M&As is influenced by various factors (Dzenopoljac et al., 2022). These factors include the quantity and worth of M&A transactions coordinated or completed by the manager, the frequency of in-person

meetings, the manager's cultural intelligence, their international experience, and the number of languages they speak (Dzenopoljac et al., 2022). Hence, it is evident that there exists a strong correlation between knowledge transfer and the traits and capacity of managers to transmit knowledge to their subordinates effectively. Mergers and acquisitions encompass intangible outcomes confer advantages to the acquiring entity in formulating strategic objectives. However, managers involved in the M&A process also assume a significant role in disseminating expertise and imparting knowledge to their employees, thereby augmenting the overall benefits of the M&A transaction (Dzenopoljac et al., 2022).

Profitability Considerations in Bank Mergers

Profitability is a significant outcome of the post-merger that is examined by numerous finance scholars. The merger between JPMorgan and Chase is deemed successful as it led to enhanced profitability through the use of synergies and operational efficiency. However, there have been mergers that failed to provide any additional value, like as the combination of BinckBank and Alex (Hartog, 2024).

Profitability is achieved through three distinct features of mergers. Mergers and acquisitions (M&A) can result in the creation of synergies and opportunities for reducing costs. Banks can obtain economies of scale and cost reduction by integrating activities, removing redundancies, and streamlining processes. Consequently, the company's profitability is enhanced by optimizing efficiencies and operational performance. Furthermore, M&A transactions offer banks the chance to broaden their market reach and diversify their sources of income. Acquiring banks have the ability to obtain entry into untapped consumer categories, geographical areas, or specialized offerings of products and services. This has the potential to result in an increase in revenue and improved profitability (Hartog, 2024). Furthermore, mergers and

acquisitions (M&A) can also enable banks to acquire a competitive edge in the market. Banks can enhance their position and distinguish themselves from competitors by procuring a target bank that possesses distinctive capabilities, cutting-edge technologies, or significant intellectual property. This can enhance long-term financial viability (Hartog, 2024).

Conversely, the lack of increased value in those circumstances may likewise be attributed to diverse rationales. Mergers and acquisitions frequently entail the assimilation of distinct organizational cultures, systems, and processes. Inadequate integration can result in disruption, attrition of skilled individuals, and operational inefficiencies, all of which can have a detrimental effect on profitability. Thoroughly evaluating integration risks and creating a detailed integration plan are essential in order to minimize these difficulties (Hartog, 2024). Additionally, the act of paying a higher price for the target bank might lead to a situation of overvaluation, where the anticipated advantages and synergies fail to materialize. Financial underperformance and a decrease in profitability can result from overvaluation. Conducting comprehensive and meticulous research and precise evaluation assessments are necessary in order to prevent spending an excessive amount for acquisitions. Moreover, placing a higher emphasis on profitability in M&A deals may disregard the significance of strategic alignment and concentration. An exclusive emphasis on profitability may result in neglecting other crucial criteria such as customer satisfaction, innovation, and long-term sustainability (Hartog, 2024). It is imperative to evaluate the extent to which the merger is in line with the bank's overarching strategy and long-term objectives.

When assessing the profitability of a merger after it has taken place, it is crucial to consider historical trends, regulatory frameworks, and the impact of digitalization on the financial industry. Cost savings, technological integration, and market expansion

play a crucial part in boosting profitability. Therefore, it is crucial to maintain a harmonious equilibrium between profitability and other variables, while meticulously assessing the potential hazards and advantages.

M&A Risks and Preventive Measures

The authors Dr. B. Neeraja, Dr. Arti Chandani, Dr. N. Srividhya, and Dr. Rizwana Atiq (2020) of the paper titled "Financial Risk in Merger and Acquisition after Lockdown" underscore the inherent risk connected with M&A activities, highlighting that the uncertainties inherent in such transactions might result in significant financial threats. The risks above are irreversible and can disrupt a company's financial resources in the event of an unsuccessful merger or acquisition choice. Aspects of the merger process that are vulnerable to financial risks are emphasized in the paper. The initial phase encompasses the preparatory step, wherein the selected company undergoes an assessment and due diligence process. Inaccurate information collection and subsequent decision-making during this stage may give rise to financial risks. The second stage is the operational phase, when financial risks may emerge throughout the integration process of both organizations once the merger is initiated. The risks above encompass subpar financial performances, the inability to attain synergistic effects, and escalated prices. The subsequent phase, known as the post-integration stage, occurs after the completion of the merger, during which financial risks persist. Post-merger risks encompass financial issues, cultural conflicts, and challenges in comprehending the financial advantages arising from the merger (Neeraja et al., 2020).

Moreover, the article offers various precautionary steps as a recommendation to mitigate or restrict the financial hazards associated with mergers and acquisitions (Neeraja et al., 2020). The purpose of these measures is to aid organizations in effectively managing the uncertainties and potential risks that arise from merger and

acquisition deals. The measures are as follows:

1. Thorough Due Diligence: It is imperative to perform comprehensive due diligence before proceeding with any merger and acquisition transaction. The process involves examining the specific firm of interest and comprehensively evaluating its financial well-being, assets, liabilities, and potential dangers linked to the organization. This measure aids in the identification of potential red flags and hidden hazards that could potentially affect the process and outcome of the deal. It is recommended that comprehensive due diligence is performed during the preparatory phase.
2. Financial Assessment: The financial assessment evaluates the financial capability and robustness of both the acquiring and targeted organizations. It is imperative to assess their financial ratios, cash flows, profitability, and debt levels to comprehend their economic sustainability and compatibility.
3. Synergy Analysis: Examining synergy is crucial to fully capitalize on the merger's potential benefits. Companies must ascertain the specific domains in which the integration of resources, skills, and operations will yield cost reduction, revenue expansion, and enhanced overall performance. This study is to be conducted throughout the operational phase of the merger to assess the financial advantages and risks associated with the merger.
4. Strategies for Managing Risk: Mergers and acquisitions (“M&A”) are strategic choices requiring risk assessment. Preparing contingency plans, implementing monitoring systems, and establishing risk mitigation measures are critical for acquiring and targeting companies. To mitigate risks throughout the operational phase, it is imperative to identify significant financial risks, including market volatility, regulatory changes, integration issues, and operational disruption.

5. Contractual Safeguards: Including contractual safeguards inside the merger agreement can preserve the interests of both parties involved. Thoroughly formulated contracts can offer monetary safeguards and guarantee that both parties' expectations are satisfied. Provisions on purchase price modifications, earnout agreements, warranties, indemnification clauses, and other similar elements may be incorporated within contracts.
6. Professional Guidance: Seeking assistance is essential in a merger and acquisition agreement, as it enables organizations to benefit from the knowledge of individuals with diverse backgrounds who can provide financial, legal, and operational guidance. Additionally, they could offer valuable perspectives and evaluate potential hazards, reducing risks associated with mergers and acquisitions.

Implementing these preventive measures is crucial and warrants careful attention. Nevertheless, it is imperative to tailor and modify these strategies per each organization's specific needs, industry dynamics, prevailing market conditions, and strategic goals to address and minimize financial risks effectively.

Bank Merger within the GCC Context

Established in 1981, the Gulf Cooperation Council ("GCC") comprises six nations that share the Gulf border: Qatar, Saudi Arabia, United Arab Emirates, Oman, Kuwait, and Bahrain. The council's primary aim is to guarantee its members' well-being and advancement in terms of wealth and economic growth. The stakeholders and governing bodies of the Gulf Cooperation Council ("GCC") hold the belief that the facilitation of cross-border economic operations plays a crucial part in the continuous endeavors towards economic progress (Gattoufi et al., 2014). The revenue generation from the exploration and extraction of oil and gas resources in the region has resulted in a

significant increase in liquidity, notwithstanding the limited availability of resources and investment prospects. The council endeavors to offer boundless investment opportunities to generate employment opportunities to enhance the socio-economic well-being of its constituents. The financial sector plays a crucial role in strengthening socio-economic circumstances. However, the presence of small banks is a significant drawback that exposes banking units to a high level of susceptibility when competing with giant multinational banks (Gattoufi et al., 2014). Consequently, governmental entities are actively promoting the process of municipal and regional consolidation (Gattoufi et al., 2014). Given this perspective, merger and acquisition endeavors have been seen as a strategy to enhance the performance and investment capacities of banks in the Gulf Cooperation Council ("GCC") region since the early 1990s (Gattoufi et al., 2014).

Despite the GCC's ambitions to join the World Trade Organization ("WTO"), the region's stance on foreign bank licensing has resulted in limited participation of foreign banks, except for the Dubai International Financial Centre ("DIFC"), which permits 100% foreign ownership. In the past four decades, a limited number of banks in the Gulf Cooperation Council ("GCC") region have effectively established their regional platforms, except for Ahli United Bank ("AUB") in Bahrain and the National Bank of Kuwait ("NBK"). Despite the presence of Saudi banks in the region's largest economy, their involvement in cross-border activities was limited. In 1997, the GCC permitted national banks to establish branches in other member nations. This juncture marked a pivotal moment in the advancement of financial integration within the council, as it laid the groundwork for the subsequent adoption of the World Trade Organization's ("WTO") policy on the liberalization of financial services (Gattoufi et al., 2014).

Bank mergers in the Gulf region primarily involve consolidating financially struggling banks with financially prosperous banks rather than a deliberate integration aimed at capitalizing on economies of scale (Gattoufi et al., 2014). The primary objective of major commercial banks operating in the Gulf Cooperation Council ("GCC") region was to enhance their global presence by venturing into areas such as Southeast Asia. Notable examples include Kuwait Finance House, Al Rajhi Bank, Qatar International Islamic Bank, which operates in Malaysia, and Qatar National Bank, which operates in nations like Yemen, Libya, and Tunisia. The current trend of mergers in the banking industry of the Gulf Cooperation Council ("GCC") is purportedly motivated by the recognition of the need to expand the scale of banking entities (Gattoufi et al., 2014). Academics argue that regulatory bodies should promote mergers in preparation for the forthcoming liberalization of the banking industry, which would result from joining the World Trade Organization (WTO) (Gattoufi et al., 2014).

