

CREDIT OPINION

13 April 2022

Update

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RATINGS

Doha Bank Q.P.S.C

Domicile	DOHA, Qatar
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)Baa1
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Doha Bank Q.P.S.C

Update to credit analysis

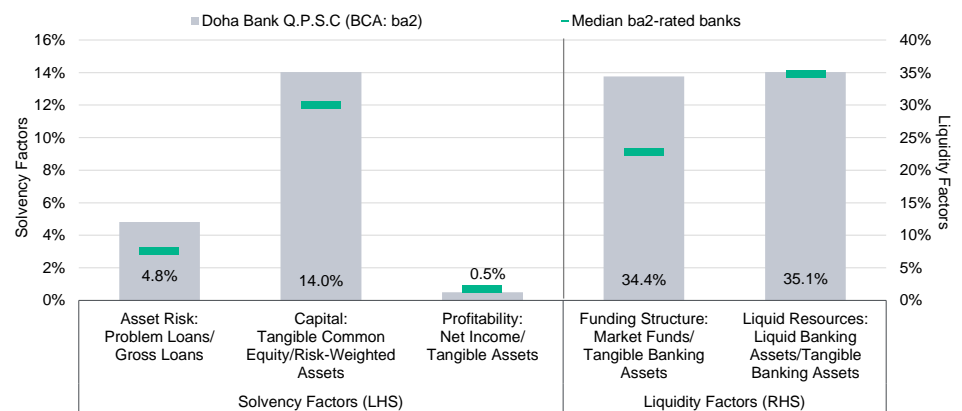
Summary

[Doha Bank Q.P.S.C's](#) (DHBK) Baa1 deposit ratings reflect (1) the bank's ba2 Baseline Credit Assessment (BCA); and (2) four notches of rating uplift from our assessment of a very high likelihood of support from the [Government of Qatar](#) (Aa3 stable) in the event of need.

DHBK's ba2 standalone BCA reflects its (1) relatively weak asset quality, elevated provisioning charges, and high borrower and sector concentrations; (2) high market and foreign funding reliance; and (3) still-evolving corporate governance structure. However, the BCA also reflects the bank's (1) capital metrics that are well above regulatory requirements; and (2) its adequate liquidity buffers that somewhat moderate its [external market funding](#) reliance. Efforts to reduce exposure to high risk sectors and increase lending to Qatari government-related entities would help moderate high asset risks in the future.

Exhibit 1

Rating Scorecard - Key financial ratios



These are our [Banks Methodology](#) scorecard ratios. Asset risk and profitability reflect the weaker of the three-year average and the latest figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.

Source: Moody's Investors Service

Credit strengths

- » Capital metrics well above requirements
- » Adequate liquidity buffers
- » Very high likelihood of support from the Qatari authorities, in case of need

Credit challenges

- » Weak asset quality along with high borrower and sector concentrations
- » High market and external funding reliance and concentrated deposit base
- » Corporate governance structure is evolving

Outlook

The stable outlook on DHBK's long-term ratings captures our expectation that the bank's standalone BCA of ba2 balances its relatively weak asset quality, concentrations on both sides of the balance sheet, and high market funding reliance with adequate capital and liquidity.

In addition, the stable outlook takes into account DHBK's asset recovery efforts and ongoing implementation of its strategy to shift its exposures to lower-risk segments.

Factors that could lead to an upgrade

- » Upward pressure on DHBK's ratings could materialise in the event of a significant improvement in the bank's risk profile and asset quality, combined with sustainably higher profitability, as well as, higher core capital.

Factors that could lead to a downgrade

- » Downward rating pressure for DHBK could materialise in the event of a material deterioration in asset quality, a decline in core equity, sustained profitability pressures and/or a material weakening in the bank's funding and liquidity profile, such as from a significant outflow of market funds and deposits.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Doha Bank Q.P.S.C (Consolidated Financials) [1]

