



RATING ACTION COMMENTARY

Fitch Places Doha Bank on Rating Watch Negative

Thu 21 Oct, 2021 - 1:59 PM ET

Fitch Ratings - Dubai - 21 Oct 2021: Fitch Ratings has placed Doha Bank Q.P.S.C.'s (Doha Bank) Long-Term Issuer Default Rating (IDR) of 'A' on Rating Watch Negative (RWN). The Short-Term IDR and the Support Rating Floor (SRF) were also placed on RWN. Doha Bank's Viability Rating (VR) has been affirmed at 'bb'. A full list of rating actions is provided below.

The RWN reflects the Qatari banking sector's increasing reliance on external funding and recent rapid asset growth, which may have moderately weakened the sovereign's ability to provide support to the system, in case of need.

KEY RATING DRIVERS

Non-resident funding reached USD193 billion or 48% of the Qatari banking sector's liabilities at end-August 2021 (up from USD121 billion or 38% at end-2018), while banks' foreign assets remained broadly stable (USD60 billion at end-August). As a result, the banking sector's net external debt at end-August 2021 increased to a substantial USD133 billion or 82% of forecast 2021 GDP (USD57 billion or 31% at end-2018). This high level of external funding, coupled with the large size of the banking system (total assets increased to 302% of forecast 2021 GDP at end-August 2021 from 212% at end-2018), could have moderately weakened the authorities' ability to support the banking sector, if needed, notwithstanding the substantial resources at the sovereign's disposal.

The 'A' domestic systemically important bank (D-SIB) SRF for Qatari banks is at the higher end of the typical range for D-SIB SRFs in jurisdictions where the sovereign is

rated 'AA-' and, in Fitch's view, reflects a high propensity to support the banking system.

Fitch will resolve the RWN following further analysis of the current composition and stability of Qatari banks' non-resident funding, the evolution of this funding in volumes and sources, banks' liquidity-management plans and the sovereign's ability to provide liquidity support to banks, in case of need. In case of a downgrade, Doha Bank's Long-Term IDR and SRF are expected to remain in the 'A' category.

IDRs, SR and SRF

Doha Bank's IDRs, Support Rating (SR) and SRF continue to reflect an extremely high probability of support from the Qatari authorities for domestic banks, if needed. This considers Qatar's still strong ability to support domestic banks, as reflected in the sovereign's 'AA-/Stable' rating and substantial net foreign assets (end-2020: equivalent to 187% of GDP) and revenues.

It also reflects Fitch's view of a strong propensity to support the banking sector, including Doha Bank, based on past episodes of support. These include in 2H17, when the authorities placed significant deposits with banks to support sector liquidity, following the start of the blockade between Qatar and some of its neighbours, and between 2009 and 2011, when some banks received capital injections to enhance their capital buffers and the government purchased some problem assets from the banks. The government owns stakes in all Qatari banks.

The Short-Term IDR of 'F1' is the lower of two options mapping to an 'A' Long-Term IDR, reflecting that a significant proportion of the banking sector's funding is government-related and a stress on Doha Bank is likely to come at a time when the sovereign itself is experiencing some form of stress.

VR

Fitch has revised the outlook on Qatari banks' operating environment to stable from negative as short-term downside risks from the pandemic fallout on banks' credit profiles have subsided. Fitch forecasts Qatar's real GDP growth to rebound to 1.6% in 2021 (2022: 2.5%), following a 3.6% contraction in 2020, supported by higher hydrocarbon prices and the North Field LNG expansion. The sector's credit growth was 6.7% (annualised) in 1H21 (2020: 8.5%), despite cutbacks in capex by the government.

We believe the near-term risks on the sector's asset quality (end-1H21: average Stage 3 loans ratio of about 2%) are largely contained - even after the expiry of the Qatar Central Bank (QCB) credit deferrals - and offset by the recovering operating environment and banks' strong provisioning levels (end-1H21: 140% average total

reserve coverage of impaired loans). Qatari banks have adequate capital buffers (end-1H21: average CET1 ratio of 14% against an 8.5% regulatory minimum requirement) and healthy pre-impairment operating profitability offsetting a potential moderate increase in problem loans.

Doha Bank's 'bb' VR reflects a high-risk profile, historically weak asset quality, below-average profitability and ensuing pressures on core capitalisation, as well as a high reliance on foreign funding. However, the VR is underpinned by the bank's well-established domestic franchise (end-1H21: 6% market share of assets) and the execution of the bank's consolidation strategy.

We view the bank's underwriting and risk controls as weaker than peers', due to high single-name and sector concentrations, which expose the bank to material credit risk. However, Doha Bank has tightened its risk framework and increased monitoring efforts of its weak GCC operations as part of a loan book clean-up. It aims to contain asset-quality risks through a reduction in high-risk construction and real-estate exposures (end-1H21: 33% of loans; end-2019: 40%) and growth in higher-quality government lending (end-1H21: 25%; end-2019: 11%). The latter was a driver of the bank's rapid loan growth in 1H21 (10%; target 7% in 2022).

The bank's non-performing loans (NPL) ratio (end-1H21: 5.6%) is higher than peers', reflecting the seasoning of high-risk contracting and GCC exposures. NPL generation was still high in 1H21 (3.1% annualised basis; 2020: 6%). The NPL ratio was flattered by large write-offs (1H21: 120bp of gross loans; 2020: 550bp), as part of the clean-up exercise. Risks are high from Stage 2 loans (25% of gross loans) at end-1H21 and loans that are subject to deferrals (29%; a much lower 2% considering deferred instalments only). Total reserves coverage of NPLs decreased to 79% at end-1H21 (specific coverage of 53%), due to write-offs.