Over the past four decades, the world has seen significant transformations, impacting various domains, including social, economic, political, environmental, and more. Ala' Azmi Abumughli and Ahmed Faruk Aysan (2022) have emphasized the influence of the COVID-19 regulation on the process of bank mergers and acquisitions within the Gulf Cooperation Council ("GCC") region. The pandemic served as a pivotal moment when several individuals had to deviate from their original goals to guarantee their companies' long-term viability and the overall economy. Before the pandemic, the GCC underwent mergers and acquisitions in its traditional way. The phenomenon became particularly evident in 2014 since there was a significant decline in oil prices, leading to an overall increase in value. In 2018, the GCC concluded ninety-two acquisitions worth USD 33.7 billion, resulting in a significant increase of nearly 79% in several M&A transactions. This development resulted in a positive economic impact

on local investors. However, most of those transactions took place in the UAE. Amidst the pandemic, the banking sector in the GCC encountered obstacles such as the decrease in oil prices and the necessity to adopt risk management strategies. As an illustration, nearly fifty banks in the UAE were compelled to cease operations. At the same time, there was a 10% rise in the value-added tax in Saudi Arabia to offset the financial losses caused by the pandemic. Furthermore, in all GCC nations, many expatriate employees were dismissed to save expenses incurred during that period (Abumughli & Aysan, 2022).

However, banks have modified and restructured their business structures in response to the COVID-19 pandemic to mitigate its impact (Abumughli & Aysan, 2022). This involved the delegation of operations to external parties and the restructuring of programs to enhance risk management. Additionally, their attention was directed towards enhancing risk assessment methodologies through improved Know-Your-Customer ("KYC") exercises. To cater to a wide range of consumers, the banking sector sought to revamp its revenue growth strategies by shifting from the business acquisition model ("BCM") to the customer acquisition model ("CAM"). Moreover, mobile-friendly websites and applications facilitated a noticeable transition towards digital operations and digital customer acquisitions ("DCA"). Significantly, mergers and acquisitions were regarded as a strategic reaction to the difficulties arising from the coronavirus pandemic (Abumughli & Aysan, 2022), which was precipitated by deteriorating economic circumstances and volatility in oil prices that directly impacted the Gulf Cooperation Council (GCC). M&A transactions facilitated the alignment of banks' operations, enabling them to offer competitive interest rates, enhance operational efficiency, and achieve reduced profit margins. The Gulf Cooperation Council (GCC) governments have implemented several steps to help the

banking sector, aiming to ensure its sustained operations and overall prosperity (Abumughli & Aysan, 2022).

In the "M&A Open Innovation and Its Obstacle: A Case Study on GCC Region" study, Wardah Bindabel (2020) offers another perspective on the link between GCC and mergers. The author emphasized the socio-economic characteristics of the Gulf Cooperation Council ("GCC") region, characterized by significant intervention and dominance in business enterprises owned by influential families. Additionally, the author noted that private sector businesses in the GCC are subject to government interference and regulations, as well as the presence of a monarchical political system and legal systems based on Islamic law. Moreover, a substantial disparity exists in the characteristics of Islamic and non-Islamic companies. The effectiveness of implementing mergers from GCC countries can be attributed, in part, to the variations in cultural manifestations and religious practices. The impact of cultural and religious disparities on governance practices on a worldwide scale has been extensively examined, leading to variations in governance patterns within the Gulf Cooperation Council ("GCC") region (Bindabel, 2020).

Consequently, these disparities have impeded cross-border mergers and acquisitions in the Gulf nations. The cultural dynamics of the Gulf countries present a significant obstacle in the agency dilemma, which arises from the need for consistent and standardized interpretations of Shariah rules or principles. The issue arises when individuals assume that Shariah can be interpreted flexibly to accommodate various circumstances. Nevertheless, the potential for misuse and abuse occurs when individuals prioritize their self-interests (Bindabel, 2020).

The author, Wardah Bindabel (2020), conducted semi-structured interviews with key individuals such as Board of Directors ("BOD") members, lawyers, and

Shariah Scholars from 15 different financial institutions in the GCC. Several obstacles to the cross-border M&A between Islamic and non-Islamic firms were identified as follows:

1. Shariah Compliance: The participants emphasized that implementing Shariah corporate governance presents a hindrance to cross-border mergers and acquisitions ("M&A") between Islamic and non-Islamic firms, particularly when adhering to Shariah rules that restrict the extent of such transactions.
2. Weak Systems of Disclosure: The findings indicate that the lack of openness and inadequate disclosure standards pose challenges for partners in evaluating Islamic enterprises' financial performance and risk.
3. Dependency: Dependency in the Gulf Cooperation Council ("GCC") region can manifest in two forms: reliance on important families or government intervention. This dependency can impose constraints on decision-making autonomy and pose difficulties in effectively aligning the interests of various stakeholders within these institutions.
4. Corruption in Compliance: Corruption in compliance, which encompasses bribery, favoritism, and unethical actions aimed at assuring adherence to regulatory standards, compromises the integrity of merging businesses.
5. Family Members on the Board: Family members in executive positions, such as the Board of Directors ("BOD"), give rise to nepotism or conflicts of interest. Therefore, the integration procedures are influenced by the impact on decision-making processes.
6. Weakened Communication with External Auditors: Insufficient communication between Islamic companies and external auditors can result in difficulties in cross-border M&A transactions. Effective communication with auditors is

crucial to guarantee precise due diligence and financial reporting.

7. Different Interpretations of Shariah: Varying interpretations of Shariah among academics might introduce complexities in negations and agreements regarding M&A conditions and important clauses, thus impeding the transaction's efficiency.
8. Lack of Alternative Islamic Financial Instruments: Insufficient availability of alternative Islamic financial services restricts the range of choices for structuring M&A deals, making it challenging to harmonize company strategy and economic arrangements.

These factors have been evident as obstacles or barriers to the successful integration of M&A, whether cross-border or within the same context (Bindabel, 2020). The example of integration within the Islamic Shariah context reflects those cultural dynamics that always play a role in the direction of M&A transactions. The world has taken further steps in formulating global harmonization of corporate governance practices. Thus, the Islamic world is also expected to begin working on standardizing the Shariah principles and harmonizing Islamic governance (Bindabel, 2020).

The Reality of Bank Mergers in the GCC

The paper titled "Whether the purported benefits of banking mergers in GCC countries are genuine or illusory," authored by Hassan E. A., underscores the crucial need for further investigation into the potential drawbacks or illusory nature of the claimed advantages of bank mergers in GCC countries. This is particularly important due to the limited availability of empirical studies on the effectiveness of these mergers. The lack of anticipated gains from bank mergers is a topic of discussion attributed to several factors (Hassan, 2021). One factor contributing to the dependability of financial information is the adherence to accounting standards when preparing post-merger

financial accounts for banks. In the majority of merger and acquisition (M&A) transactions, the International Financial Reporting Standards (IFRS) 3 is the established approach. However, this method has the consequence of reducing the dependability of information provided to shareholders (Hassan, 2021). One primary concern related to IFRS 3 is disclosure, as the acquiring party is required to provide information that enables shareholders to assess the financial consequences of the purchase agreement. Another concern is that it mandates that all business transactions be regarded as acquisitions, necessitating the identification of a buyer or seller, which is still ambiguous. The third concern pertains to the selection of accounting procedures and metrics for mergers and acquisitions (M&A). The two primary approaches are "Pooling of Interest" and "Purchase." However, the decision ultimately lies with the accountant, and this choice has an impact on the dependability of the financial information due to the absence of clear guidelines (Hassan, 2021).

The document highlights the complex nature of the banking sector in the GCC, characterized by the presence of relatively small banks and a fragmented domestic market. This is evident from the huge number of banks in comparison to the size of the economies. National banks are highly vulnerable when competing against larger and well-established multinational banking firms (Hassan, 2021). The Gulf Cooperation Council (GCC) continues to heavily depend on oil money, which has adversely affected the financial performance of institutions. In addition, the implementation of new regulatory reforms, such as the adoption of Value Added Tax (VAT), leads to higher compliance expenses for domestic banks, ultimately eroding their profitability and competitiveness (Hassan, 2021). The study also emphasizes actual studies on banking mergers in the U.S. and Europe that failed to yield the anticipated advantages, such as increased profitability and efficiency. This demonstrates that there are shared obstacles

in various banking sectors that hinder the realization of advantages after a merger. In addition, the intricate nature of integration is another factor contributing to the failure of most bank mergers to achieve the expected enhancements in efficiency and profitability. Consolidating two substantial banking institutions, including operations, IT systems, corporate culture, staff, and other factors, is a formidable undertaking (Hassan, 2021).

The article "Assessment of mergers and acquisitions in the GCC banking" examines the influence of mergers and acquisitions on the performance of commercial banking in GCC countries. This is done by analyzing ratios (Gattoufi et al., 2014). An academic named Gattoufi (2014) demonstrated that the primary drawback of bank mergers in the GCC is the absence of substantial enhancements in performance. The analysis of financial measures (Gattoufi et al., 2014) reveals that the influence of M&A on the operational performance of merging banks needs to be more conclusive.

Establishing a definitive connection between banks engaged in mergers and acquisitions (M&A) and the effect of these mergers on their operational performance proved challenging. Bank acquisitions within the GCC (Gattoufi et al., 2014) can bring about integration issues, lower competitiveness, regulatory concerns, and employee disruptions as potential downsides. Due to their interdependence, the disadvantages of bank mergers within the GCC are a crucial factor that must be considered when assessing the resilience and stability of the banking sector and the economy.