	12-21 ²	12-20 ²	12-19 ²	12-18 ²	12-17 ²	CAGR/Avg. ³
Total Assets (QAR Million)	101,103.2	103,540.3	108,208.4	96,132.4	93,495.3	2.0 ⁴
Total Assets (USD Million)	27,762.3	28,437.3	29,719.4	26,400.9	25,671.4	2.0 ⁴
Tangible Common Equity (QAR Million)	10,092.3	9,641.6	9,162.9	8,960.5	10,874.6	(1.8) ⁴
Tangible Common Equity (USD Million)	2,771.3	2,648.1	2,516.6	2,460.8	2,985.9	(1.8) ⁴
Problem Loans / Gross Loans (%)	4.8	4.9	4.6	4.9	2.9	4.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	14.0	13.4	11.6	11.6	13.8	12.9 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	25.3	27.2	24.1	23.2	13.7	22.7 ⁵
Net Interest Margin (%)	2.2	1.9	1.7	2.0	2.2	2.0 ⁵
PPI / Average RWA (%)	2.8	2.5	2.0	1.9	2.0	2.2 ⁶
Net Income / Tangible Assets (%)	0.5	0.5	0.5	0.6	1.0	0.6 ⁵
Cost / Income Ratio (%)	30.8	32.3	39.5	40.3	40.7	36.7 ⁵
Market Funds / Tangible Banking Assets (%)	34.4	31.5	31.6	26.7	18.6	28.6 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	35.1	33.2	35.9	34.7	33.0	34.4 ⁵
Gross Loans / Due to Customers (%)	129.7	124.1	120.6	116.1	104.5	119.0 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

DHBK provides retail, wholesale and international banking services, as well as treasury and investment products and services. As of the end of 2021, DHBK operated through a network of 24 domestic branches in Qatar, six international branches (Dubai, Abu Dhabi, Kuwait City, Mumbai, Kochi and Chennai) and representative offices in a number of other countries.

As of the end of 2021, DHBK reported total consolidated assets of QAR101.1 billion (\$27.6 billion). DHBK was the fifth-largest bank in Qatar with an asset market share of 5.8% as of the end of 2021. The bank also held a 5.4% share in terms of total loans and 4.4% share in terms of customer deposits.

DHBK was incorporated in Qatar in 1979. The bank's ordinary shares are listed on the Qatar Stock Exchange (ticker: DHBK). As of the end of 2021, the DHBK's largest shareholder was Qatar Holding LLC, a wholly owned subsidiary of Qatar Investment Authority (QIA)¹, which held 17.15% of its total share capital.

Detailed credit considerations

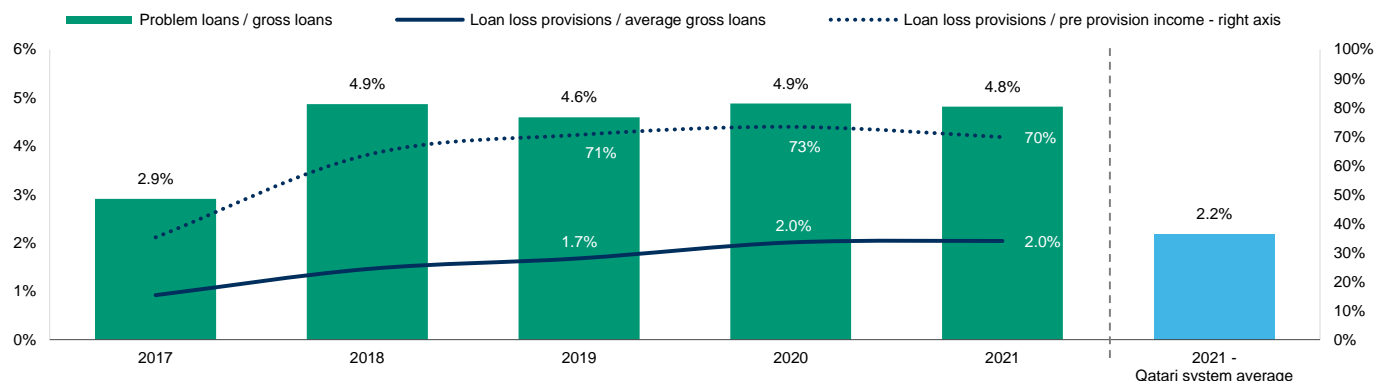
Relatively weak asset quality along with high borrower and sector concentrations

Our assessment of DHBK's asset risk reflects our expectation that its loan quality will remain relatively weak, considering both its reported problem loans and a high level of loans with a significant increase in credit risk (stage 2 loans under IFRS 9 accounting standards). Our ba3 Asset Risk score also reflects sizeable borrower and sector concentrations, particularly to the volatile real estate and contracting sectors despite a recent reduction. The bank is working to grow low-risk public sector lending in Qatar that will help moderate these risks in the future.

As of the end of 2021, DHBK's adjusted problem loan ratio (defined as IFRS 9 stage 3 loans, net of interest in suspense over gross loans) was 4.8%, from 4.9% as of the end of 2020 (see Exhibit 3), reflecting write-offs and some new problem loan formation. The ratio remains substantially higher than the 2.2% local average and the 3.0% median for similarly-rated banks globally. Cost of risk (loan loss provisions/average gross loans) remained high at 2.0% for 2021, same as in 2020, with loan loss provisions consuming 70% of pre-provision income. We consider the 41% coverage of problem loans by provisions (stage 3 expected credit losses/stage 3 loans, net of interest in suspense) as of the end of 2021 to be low, having declined from 83% at the end of 2019 following large write-offs of fully provisioned loans.