Operating profitability has improved (1H21: 1.8% of risk-weighted assets (RWAs); 2020: 1%) but remains below sector average and is still dampened by high impairment charges (45% of pre-impairment operating profit; 2020: 66%). Net interest margin (NIM) was resilient in 1H21 at 2.6% (2019: 2.4%), underpinned by lower funding costs. Cost efficiency has also slightly improved (costs/income ratio of 28%) as per the bank's strategy.

We expect some moderate NIM pressure in the medium term to result from a higher share of low-yielding government lending and an increase in long-term deposits and foreign funding. Impairments are likely to remain high in 2021-2022, given asset-quality pressures, although the bank's net cost of risk (1H21: 150bp) should gradually wane in the medium term, due to fewer write-offs and potential recoveries from lumpy NPLs conservatively provisioned for or written-off.

Doha Bank's CET1 ratio of 13.2% at end-1H21 (end-2019: 11.5%) was weak, considering the bank's high-risk profile, single-name risk and the potential for further asset-quality impairments due to a large stock of unreserved Stage 2 and 3 loans (end-1H21: 2.1x CET1; end-2019: 2.0x). However, core capitalisation has improved, primarily due to profit retention and loan deleveraging in 2020, as per the bank's strategy. The bank's Tier 1 ratio (18.9%) and total capital adequacy ratio (CAR; 20%) are supported by QAR4 billion of additional Tier 1 capital notes.

Buffers over regulatory minimum capital requirements are sound (about 470bp for the CET1 ratio at end-1H21). We expect the CET1 ratio to be only slightly eroded from its current level by renewed private-sector loan growth and dividend distributions.

The bank's gross loans/deposits ratio of 128% and net loans/deposits of 122% (versus banking sector average of 125%) at end-1H21 reflect a high reliance on wholesale funding (end-1H21: 39% of total funding), with the majority from foreign sources and due within one year. Additionally, about 47% of customer deposits was sourced from non-residents, exposing the bank's funding to changes in investor sentiment. The bank's funding profile remains fairly short-term, although Doha Bank has lengthened the average tenor of its wholesale liabilities in 1H21 through longer-term bilateral borrowings and the issuance of a USD500 million Eurobond maturing in 2026.

Liquid assets represented an adequate 20% of total assets or 38% of customer deposits at end-1H21. However, liquidity risk is heightened by a high share of concentrated and confidence-sensitive foreign deposits (end-1H21: 47% of total deposits), which have increased in 2020-1H21, as has for the sector. Its regulatory liquidity coverage ratio was 125% at end-1H21, above the 100% minimum requirement.

SPVs and SENIOR DEBT

The ratings of senior debt issued by Doha Bank's special purpose vehicle (SPV) are in line with the bank's Long or Short-Term IDRs, because Fitch views the likelihood of default on any senior unsecured obligation issued by the SPV the same as the likelihood of default by the bank.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

IDRs, SR, and SRF

The IDRs and SRF could be downgraded and revised lower, respectively, if Fitch concludes that the Qatari authorities' ability to support the banking sector or the bank

has moderately reduced as a result of the increase in external funding and the growth in system assets. In case of a downgrade, Doha Bank's Long-Term IDR and SRF are likely to remain in the 'A' category.

A downgrade of the sovereign or a negative change in Fitch's assessment of the government's propensity to provide support could also result in a downgrade of Doha Bank's IDRs and downward revision of the SRF.

VR

The VR is primarily sensitive to further material weakening in the bank's asset quality and core loss-absorption capacity or to large foreign deposit outflows, if not offset by liquidity support from the Qatari authorities.

SPVs and Senior Debt

The ratings of debt issued by the SPV are sensitive to negative changes in the bank's IDR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

IDRs, SR, and SRF

Doha Bank's IDRs and SRF could be affirmed at their current levels if Fitch concludes that the sovereign's ability to support the sector has not materially reduced, notwithstanding the increase in external funding and system assets.

Rating upgrades are highly unlikely given the RWN on the ratings, their already high level relative to the sovereign's, and the Stable Outlook on the sovereign's ratings.

VR

The VR could be upgraded if the bank successfully executes its consolidation strategy, reduces its stock of problem loans - with its real-estate and contracting exposure decreasing substantially compared with the sector average - and the bank maintaining its CET1 ratio above 13% in the medium term. A lower reliance on foreign funding could also provide upside to the VR.

SPVs and Senior Debt

The ratings of debt issued by the SPV are sensitive to positive changes in the bank's IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Doha Bank's IDRs are driven by sovereign support. The ratings of senior debt issued by Doha Bank's special purpose vehicle (SPV) are in line with the bank's Long- or Short-Term IDRs.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Doha Bank Q.P.S.C.	LT IDR	A Rating Watch Negative	Rating Watch On	A Rating Outlook Stable
	ST IDR	F1 Rating Watch Negative	Rating Watch On	F1
	Viability	bb	Affirmed	bb

ENTITY/DEBT	RATING		PRIOR
	Support	1	Affirmed
	Support Floor	A Rating Watch Negative	Rating Watch On

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Zeinab Abdalla

Director

Primary Rating Analyst

+971 4 424 1210

zeinab.abdalla@fitchratings.com

Fitch Ratings Ltd

Dubai Branch One Central, The Offices 3, #321 & 323, Sheikh Zayed Road, P.O.Box 9573, Dubai

Aurelien Mourgues

Director

Secondary Rating Analyst

+44 20 3530 1855

aurelien.mourgues@fitchratings.com

Artur Szeski

Senior Director

Committee Chairperson

+48 22 338 6292

artur.szeski@fitchratings.com

MEDIA CONTACTS

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Doha Bank Q.P.S.C.

UK Issued, EU Endorsed

Doha Finance Limited

UK Issued, EU Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA- REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product

of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Banks Middle East Asia-Pacific Latin America Qatar Cayman Islands
