



RATING ACTION COMMENTARY

Fitch Downgrades Qatari Banks; Stable Outlook

Tue 19 Apr, 2022 - 1:03 PM ET

Fitch Ratings - London - 19 Apr 2022: Fitch Ratings has downgraded seven Qatari banks' Long-Term Issuer Default Ratings (IDR) and removed them from Rating Watch Negative (RWN).

The rating action reflects the Qatari banking sector's increased reliance on external funding and recent rapid asset growth, which Fitch believes has weakened the sovereign's ability to provide support to the system, in case of need. Fitch does not believe the current higher oil prices will substantially benefit these metrics over the rating horizon.

Fitch has downgraded Qatar National Bank (Q.P.S.C.)'s (QNB) Long-Term IDR to 'A' from 'A+' and removed it from RWN. QNB's 'F1' Short-Term IDR has been affirmed and removed from RWN as it already maps to the lower of the two options for an 'A' Long-Term IDR.

Fitch has also downgraded Qatar Islamic Bank (Q.P.S.C.)'s (QIB), Doha Bank Q.P.S.C.'s (Doha Bank), The Commercial Bank (P.S.Q.C.)'s (CBQ), Qatar International Islamic Bank's (QIIB), Ahli Bank Q.P.S.C.'s (ABQ) and Dukhan Bank Q.P.S.C.'s Long-Term IDRs to 'A-' from 'A' and Short-Term IDRs to 'F2' from 'F1'.

All banks' Viability Ratings (VR) are unaffected. A full list of rating actions is provided below.

Fitch has also withdrawn all banks' Support Ratings and Support Rating Floors as they are no longer relevant to the agency's coverage following the publication of its updated

Bank Rating Criteria on 12 November 2021. In line with our updated criteria, we have assigned Government Support Ratings (GSR) to all banks.

KEY RATING DRIVERS

Non-resident funding reached USD196 billion or 47% of the Qatari banking sector's liabilities at end-2021 (up from USD121 billion or 38% at end-2018), while banks' foreign assets remained broadly stable (USD65 billion at end-2021). As a result, the banking sector's net external debt at end-2021 increased to a substantial USD131 billion or 81% of 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 310% of 2021 GDP at end-2021 from 212% of GDP at end-2018), in Fitch's opinion, has weakened the authorities' ability to support the banking sector, if needed, notwithstanding the substantial resources at the sovereign's disposal.

QNB's GSR of 'a' are notched up once from the 'a-' GSR for Qatari domestic systemically important banks (D-SIBs), resulting in a Long-Term IDR of 'A'. All other banks' Long-Term IDRs and GSRs are at the 'a-' D-SIB GSR. The 'a-' D-SIB GSR is at the lower end of the typical range for D-SIB GSRs in jurisdictions where the sovereign is rated 'AA-'; nevertheless, it still reflects a very high probability of support for the banking system.

IDRs and GSR

Qatari banks' IDRs and GSRs 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 its banks, as reflected in its 'AA-/Stable' rating and substantial net foreign assets (end-2021: equivalent to 198% of GDP) and revenue.

It also reflects Fitch's view of a strong propensity to support the banking sector, based on past support. For example, the authorities placed significant deposits with the banks to support sector liquidity in 2H17 following the start of the blockade between Qatar and some of its neighbours. In addition, between 2009 and 2011, 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.

QNB's 'a' GSR is one notch higher than all other Qatari banks' GSRs. This reflects its flagship status, role in the Qatari banking sector and close business links with the state.

QNB's Short-Term IDR of 'F1' (instead of 'F1+' as permitted by the mapping correspondence described in our rating criteria for an 'A' Long-Term IDR) because a significant proportion of the banking sector's funding is government-related and

financial stress at QNB is likely to come at a time when the sovereign itself is experiencing some form of stress.

The Short-Term IDR of 'F2' for all other Qatari banks (instead of 'F1' as permitted by the mapping correspondence described in our rating criteria for an 'A-' Long-Term IDR) reflects the same considerations as for QNB.

SPVs and Senior Debt

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

RATING SENSITIVITIES

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

IDRs and GSR

A downgrade of the sovereign or a negative change in Fitch's assessment of the government's propensity to provide support would likely result in a further downgrade of the banks' GSRs and IDRs.

SPVs and Senior Debt

The ratings of debt issued by the SPVs are sensitive to downgrades of the banks' IDRs.

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

IDRs and GSR

Qatari banks' IDRs and GSRs could be upgraded if Fitch concludes that the sovereign's ability to support the sector strengthens, either through a sovereign upgrade or through a substantial reduction in external funding and system assets relative to GDP.

SPVs and Senior Debt

The ratings of debt issued by the SPVs are sensitive to upgrades of the banks' IDRs.

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

Qatari banks IDRs are linked to the Qatar sovereign rating.

ESG CONSIDERATIONS

Dukhan, QIB and QIIB have an ESG Relevance Score of '4' for Governance Structure due to their Islamic banking nature (in contrast to a typical ESG relevance score of '3' for comparable conventional banks), which has a negative impact on their credit profiles, and is relevant to the ratings in conjunction with other factors. As Islamic banks, they need to ensure the compliance of their entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit.

In addition, Dukhan, QIB and QIIB have an exposure to social impacts Relevance Score of '3' (in contrast to a typical ESG Relevance Score of '2' for comparable conventional banks). This reflects that Islamic banks have certain sharia limitations embedded in their operations and obligations, although it only has a minimal credit impact on the entities.

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
Ahli Bank Q.P.S.C.	LT IDR	A- Rating Outlook Stable		A Rating Watch Negative
	Downgrade			
	ST IDR	F2	Downgrade	F1 Rating Watch Negative
	Support	WD	Withdrawn	1
	Support Floor	WD	Withdrawn	A Rating Watch Negative
	Government Support		a-	New Rating
senior unsecured	LT	A-	Downgrade	A Rating Watch Negative
senior unsecured	ST	F2	Downgrade	F1 Rating Watch Negative
Doha Bank Q.P.S.C.	LT IDR	A- Rating Outlook Stable		A Rating Watch Negative
	Downgrade			
	ST IDR	F2	Downgrade	F1 Rating Watch Negative
	Support	WD	Withdrawn	1

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APPLICABLE CRITERIA

[Sukuk Rating Criteria \(pub. 15 Feb 2021\)](#)

[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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

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Ahli Bank Q.P.S.C.	UK Issued, EU Endorsed
BBG SUKUK LTD.	UK Issued, EU Endorsed
CBQ Finance Limited	UK Issued, EU Endorsed
Doha Bank Q.P.S.C.	UK Issued, EU Endorsed
Doha Finance Limited	UK Issued, EU Endorsed
Dukhan Bank Q.P.S.C.	UK Issued, EU Endorsed
IBQ Finance Limited	UK Issued, EU Endorsed
Qatar International Islamic Bank (Q.P.S.C.)	UK Issued, EU Endorsed
Qatar Islamic Bank (Q.P.S.C.)	UK Issued, EU Endorsed
Qatar National Bank (Q.P.S.C.)	UK Issued, EU Endorsed
QIB Sukuk Ltd	UK Issued, EU Endorsed
QIIB Senior Sukuk Limited	UK Issued, EU Endorsed
QNB Finance Ltd	UK Issued, EU Endorsed
The Commercial Bank (P.S.Q.C.)	UK Issued, EU Endorsed

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