Exhibit 3

DHBK's asset quality has been relatively weak and its problem loan ratio higher than the system average



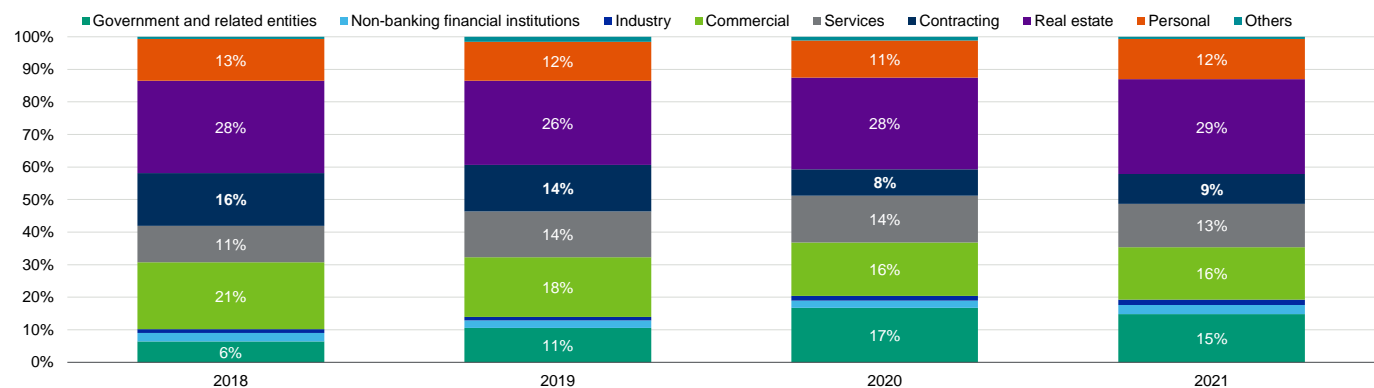
Source: Moody's Investors Service

The bank also continued to report a high stage 2 loan balance of 29% of total loans as of the end of 2021 (end-2020: 28%). This is driven by significant restructured exposures. We therefore expect some new problem loan formation because of continued pressure on the real estate and contracting sectors and additionally following the expiration of loan payment deferrals from 1 April 2022. This will be mitigated by the pick-up in economic activity and higher system liquidity as hydrocarbon prices have increased. Part of the impact on the bank's asset quality from the recent decline in economic activity has been deferred by extensive government support measures to borrowers impacted from the pandemic-related measures, including the payment deferrals for borrowers.

DHBK's asset quality continues to be at risk from single-borrower and sector concentrations. As of September 2021, the bank's 20 largest borrowers accounted for a high 63% of gross loans. Although this is a common feature of banks operating in the GCC, it exposes the bank to transition risk of large borrowers. Further, DHBK remains heavily exposed to the challenged and inherently volatile real estate sector at 29% of total loans as of the end of 2021 and contracting at 9% (see Exhibit 4), although the contracting exposure has declined from 14% as of the end of 2019. DHBK's exposure to the real estate sector and to contracting remains significantly higher than the system average. Similarly to other Qatari banks, DHBK's exposure to low-risk public sector entities at 15% of total loans as of the end of 2021 moderates asset risk in the portfolio. The bank's exposure to government and government-related entities remains well below the 31% system average as of the end of 2021.

Exhibit 4

DHBK has a high concentration to challenged and cyclical sectors, such as real estate and contracting
Loan book breakdown at the end of each period