Chapter 3: Methodology

According to Kerlinger (1978), the research design is the systematic framework and approach used to address research questions and manage variability. It serves as the fundamental structure for conducting research, including the gathering, quantification, and analysis of data (Bhattacharyya, 2006). Various research design options are

available, such as exploratory, descriptive, and causal research. After selecting the research design, the next step is data collection. Data can be classified as primary data, which is original information obtained directly by the researcher, or secondary data, which encompasses published and unpublished sources like official publications, journals, books, and historical documents. It is essential to assess the reliability and appropriateness of secondary data before using it (Bhattacharyya, 2006). Once the research design is established and the data is collected, the researcher can analyze the results and conclude the research problem. The research design and data collection methods are critical components that shape the overall research process and findings (Bhattacharyya, 2006).

This chapter provides an overview of the methodology employed to address the research issue. The primary aim of this study is to investigate the effects of banking mergers on the financial stability and performance of Qatar's banking sector and broader economy. The study examines the integrity of the theories positing that all mergers result in favorable financial performance. The objective of this analysis is to investigate the bank merger in Qatar, address the case of Masraf Al Rayan, and offer novel insights into the merger landscape of the Gulf Cooperation Council ("GCC").

Research Design

When considering the analysis of economic performance and stability, the descriptive research method was deemed the most appropriate option. Descriptive research, as defined by academicians W. Lans and D.J.M. van der Voordt (2002), is a methodological approach that aims to gather knowledge by accurately describing different elements of reality. It involves the objective recording of information without the aim of providing further explanations or advancing hypotheses. The primary aim of descriptive study is to offer impartial and unbiased perspectives on the current state of

affairs, rather than advocating for a certain ideal state. In essence, descriptive research does not seek to generate hypotheses or construct a theory; rather, its objective is to provide a comprehensive depiction of the existing state of reality (Lans, W., & van der Voordt, DJM., 2002). This research methodology can be utilized for a broad range of research objectives, including policy formulation, strategic planning, and programmed implementation. It emphasizes the need of precisely depicting facts, individuals, objects, and so on. The selection of methodology is contingent upon the researcher's decision to either investigate a wide array of subjects with limited data or undertake comprehensive investigations on specific instances. The second methodological approach is systematics, as a significant portion of descriptive research aims to accurately depict reality through a systematic methodology (Lans, W., & van der Voordt, DJM., 2002).The approach relies on theoretical frameworks and is contingent upon the specific objectives of the study. On the other hand, the phenomenological technique deliberately avoids a systematic approach and is well-suited for exploratory research (Lans, W., & van der Voordt, DJM., 2002).

This study is focused on investigating the financial performance and stability of the entities involved in the merger, as well as the banking sector and the overall economic performance of the State of Qatar. To achieve this, a comprehensive financial analysis will be conducted for specific time periods: the pre-merger period (FYE 2020), the post-merger period (FYE 2022 and 2023), and the lack time, which is the time between the announcement and completion of the merger (FYE 2021). The analysis will be based on the published audited financial statements. For Al Khaliji bank, due to the unavailability of audited financial statements, the financial analysis was based on press releases for the year end of 2020 and 2021. A closer look at key financial ratios will also be considered using the CAMEL approach.

The CAMEL approach is another ratio-based model that has received attention in the banking literature. Different scholars had different views on the use of the CAMEL approach. For example, Cole and Gunther (1998) conducted a study on CAMEL and agreed that the approach provided helpful information. Academics like Hirtle and Lopez (1999) additionally believe that CAMEL ratings are highly confidential and shall only be available to a bank's executive management to project and plan business strategies. Barr et al. (2002) recognized that "CAMEL rating has become a concise and indispensable tool for examiners and regulators" (Altan et al., 2014). In other words, regulators use CAMEL to evaluate and assess a bank's performance as it ensures the bank's healthy conditions by considering different aspects of the bank's using various resources such as financial statements, funding sources, macroeconomic data, budget, and cash flow (Altan et al., 2014).

CAMEL is an acronym for five components representing the banks' safety and soundness:

1. (C) Capital Adequacy: Capital adequacy ratios measure the amount of a bank's capital expressed as a percentage of its risk-weighted credit exposures.
2. (A) Asset Quality: The degree of financial strength is examined through the quality of assets. Maintaining asset quality is an important element of banking, and measuring asset quality is to ascertain the component of non-performing assets as a percentage of the total assets.
3. (M) Management Quality: Management quality or efficiency is another essential approach to examining a bank's survival and growth. Management assessment reflects whether the financial institution is able to react to financial stress.
4. (E) Earning Ability: Earning ability reflects the quality of a bank's profitability

and its ability to retain earnings. It provides insight into the bank's sustainability and future growth.

5. (L) Liquidity: Liquidity is one of the most crucial aspects of measuring a bank's ability to meet its financial obligations. Banks need to maintain a balanced level of liquidity to avoid declining earnings. A high liquidity ratio shows that the bank is more affluent, and an adequate liquidity position is where an organization can obtain sufficient liquidity by increasing liabilities or converting current assets to cash.

For the purpose of the research, we have calculated the ratios below for Masraf Al Rayan, using the CAMEL approach categorization to measure the bank's financial stability before and after the merger.

Table 1: *Financial Ratios Guidance*

Ratios	**Formulas**
Capital Adequacy	
Credit Adjusted Risk (CAR)	$\frac{Tier\ 1\ Capital + Tier\ 2\ Capital}{Risk\ Weighted\ Assets} \times 100\%$
Primary Ratio	$\frac{Equity\ Capital}{Total\ Assets} \times 100\%$
Debt Ratio	$\frac{Total\ Liabilities}{Total\ Assets} \times 100\%$
Asset Quality	
Non-Performing Loans	$\frac{Total\ of\ Non-performing\ assets}{Net\ financing\ assets}$

Management Quality	
Return on Assets (ROA)	$\frac{Net\ Profit}{Total\ Assets} \times 100\%$
Return on Equity (ROE)	$\frac{Net\ Profit}{Total\ Equity} \times 100\%$
Earning Ability	
Earnings-Per-Share (EPS)	$\frac{Net\ Profit}{Number\ of\ Shares}$
Net Interest Margin (NIM)	$\frac{Interest\ Income - Interest\ Expense}{Total\ Assets} \times 100\%$
Liquidity	
Quick Ratio	$\frac{Cash\ Assets}{Total\ Deposits} \times 100\%$
Loan-to-Deposit Ratio (LDR)	$\frac{Total\ Loans}{Total\ Deposits + Equity} \times 100\%$

The next step will be analyzing the banking sector's performance and stability while comparing the performance of Masraf Al Rayan based on the industry's average. This will be done by using Qatar's banking sector report for 2022. PwC, one of the leading accounting firms worldwide, published the report. This will give an understanding of the banking sector in post-merger in 2022 and provide insight into where Masraf Al Rayan stands compared to other banks within the sector.

Moving forward, to complete the picture, the assessment of the broader economy of Qatar is necessary to examine the implications of bank mergers on the broader economic stability. This will be done by analyzing the financial stability report

for the year 2022 published by Qatar Central Bank. A financial stability report ("FSR") reviews the condition of the economic system, identifies and assesses risks to the system, and suggests market or policy changes (Wilkinson, Spong, & Christensson, 2010). Typically, FSR aims to promote financial stability by providing insights that allow central banks, regulators, and related stakeholders to anticipate systematic risks better and design effective responses. The report also aims to increase the transparency and accountability of the central bank (Wilkinson, Spong, & Christensson, 2010).

Once the implications of Masraf Al Rayan's merger on Qatar's banking sector and the broader economy are clear, recommendations will be provided to set a framework for other banks to guide and enhance the success of future mergers in Qatar's banking industry while maintaining the stability and resilience of the economy.

Chapter 4: Findings

Financial Analysis

Pre-Merger

Financial Overview for Al Khalij Commercial Bank P.Q.S.C. 2020 to Q3 2021

Al Khalij Commercial Bank ("Al Khaliji") P.Q.S.C. has released its financial statement for the year ending 2020, showing a net profit of QAR 683 million. This represents a 5.7% increase compared to the previous year, 2019. The press release, dated 27 January 2021, points out the bank's ability to withstand and achieve financial success in the face of the challenging conditions brought about by the coronavirus pandemic (Al Khalij Commercial Bank (al khaliji) P.Q.S.C., 2021a). The increase in revenue to QAR 1,433 million resulted from growth in the balance sheet and improved margins. The bank's earnings capacity is reflected positively, with a 6.2% growth, as evidenced by the increase of 0.01 in earnings per share. Operational efficiency saw improvement despite

an increase in expenses to QAR 370 million due to one-off items (Al Khalij Commercial Bank (al khaliji) P.Q.S.C., 2021a). However, this was offset by effective liability management. The NPL has seen a slight improvement, now at 1.71%, indicating a positive shift in asset quality. The CAR also improved to 19.4%, highlighting the bank's robust capitalization and ability to withstand potential financial crises. Deposits and loans both saw an increase, demonstrating the successful management of liquidity and the trust of depositors. With a strong emphasis on maintaining healthy operating margins, making careful provisions, and implementing strategic growth initiatives, the bank has positioned itself for future stability and expansion (Al Khalij Commercial Bank (al khaliji) P.Q.S.C., 2021a).

The press release dated 18 October"2021'emphasizes the bank's ongoing expansion in net operating income, assets, and effective margin management. Al Khaliji has announced its financial results for the third quarter of 2021, following shareholder approval of the merger (Al Khalij Commercial Bank (al khaliji) P.Q.S.C., 2021b). The net operating income of QAR is 1,093, with a 4% year-on-year growth. Operating expenses have decreased to QAR 238, indicating an improvement in the cost/income ratio, which now stands at 21.8%. Loans and deposits experienced solid growth of 11% and 7%, respectively, while total assets reached QR 58.5 billion. The CAR remained strong, reaching 20.3% for the third quarter. The bank's overall performance showcased a solid financial position and its capacity to move forward with strategic initiatives, such as the merger with Masraf Al Rayan. No additional financial updates were provided following the third quarter of 2021 (Al Khalij Commercial Bank (al khaliji) P.Q.S.C., 2021b).

Financial Overview for Masraf Al Rayan Year 2020

Masraf Al Rayan's financial performance has shown resilience and stability despite a challenging economic environment. The total income went down from QAR 5.2 billion to QAR 5 billion. This slight decrease can be attributed to the impact of global economic uncertainties on banking operations caused by the coronavirus pandemic. Net profit remained stable at QAR 2.18 billion, demonstrating the bank's effective management, cost control measures, and ability to execute its business continuity risk plan (Masraf Al Rayan (Q.P.S.C.), 2020). The bank's total assets increased from QAR 106 billion to QAR 121 billion in 2020, demonstrating its ongoing expansion and growth in various asset categories such as cash and balances with central banks, due from banks, and financing assets. The bank's overall obligations in 2020 have increased, with total liabilities reaching QAR 46 billion.

On the other hand, equity has experienced a slight increase, indicating a stable financial position and the ability to preserve capital regardless of economic conditions (Masraf Al Rayan (Q.P.S.C.), 2020). The bank's liquidity has significantly strengthened, increasing net cash from QAR 6.5 billion in 2019 to QAR 10.7 billion. In general, the performance of 2020 was characterized by its consistent profitability, growth in assets, and substantial equity position. Despite the challenges presented by the global economic environment due to the COVID-19 pandemic, the bank has successfully maintained a solid financial performance and sustained its growth (Masraf Al Rayan (Q.P.S.C.), 2020).

Financial Overview for Masraf Al Rayan Year 2021

In 2021, Masraf Al Rayan's total income has slightly risen. However, there has been a significant 200% increase in the net impairment losses on financing assets compared to

the previous year. Consequently, the net profit experienced a 21% decline in 2020, reaching QAR 1.7 billion. The aggregate value of assets increased from QAR 121 billion in 2020 to QAR 174 billion in 2021 (Masraf Al Rayan (Q.P.S.C.), 2021). The bank's lending activities have experienced expansion, with financing assets rising from QAR 85.9 billion to QAR 120.8 billion. The bank's investment portfolio has expanded by over QAR 12 billion, resulting in a total of QAR 32.7 billion in 2021. This increase is reflected in the growth of investment securities. The total liabilities have also risen from QAR 46 billion to QAR 51.6 billion, primarily due to a growth in client current accounts and other borrowings (Masraf Al Rayan (Q.P.S.C.), 2021). The bank's total equity experienced a modest increase, which is indicative of its financial stability and resilience and an improvement in its overall performance. The cash flow has slightly declined from QAR 10.7 billion to QAR 9.1 billion. However, the bank's total liquidity remains robust, guaranteeing its ability to fulfill short-term obligations. To summarise, Masraf Al Rayan experienced growth in assets and revenue in 2021, with a significant emphasis on lending and investment activities (Masraf Al Rayan (Q.P.S.C.), 2021).

In 2021, Masraf Al Rayan ("the bank") and Al Khalij Commercial Bank P.Q.S.C. ("Al Khaliji") reached a significant milestone by entering into a merger agreement (the "Merger") in January 2021. The merger officially occurred in November 2021 (Masraf Al Rayan (Q.P.S.C.), 2021).

Post-Merger

Financial Overview for Masraf Al Rayan Year 2022

In 2022, the bank successfully raised its net income from financing and investment activities, experiencing a growth from QAR 4.6 billion in 2021 to QAR 6.5 billion. The total expenses have risen by over QAR 2 billion, reaching a total of QAR 6.78 billion.

This includes the nearly QAR 134 million post-merger integration costs associated with consultant and external professional fees. Therefore, the annual net profit has declined from QAR 1.7 billion to QAR 1.3 billion (Masraf Al Rayan (Q.P.S.C.), 2022). The total value of assets has risen to QAR 118 billion by 2022, primarily due to the growth in financing assets and investment securities. The liabilities have slightly increased due to an increase in other borrowings, offset by a fall in Sukuk Financing. However, the liabilities remain reasonably stable because the client's current accounts have remained unchanged, indicating stable deposit levels. The bank's total equity has experienced a modest increase from QAR 14.3 billion in 2021 to QAR 23 billion in 2022, indicating a reinforcement of its financial standing and the retention of profits to facilitate future expansion (Masraf Al Rayan (Q.P.S.C.), 2022).

Masraf Al Rayan generally exhibited expansion in its assets and income, accompanied by a slight rise in equity. Nevertheless, the decline in net profit and critical profitability ratios such as ROE and ROA suggests that the bank should prioritize enhancing expense management and profitability.

Financial Overview for Masraf Al Rayan Year 2023

According to the audited financial statement for FYE 2023, the financial institution's overall economic performance is strong. This is evident from the increase in total income from FYE 2022, which rose from QAR 7.1 billion to QAR 9.6 billion. This growth represents 75% of the revenue generated from financing activities. Despite a rise in overall expenses to QAR 3.1 billion, there has been an 8% growth in net profit, reaching QAR 1.5 billion (Masraf Al Rayan (Q.P.S.C.), 2023). The bank's total assets have experienced a slight decline, decreasing from QAR 167.5 billion in FYE 2022 to QAR 164.2 billion in FYE 2023. This fall indicates a slight reduction in the bank's

overall asset base. The total liabilities have slightly reduced from QAR 54.7 billion to QAR 54.6 billion. However, there has been a 10% decrease in customer current accounts, which now stands at QAR 7.9 billion. This indicates a reduction in deposit liabilities, particularly in the sector of individual and corporate customers (Masraf Al Rayan (Q.P.S.C.), 2023). The shareholder's equity slightly increased from QAR 24.3 billion to QAR 24.8 billion. This was due to a rise in retained earnings, which indicates the bank's profitability throughout the year. The bank's cash position has experienced a notable increase, indicating a strengthened liquidity position, particularly in its operating and investing activities. The bank seems to be robust financially, with enhanced profitability and liquidity (Masraf Al Rayan (Q.P.S.C.), 2023).

Financial Ratios

Table 2: *Financial Ratios Calculations*

Year / Ratios	FYE 2020	FYE 2021	FYE 2022	FYE 2023
Credit Adjusted Risk ("CAR")	20.31%	21.15%	20.29%	21.84%
Primary Ratio	12.05%	14.17%	14.49%	15.11%
Debt Ratio	38.06%	29.65%	32.65%	0.33%
NPL	1.14%	1.70%	6.19%	5.94%
ROA	1.80%	0.99%	0.81%	0.90%
ROE	14.94%	7.35%	56.14%	5.97%
EPS	0.29	0.22	0.14	0.15
Net Interest Margin ("NIM")	2.48%	1.83%	2.51%	2.99%
Quick Ratio	10.26%	4.88%	5.23%	7.99%
LDR	110.52%	98.74%	101.97%	130.42%

Capital Adequacy

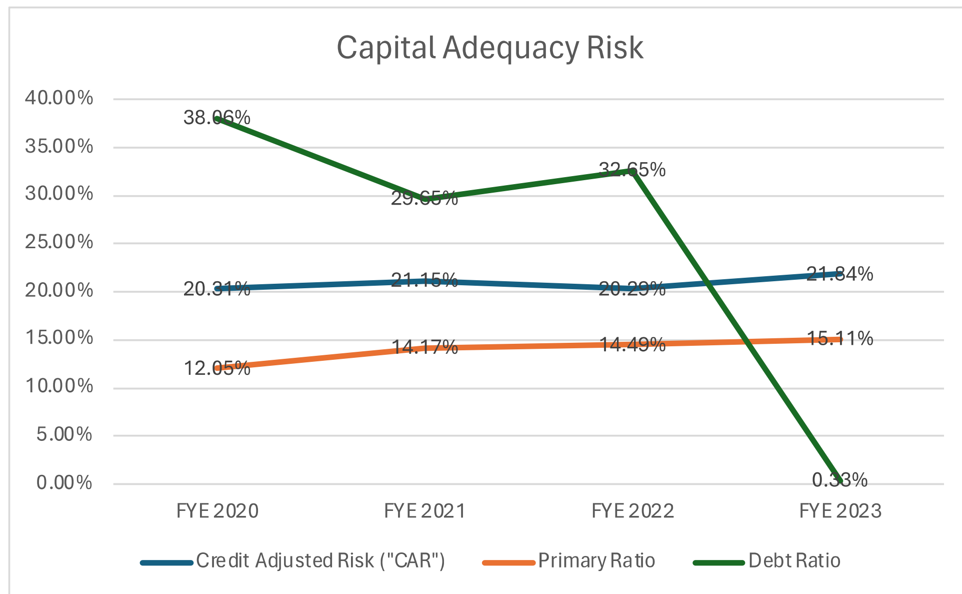

Figure 1: CAR calculations

The Capital Adequacy Ratio ("CAR") has increased from 20.31% in 2020 to 21.84% in 2023, indicating a significant improvement in credit adequacy. The bank possesses a resilient safeguard against potential losses, essential for maintaining stability and ensuring compliance with regulatory standards by surpassing the central bank's requirements. The debt ratio substantially decreased, dropping from 38.06% in 2020 to 0.33% in 2023. This indicates a reduction in leverage and alterations in the company's capital structure, accompanied by a strong equity position. The primary ratio, in contrast, has exhibited a progressive rise from 12.05% in 2020 to 15.11% in 2023. This indicates a favorable advancement in the bank's financial indicators and enhanced operational efficiency.

Asset Quality

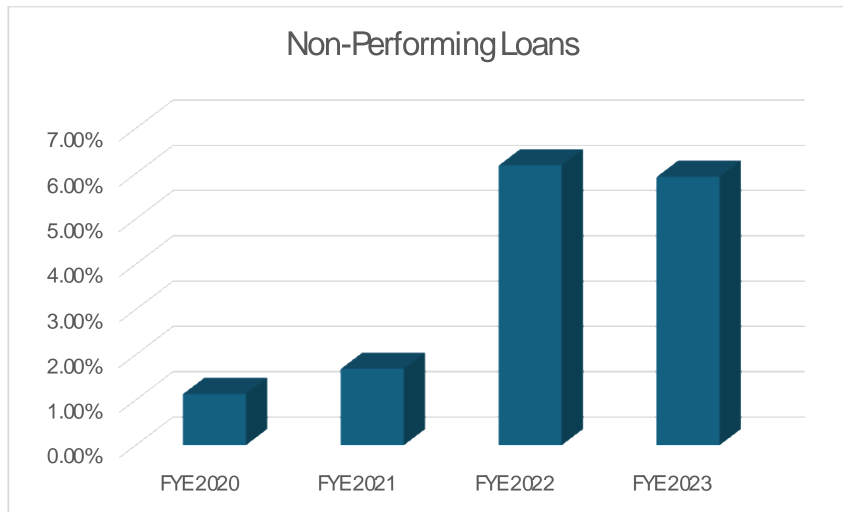

Figure 2: Non-performing Loans calculations

The asset quality situation deteriorated, with NPL increasing from 1.14% in 2020 to 5.94% in 2023. This indicates that a more significant proportion of the bank's loans are classified as Stage 3, which will impact future profitability and lead to higher debt provisions. The increase happened with the completion of the merger between Masraf Al Rayan and Al Khaliji in November 2021.

Management Quality

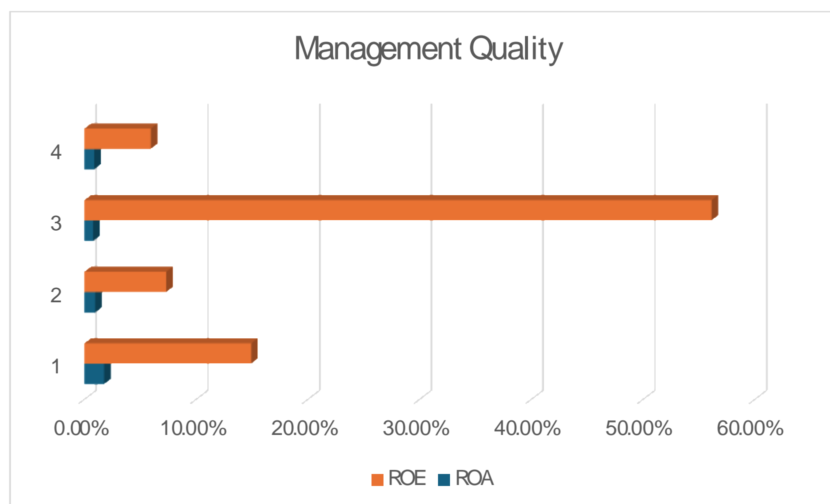

Figure 3: ROE and ROA calculations

The Return on Assets ("ROA") experienced reduced asset utilization efficiency, dropping from 1.80% in 2020 to 0.90% in 2023. The decline indicates suboptimal management in producing profitability from the bank's assets. The return on equity ("ROE") exhibited considerable fluctuations, reaching a peak of 56.14% in 2022 and declining to 5.97% in the subsequent year. The high level of volatility demonstrates substantial fluctuations in equity due to the merger between the Bank and Al Khaliji. This merger was accomplished by issuing 1,800 million shares of QAR 1 each by the bank, which were exchanged at a rate of 0.5 new Masraf share for each share of Al Khaliji. The newly issued share capital has been included in the existing shares of Masraf Al Rayan, resulting in a restructuring of the bank's equity due to a business combination (Masraf Al Rayan (Q.P.S.C.), 2021).

Earnings Ability

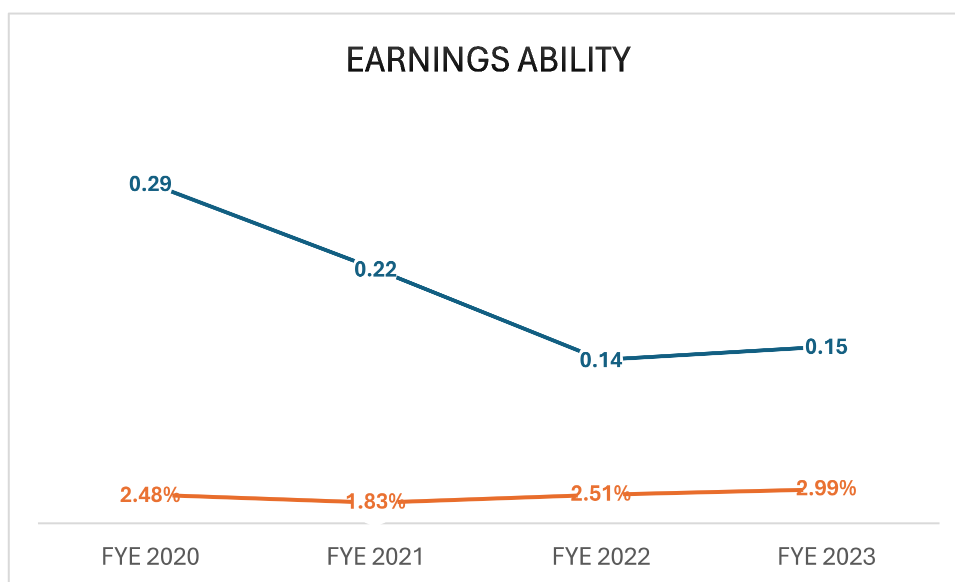

Figure 4: Earnings Ability overtime

The company's earnings capacity declined as the net interest margin ("NIM") dropped from 2.48% in 2020 to 0.58% in 2023. This fall indicates a reduction in profitability

resulting from the core banking operations. Earnings Per Share have declined from 0.29 in 2020 to 0.15 in 2023, signifying a diminished level of profitability.

Liquidity

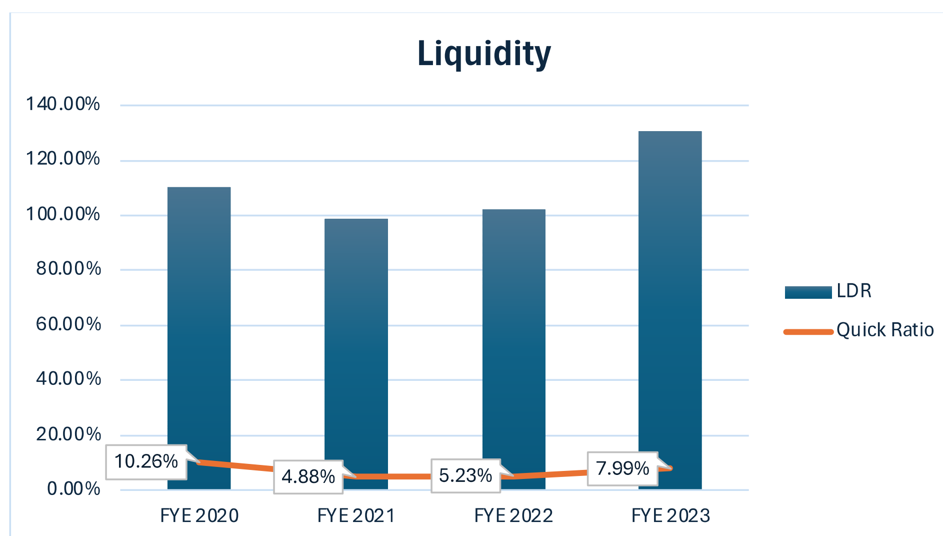

Figure 5: Liquidity Ratios

The company's liquidity has increased as the quick ratio improved from 10.26% in 2020 to 7.99% in 2023. Despite an initial downturn, the bank's performance has demonstrated a turnaround and its capacity to fulfill its short-term obligations without liquidating its assets. The Loan-to-Deposit ratio has risen from 110.5% in 2020 to 130.4%, suggesting a potential liquidity risk as the banks have increased their loan portfolio relative to their deposits. If many depositors were to withdraw their funds simultaneously, it would pose difficulties in managing liquidity.

Masraf Al Rayan and Banking Sector Stability Post Merger in 2022

2022 holds great importance for the banking sector in Qatar, given the deteriorating global economic conditions. From a financial standpoint, there has been consistent growth in balance sheet items and earnings metrics, even in the face of sector challenges. The stability indicators have remained positive (PwC Middle East, 2023). The US Fed's aggressive monetary policy tightening to curb inflation prompted the

Qatar Central Bank ("QCB") to implement similar policy rate increases. To some degree, credit growth was tempered due to the implementation of higher interest rates and removing pandemic support measures (PwC Middle East, 2023).

The bank's balances show a 3.6% Increase in assets, which indicates a growth in the bank's overall holdings. Loans and advances also saw a 3.3% increase, suggesting a positive trend in lending activities. Considering the current economic uncertainty and the impact of the World Cup, there was a slight decline in the rate of customer fund inflow (PwC Middle East, 2023). Conversely, there was a notable 25.6% surge in gross income due to the swift escalation in interest rates (PwC Middle East, 2023). The significant rise in operating income and profit before tax, with an increase of 18.1% and 20.2%, respectively, showcases the company's impressive operational efficiency. Profitability varied across the sector, with some banks successfully improving their financials while others faced margin compression and increased risk costs. The sector's stability seemed uncertain, as Loans-to-Deposits remained stable while non-performing loans saw a significant increase of 29.7%, suggesting a rise in distressed portfolios (PwC Middle East, 2023).

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%)

Figure 6: Stability measures of the Qatar's banking sector (PwC Middle East, 2023)

In 2022, the banking industry had an average Loans-to-Customers Deposits Ratio of 116%. Masraf Al Rayan, on the other hand, had a Loan-to-Deposits ratio of 102% in the same year. This puts the bank slightly below the average but indicates a stronger liquidity position than the industry's average. However, the bank loan's portfolio

surpasses deposits, indicating its dependence on alternative funding sources to support its lending operations (PwC Middle East, 2023). Additionally, this strategy poses a significant risk for banks if they cannot maintain sufficient liquidity to fulfill their obligations or lack alternative funding sources in the event of sudden deposit withdrawals. However, a high loan-to-deposit ratio can enhance a bank's profitability by earning more interest on loans than they spend on deposits (PwC Middle East, 2023).

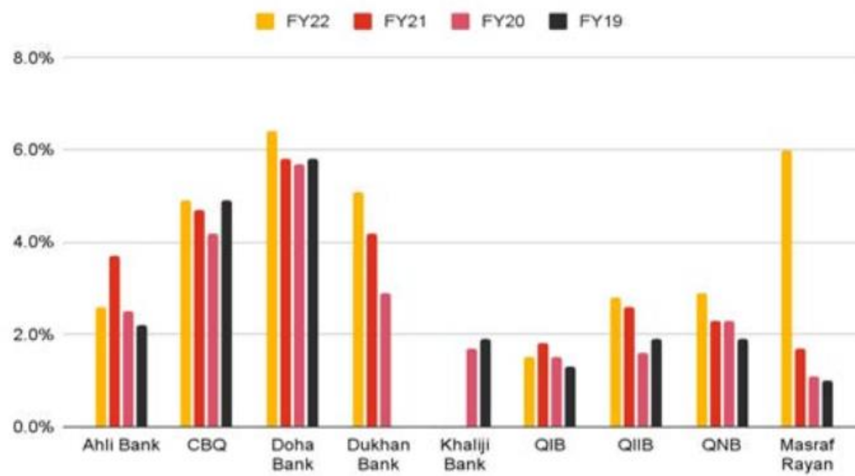

Figure 7: Non-Performing Loans / Total Loans in the industry (with 3-year CAGR) (PwC Middle East, 2023)

The lending portfolio within the sector indicates that the market is recovering from the effects of the pandemic. Some of the portfolios are classified as bad debt, and many loans were extended during this period due to difficulties in repayment caused by economic challenges in 2020 and 2021. Masraf Al Rayan significantly increases non-performing loans, resulting in a higher overall NPL ratio than other banks. This outcome results from general market trends and the absorption of Al Khaliji bank's non-performing loan portfolio (PwC Middle East, 2023). Nevertheless, there are concerns about potential risks in the industry, specifically regarding the decrease in coverage ratios of several banks like Dukhan Bank, QIIB, and Masraf Al Rayan.

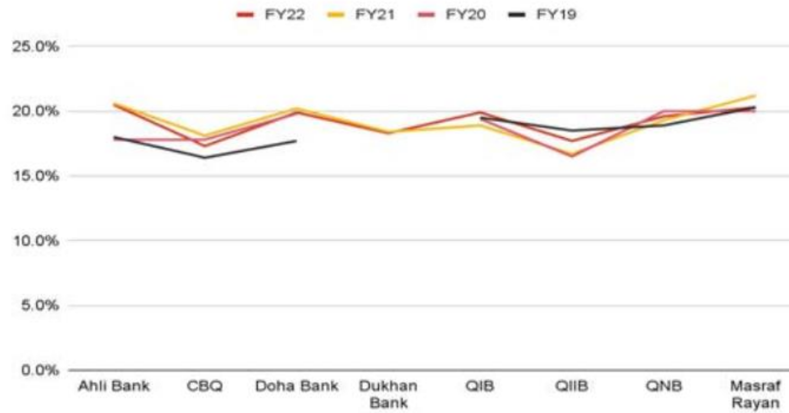

Figure 8: CAR in Qatar's banking sector (PwC Middle East, 2023)

The industry's average capital adequacy ratio for the year 2022 stands at 19.2%. At Masraf Al Rayan, the capital adequacy stands at 20.2%, slightly surpassing the average. However, all Banks within the sector have reported figures that exceed the statutory QCB and Basel thresholds. A strong capital position indicates that the banks in Qatar possess sufficient capital reserves to withstand potential losses, which is a positive sign. This is yet another encouraging sign of the stability and resilience of the banking sector. However, despite the impressive CAR ratio, the industry is seen as susceptible to a possible liquidity shock soon, which requires careful monitoring (PwC Middle East, 2023).

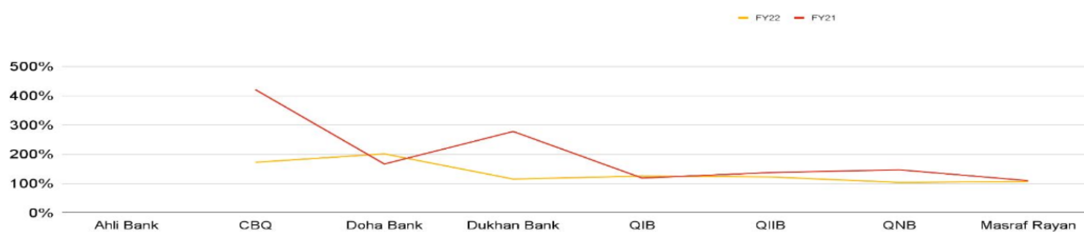

Figure 9: Liquidity coverage ratio across all banks (PwC Middle East, 2023)

The sector's average liquidity ratio stands at 135.6%, indicating a robust liquidity position from a regulatory standpoint. This suggests that the industry has a solid ability to handle liquidity challenges and minimize risks associated with liquidity. Masraf Al

Rayan's liquidity coverage ratio has remained at 107% over the years, reflecting a strong emphasis on retail banking. The bank's 107% LCR indicates a robust liquidity position and the ability to fulfill short-term obligations, even in high-risk conditions (PwC Middle East, 2023).

In 2022, the banking sector experienced a challenging environment, but its performance remained stable, with improvements in capitalization and high-quality liquid assets. Despite a significant increase in NPL, the sector's coverage ratio remained high, and its profitability indicators remained steady as efficiency indicators improved (PwC Middle East, 2023).

Qatar's Economy Stability Post Merger in 2022

The 2022 financial stability report published by Qatar's Central Bank provides insights into the domestic developments of the overall economy's performance. The report emphasizes the macroeconomic benefits in 2022 resulting from higher oil and gas prices and increased economic activities associated with the FIFA World Cup 2022. The financial performance showed robust resilience and a favorable prognosis in response to the global economic deceleration following the lifting of COVID-19 restrictions. The growth rate in real GDP increased by 4.2%, but the growth rate in nominal GDP increased at a greater pace of 31.5% due to the rise in oil and gas prices. The increase in GDP can be attributed to heightened economic activities in sectors other than hydrocarbons. The non-hydrocarbon industry includes construction, wholesale and retail commerce, transport and storage, and real estate, which have witnessed significant expansion due to the FIFA World Cup 2022 (Qatar Central Bank, 2022).

Inflation

Inflation in Qatar rose, but it remained significantly lower than the high high-double-digit levels observed in economies elsewhere. The average inflation rate in 2022 was

approximately 4-5%. The primary factors contributing to this heightened financial situation were the food and beverages sector, the entertainment and culture industry, and the housing, water, power, and other fuel industries (Qatar Central Bank, 2022). The analysis of inflation in Qatar indicates a consistent increase throughout the year, reaching its highest point in June. After that, there was a decrease in the rate before it peaked again in September. The year ended with an inflation rate of 5.9% in December 2022. Nevertheless, inflation is deemed to be controlled in Qatar's economy.

Real Estate Sector

The real estate sector remains vital to Qatar's economy, accounting for a substantial portion of total bank credit. The Real Estate Price Index ("REPI") tracks changes in real estate values, which can significantly impact the financial health of institutions. Following a decline in the last quarter of 2021, the REPI reversed its trend and climbed by 5.1% in December 2022 compared to December 2021, resulting in a higher value (Qatar Central Bank, 2022). The index exhibited fluctuations within the year 2022. It rose by 4.2% in the first quarter compared to the same period in 2021, then decreased by 5.5% in the second and third quarters of 2022. However, it rebounded with a 6.7% increase in the final quarter 2022. Bank lending to the real estate sector experienced a significant increase in 2022, from 1.4% in January to 15.2% in December (Qatar Central Bank, 2022).

Stock Market

In keeping with the worldwide pattern, Qatar's stock market fell in 2022 following a robust recovery after the pandemic. The QE general market index concluded the year with a decline of 8.1%, reaching 10,781 points, although still operating inside a recovery phase. The market capitalization experienced a significant decrease, falling by 8.9% compared to the end of 2021. The banking and financial services sector remained

the primary contributor, increasing its share to 44.2% of the total traded value. It was followed by the industrial, consumer goods and services, and real estate sectors (Qatar Central Bank, 2022).

Reserves

The reserve funds experienced a significant fall in 2022, contrasting with the overall gain of 5.2% observed in 2021. The decrease resulted from a reduction in primary liquidity caused by the issue of extra T-bills in the final quarter of 2022. QMR deposits and excess reserves decreased, while currency issued and required reserves increased. Conversely, the decrease in domestic assets is balanced by the increase in foreign exchange assets, contributing to the drop in reserve money (Qatar Central Bank, 2022).

Liquidity

The liquidity management framework of Qatar Central Bank ("QCB") maintained its consistency in 2022, relying on key policy instruments such as liquidity adjustment facilities, T-bill issuance, and the required reserve ratio. In 2022, the QCB has adjusted its policy rates, including QCBDR, QCBRR, and QCBLR, to match the increase in the policy rate set by the US Federal Reserve. This is particularly important because the Qatari Riyal is tied to the value of the US Dollar (Qatar Central Bank, 2022). The management of short-term liquidity was achieved by issuing T-bills. In contrast, the management of structural liquidity was accomplished by maintaining the required reserve ratio at a constant level of 4.5% for domestic deposits while increasing it for short-term non-resident deposits. The primary determinants that impacted liquidity in 2022 were foreign exchange inflows, government expenditure, and the expansion of deposits and credit. In summary, there was a positive liquidity balance of QR 12 billion, surpassing the previous year's figure. This was accomplished through the issuing of T-bills and an increase in reserve requirements for short-term non-resident deposits (Qatar

Central Bank, 2022).

Interest Rates

The increase in interest rates in 2022 is mainly caused by the policy rate hikes implemented by the QCB and the rate increases by the US Federal Reserve. The average overnight interbank rate ("AOIR") increased from 0.30% in 2021 to 1.84% in 2022, resulting in a broader range of 0.28% - 4.68% due to the rate hikes. The interbank rates for all maturities also rose, exhibiting a more comprehensive range of 0.16% - 5.75% compared to the range of 0.14% - 1.35% observed in 2021. Treasury bill yields remained lower than the policy rate set by the Qatar Central Bank (QCBDR) until September 2022, when the QCB increased the rates to be higher than the QCBDR. Additional short-term Treasury bill maturities were introduced then (Qatar Central Bank, 2022). In 2022, the interest rate dynamics in Qatar demonstrate the QCB's proactive efforts to align interest rates with its policy actions, manage liquidity, and ensure the effective transmission of monetary policy to the financial sector.

Masraf Al Rayan's Implications for Qatar's Banking Industry and Overall Economic Stability

Based on Masraf Al Rayan's financial performance in 2022 and an analysis of the banking sector and overall economy, Masraf Al Rayan's post-merger financial performance has several implications for Qatar's banking industry and overall economic stability. These implications include asset growth and diversification, lending and investment activities expansion, an increased competitive landscape, potential synergies, operational efficiencies, and improved profitability and capital adequacy.

Asset Growth and Diversification

Masraf Al Rayan witnessed a substantial surge in its total assets, rising from QAR 121

billion in 2020 to QAR 174 billion in 2021 after the merger. This translates to a remarkable 44% expansion in the bank's asset portfolio, which also represents 30.8% of the assets of Islamic banks in Qatar, and 9% of the total banking sector assets in Qatar (Beit Al Mashura FCC, 2022). The increase in assets enables banks to broaden their portfolio and enhance their ability to provide loans and invest in different sectors of the Qatari economy. This concept suggests that banks with a greater variety of investments are seen as more secure and able to weather localized shocks or downturns in specific sectors. This is because they can rely on the strength and stability of their overall asset portfolio. The enlarged asset size and diversity of Masraf Al Rayan can improve the overall stability and capability to absorb the risk of Qatar's banking sector, enhancing the system's ability to facilitate economic growth.

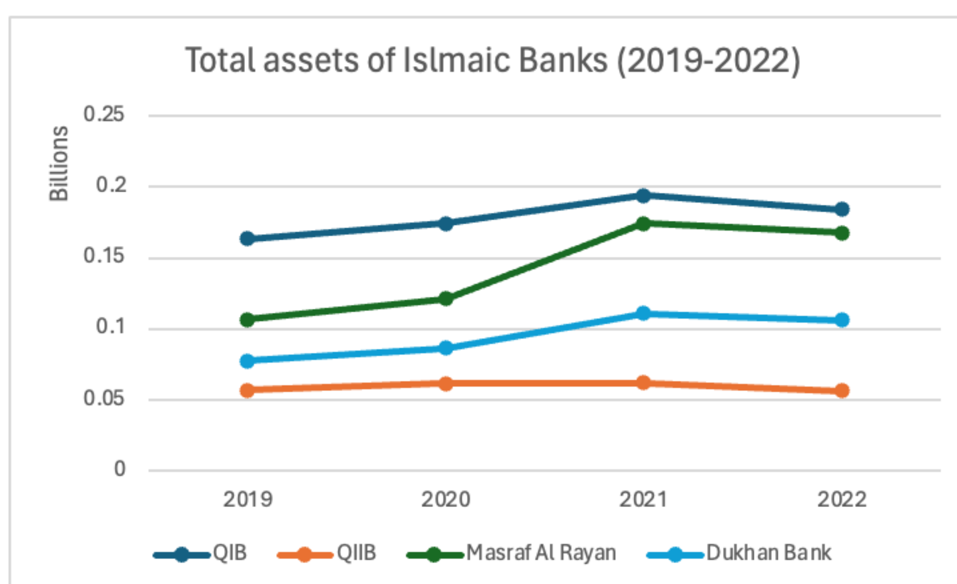

Figure 10: Total Assets of Islamic Banks (2019-2022) (Beit Al Mashura FCC, 2022)

Expansion of Lending and Investment Activities

Following the merger, Masraf Al Rayan witnessed an increase in its financing assets and investment portfolio, demonstrating its role in directing financial resources towards promoting economic activity. Expanding lending and investment operations can offer

Qatari firms, individuals, and industries more access to funding, essential for stimulating economic growth, investment, and diversification. Moreover, the enhanced accessibility of credit and investment capital can facilitate the development of firms, foster innovation, and generate fresh employment prospects, thus contributing to the economic advancement of Qatar. In addition, the bank's broad investment portfolio may efficiently allocate funds to strategic industries and projects aligned with Qatar's 2030 National Vision.

Increased Competitive Landscape

The consolidation of Masraf Al Rayan and Al Khaliji Bank has formed a prominent Islamic banking institution in Qatar, boasting a substantial market presence and a considerable share. This has enhanced the level of competition within the Qatari banking sector, prompting other banks to enhance their performance, expand their range of services, improve efficiency, and ultimately lead to a more dynamic and inventive banking business. Increased competition in the industry can also facilitate the development of new financial goods and services, thereby bolstering the overall resilience and responsiveness of Qatar's economic system.

Potential Synergies and Operational Efficiencies

The merger between Masraf Al Rayan and Al Khaliji Bank is anticipated to create operational synergies and efficiencies by capitalizing on economies of scale, optimizing resource allocation, and streamlining processes. Synergies can lead to enhanced profitability, reduced costs, and enhanced service offerings from the merged bank, resulting in improved pricing, product features, and an overall enhanced client experience. The enhanced operating efficiency of the merged bank can bolster financial stability and resilience, hence facilitating economic growth and development in the

country.

Profitability and Capital Adequacy

Despite a decrease in Masraf Al Rayan's net profit in 2022 due to costs associated with the merger, the bank's total equity and capital adequacy ratio ("CAR") have remained robust, hitting 20.3%. The bank's strong capital position and elevated capital adequacy ratio ("CAR") demonstrate its capacity to endure potential economic disruptions and sustain Qatar's financial stability by maintaining its lending and investment operations, even during market volatility. In addition, the merged Masraf Al Rayan's robust financing Adequacy Ratio ("CAR") can help bolster the bank's standing and creditworthiness in the global financial markets, potentially providing access to international financing.

Implications of the Merger on Islamic Banks in Qatar

The merger between Masraf Al Rayan and Al Khalij Commercial Bank P.Q.S.C. in Qatar was intended to boost the competitiveness of Islamic banks in the country. The merged bank has the ability to provide more competitive Islamic financial services both domestically and abroad by leveraging combined resources, skills, and networks (Indupurnahayu et al., 2022). The merger likely resulted in enhancements to the quality of Islamic financial services, encompassing aspects such as cost-effectiveness, improved managerial strategies, increased security measures, increased efficiency, profitability, streamlined transaction processes, improved liquidity, and greater transparency. Moreover, the merger may have effectively resolved capital constraints and promoted the growth of Islamic banks in Qatar. The partnership between Islamic and conventional banks in the merged entity likely facilitated a platform for reciprocal assistance and cooperation, so enhancing the overall progress and expansion of the

Islamic banking sector. In addition, the merger likely led to a more concentrated and comprehensive Islamic banking industry in Qatar. The merged business pooled together resources and experience to provide a broader selection of Islamic financial goods and services. This can accommodate the distinct requirements and inclinations of Islamic banking customers. The heightened visibility of the merged organization can help enhance public literacy and comprehension of Islamic finance, distinguishing Islamic banks from conventional banks, and fostering knowledge of the distinctive characteristics and advantages of Islamic banking and finance (Indupurnahayu et al., 2022). In summary, the merger of Masraf Al Rayan has the potential to improve the ability, efficiency, and competitiveness of Islamic banking in Qatar, therefore supporting the expansion and stability of the Islamic banking sector in the country.

How did Masraf Al Rayan Navigate Challenges Associated with Bank Mergers?

Diverse discussions have occurred regarding the limitations of bank mergers in the GCC banking sector, which explains why mergers within the GCC fail to deliver the anticipated benefits. The dependability of financial information in the aftermath of a merger is a principal concern. Applying IFRS 3 accounting standards may compromise the reliability of shareholder information. IFRS 3 mandates the identification of a buyer and seller, notwithstanding a merger being an equal's merger. The acquisition method of accounting utilized in the audited financial statements of Masraf Al Rayan for the fiscal year 2022 complies with the criteria outlined in IFRS 3 – Business Combinations. The transaction attributed the "accounting acquirer" designation to Masraf Al Rayan. This raises concerns regarding the potential for the audited financials to contain misleading information that could influence shareholders' assessments of the M&A decision. Nevertheless, the report's clear disclosure of the expenses incurred for post-merger integration indicates that the bank has effectively managed this obstacle.

In the immediate aftermath of the merger, Masraf Al Rayan encountered difficulties, as evidenced by the decline in net income in 2022; integration expenses impacted profitability. The decrease can be attributed to the substantial escalation in overall expenditures, which surpassed QAR 2 billion and accumulated to QAR 6.78 billion. 134 million QAR are allocated for integration expenses. In addition to improving its overall profitability, the bank should prioritize enhancing its expense management, as indicated by ROE and ROA. In contrast, the bank's capacity to recover is exemplified by its 2023 results, which indicate an 8% surge in net profit, notwithstanding an escalation in overall expenses to QAR 3.1 billion due to enhanced expense management and more robust income growth. Masraf Al Rayan is progressing towards greater profitability by steadfastly committing to cost management and optimizing operational processes. As previous research has noted, profitability and efficacy remain obstacles for banks operating in the GCC banking sector.

The post-merger financial performance of Masraf Al Rayan is a direct reflection of the aforementioned significant challenges and constraints encountered by banks in the GCC. Nonetheless, the bank's ability to recover in 2023 suggests that despite the substantial obstacles, the benefits of bank mergers can be realized through effective integration and management.

Chapter 5: Recommendations

The findings from the merger analysis between Al Khalij Commercial Bank P.Q.S.C. and Masraf Al Rayan have provided valuable insights into the impact of bank mergers on the overall stability of Qatar's banking sector and the broader economy. Considering the importance of the transaction and its implications, it is necessary to develop a set of practical and actionable recommendations to guide and enhance the success of future mergers in Qatar's banking industry. The recommendations are to assist banks,

regulators, and policymakers in navigating the complexities of the merger process and maintain the stability and resilience of the banking sector and the economy.

Ensure Merger Integration Stability

Banks, in general, must develop a comprehensive integration plan to manage the merger process effectively and minimize disruptions to daily operations. They also must allocate sufficient resources and expertise, such as consultants, to promote an easy integration plan, which includes technological and operational alignment with business objectives. In addition, before the integration, the merged entity must be monitored in terms of performance during the integration phase, and any emerging issues must be addressed instantly.

Strengthen Risk Management Frameworks

Banks must conduct thorough due diligence on the merging banks' risk profiles, asset quality, and liquidity positions. They must also implement robust risk management policies and procedures to identify, monitor, and mitigate the potential risks arising from the merger and further enhance the merged entity's enterprise risk management capabilities to maintain financial stability and resilience.

Maintain Healthy Capital Adequacy

Ensuring a robust capital adequacy ratio is crucial for banks, particularly when considering mergers in the banking industry. A strong capital foundation safeguards against future losses and allows banks to endure unforeseen economic difficulties. Additionally, it improves the bank's financial stability, resilience, and capacity to facilitate lending and financing operations, boosting confidence among depositors, investors, and regulators. The bank's strong capital adequacy ratio demonstrates its ability to meet the regulatory criteria set by Qatar Central Bank and its capacity to

absorb risk and contribute to the general financial stability of the economy. By prioritizing capital sufficiency, the merged bank can guarantee its long-term sustainability, access to finance, and capacity to take advantage of development opportunities while enhancing the overall strength and competitiveness of the Qatari banking sector.

Promote Operational Efficiency

Operational efficiency is a crucial component of the merging process. Identifying and utilizing synergies between the merging institutions, such as streamlining processes, decreasing administrative expenses, and optimizing resource utilization, is necessary. The primary objective of merging banks should be to achieve growth and efficiency following the completion of the merger. To do this, it is crucial to establish strong cost control measures and invest in new technology to improve operational efficiency and competitiveness. The merged bank's strong emphasis on operational efficiency enables it to enhance its competitiveness, profitability, and alignment with the growing demands of the Qatari banking sector and its customers.

Safeguard Asset Quality

Ensuring robust asset quality is crucial for banks, particularly regarding mergers. Many non-performing loans or impaired assets pose a significant danger to a bank's financial viability and raise the likelihood of insolvency. Impaired assets can damage a bank's profitability by causing more extensive provisions, write-offs, and reduced interest revenue. Thus, preserving top-notch assets is crucial for the long-term health of the merged organization by ensuring the sustainability of the profits stream. It is imperative for banks to diligently oversee the asset quality of the merged firm, which includes assessing the loan portfolios and credit risks. They must improve credit risk

management and enhance the merged entity's capacity to predict and address potential asset quality decline.

Maintain Stable Funding and Liquidity

Ensuring consistent, stable funding and sufficient liquidity is paramount for banks, particularly in the context of mergers within the Qatari banking industry. The consolidated bank possesses a robust funding framework and adequate reserves of liquid assets, enabling it to endure potential difficulties, sustain its primary lending and financing operations, and fulfill its immediate financial obligations without interruption. During the integration process, it is crucial to consider the possibility of variations in deposit flows, heightened funding requirements, and potential liquidity difficulties for the merged bank. The bank's stable funding profile, diversified across several sources and sufficient liquid assets, serves as a buffer against market volatility. This strengthens the bank's resilience and ensures its capacity to assist the country's economy. The merged bank can build confidence among depositors, creditors, and regulators by providing stable funding and effectively managing liquidity. This will enable the bank to take advantage of growth prospects and positively impact the Qatari banking industry as a whole.

Facilitate Regulatory Oversight Coordination

Ensuring the merged entity's adherence to regulatory obligations and active involvement with supervisory bodies and central banks are crucial for upholding the overall stability and integrity of the financial system. Coordinated regulatory oversight guarantees that the combined bank complies with the capital adequacy guidelines, risk management policies, and disclosure guidelines established by the Qatar Central Bank. This will improve transparency, reduce systemic risks, and establish stakeholder

confidence. By establishing a positive and open relationship with regulatory authorities, the unified banks may play a beneficial role in overseeing the Qatari banking industry, enhancing its long-term strength and competitiveness.

Chapter 6: Limitations and Future Works

Limitations

The current study encountered several limitations to consider when evaluating the results. Initially, access to data was limited because information about the banking industry in Qatar is typically regarded as extremely sensitive. Obtaining thorough financial data and details concerning the internal operations, customer experiences, and employees' experiences related to the merger between Al Khalij Commercial Bank P.Q.S.C. and Masraf Al Rayan was difficult. The restricted availability of primary data sources, such as interviews with bank management, customers, and workers, constrained the extent of analysis that could be undertaken.

A significant constraint of this study is the scarcity of material about bank mergers in the Gulf Cooperation Council ("GCC") region. The majority of previous studies on bank consolidation have mainly concentrated on developed markets, neglecting the thorough examination of the distinctive economic and regulatory conditions in the GCC. The lack of comparability and insights from prior studies conducted in similar circumstances hindered the capacity to contextualize the findings within a broader theoretical framework.

Moreover, the study primarily examined publicly accessible financial accounts and reports, which might not fully encompass the intricate nature of the merger process and its consequences. The financial data in the results section offers a comprehensive summary of pre- and post-merger financial performance. However, it does not explore

the intricate operational and strategic changes during the integration phase. Due to the lack of access to internal material and decision-making procedures, the study could not thoroughly assess the merger's difficulties, collaborations, and long-term consequences.

Future Research Direction

Considering the constraints of the present study, numerous opportunities for future research could augment the comprehension of bank mergers and their implications in the GCC environment. First and foremost, future research should seek primary data sources by conducting comprehensive interviews with bank executives, workers, and consumers. This would offer significant perspectives on the decision-making processes, integration difficulties, and the perceived influence of the merger on different stakeholders. Examining the viewpoints of various stakeholder groups could provide insight into the intricacies of the merger and its wider ramifications for the banking industry and the economy.

In addition, further study could broaden the analysis by encompassing a broader spectrum of mergers and acquisitions within the banking business of the Gulf Cooperation Council (“GCC”). An analysis of several instances of bank consolidation would allow academics to uncover shared patterns, optimal strategies, and distinctive contextual elements that influence the results of these transactions. This may result in the establishment of a more extensive comprehension of the dynamics and elements contributing to the success of bank mergers in the region.

Future research could further investigate the long-term consequences of the merger between Masraf Al Rayan and Al Khalij Commercial Bank P.Q.S.C. By increasing the duration of the analysis and monitoring the performance of the merged firm over a more extended period, we may gain a more comprehensive picture of the long-term viability of the merger's advantages and its overall influence on the Qatari

banking sector and the broader economy. This may encompass an evaluation of the consolidated bank's market dominance, client contentment, ingenuity, and impact on financial stability and economic expansion. Researchers can investigate the regulatory and policy landscape related to bank mergers in Qatar and the GCC. By comprehending the responsibilities of regulators, the changing legal and compliance structures, and the broader economic and geopolitical influences on merger and acquisition activities in the banking industry, policymakers can gain valuable knowledge and improve the efficiency of these transactions.

By exploring these prospective research areas, scholars and industry professionals can enhance our comprehension of bank mergers and their consequences in the GCC region. This, in turn, will provide valuable insights for strategic decision-making and policy development, with the ultimate goal of ensuring the long-term stability and competitiveness of the banking industry.

Chapter 7: Conclusion

The study of mergers and acquisitions in the Qatari banking sector offers significant insights into the effects of these transactions on the country's overall financial and economic stability. As mentioned in the introduction, Qatar has undergone considerable economic expansion and advancement in recent years, with the banking sector playing a crucial role in this process. This study has provided insight into the distinct dynamics and consequences of mergers and acquisitions ("M&A") in Qatar's banking sector.

The study's findings indicate that the merger between Al Khaliji Bank and Masraf Al Rayan in Qatar has had a predominantly supportive effect on the financial stability of the Qatari banking industry. The merged bank, Masraf Al Rayan, has shown improved financial performance measures, increased efficiency, and greater capital

adequacy ratios. These factors are essential signs of a robust and well-operating banking system. These findings are consistent with the current literature on the potential advantages of M&A transactions, as discussed in the literature review. Furthermore, they have significance for Qatar's overall economic stability. A resilient and effective banking industry is the basis for a prosperous economy, and the favorable results of these consolidations have helped reinforce the broader financial system in Qatar. The study has also identified the primary elements that have impacted the performance of these banks after the merger, including successful integration, realization of synergies, and careful risk management measures. The study has recognized the possible hazards and difficulties linked to bank mergers, highlighting the significance of robust regulatory frameworks and supervisory procedures to guarantee financial and economic stability.

The mergers in Qatar's banking industry serve as an instructive example for other GCC countries and emerging markets dealing with the intricacies of M&A activity in the financial sector. The Qatari authorities' strategic approach, together with the proactive actions implemented by the merged banks, has yielded a favorable outcome for the financial and economic stability of the country despite the adverse climate in which the merger was accomplished. As Qatar remains committed to achieving its ambitious National Vision 2030, this research provides a clear plan for influencing the future of mergers and acquisitions in the Qatari banking sector. To enhance the resilience and competitiveness of its financial sector, the government should focus on managing new risks, promoting innovation, and upholding a robust regulatory framework. This will eventually contribute to the country's long-term economic growth and development.

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