Sources: Bank's financial statements, Moody's Investors Service

Capital metrics well above requirements

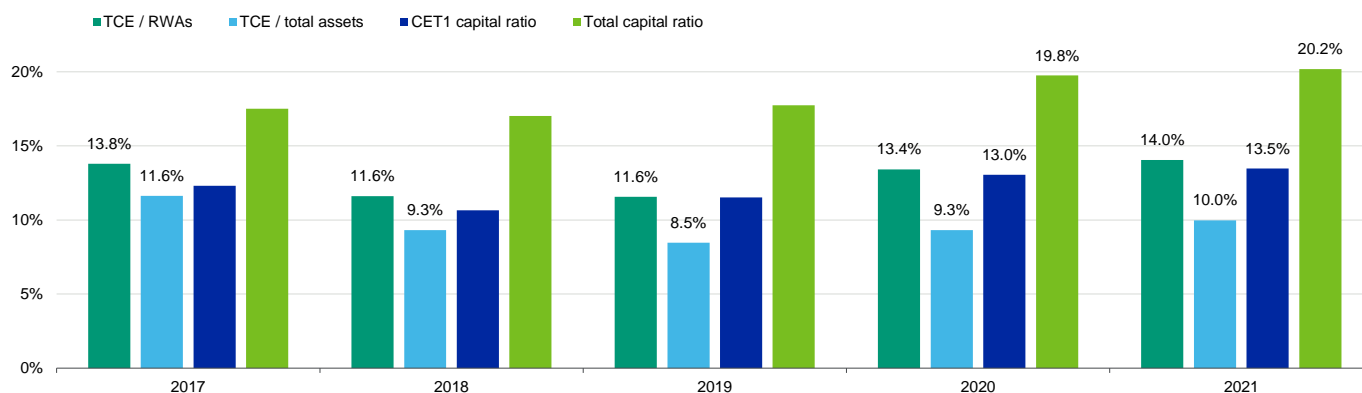
DHBK's capitalisation is substantially above regulatory requirements. Although capital metrics are improving, our assessment also considers the aforementioned asset risk challenges and relatively low problem loan provisioning coverage. We expect the bank's capitalisation to remain broadly stable over the next 12-18 months because of a conservative dividend policy. DHBK fully retained 2019 profits, paid a cash dividend equivalent to 33% of 2020 profits and has similarly proposed a dividend equivalent to 33% of 2021 profits.

DHBK's tangible common equity (TCE)-to-risk-weighted assets (RWAs) ratio progressively strengthened to 14.0% as of the end of 2021 (see Exhibit 5) because of earnings retention and as credit RWAs remained steady. DHBK's regulatory Common Equity Tier 1 (CET1) capital ratio and total capital ratio stood at 13.5% and 20.2% as of the end of 2021 and substantially exceed the regulatory minimums. The minimum CET1 ratio requirement was 8.5%, and the minimum total capital ratio requirement was 13.5% and included a bank-specific Pillar II capital charge of 1.0%

Exhibit 5

DHBK capitalisation is moderate but has been improving

Evolution of risk-weighted and leverage capital metrics



Source: Moody's Investors Service

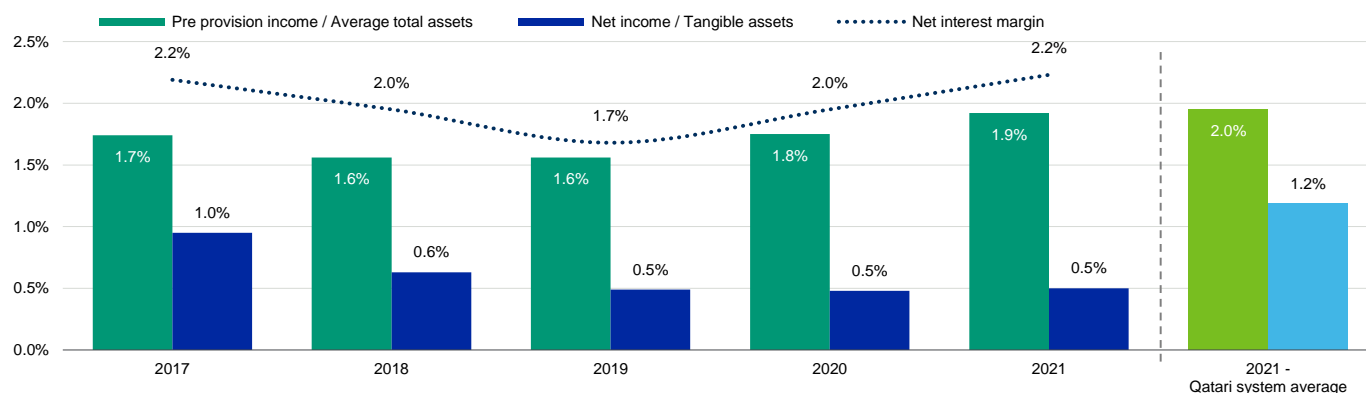
Bottom-line profitability under pressure from elevated cost of risk

We expect profitability to remain somewhat subdued because of elevated cost of risk. There could also be some pressure on the bank's net interest margin over the coming year because funding costs may rise faster than loan yields following US dollar and Qatari rial policy interest rates hikes. Additionally, over-time we expect that the bank's profitability will be constrained by a strategic shift to focus lending towards lower-yielding government related business, however, this will also help de-risk DHBK's loan book at the same time. Ongoing focus on controlling both the cost of funds and operating costs will help mitigate some of this downside pressure.

The Qatar Central Bank (QCB) will likely hike interest rates in line with hikes by the US Federal Reserve. However, the QCB may look to temper the effect of rising interest rates for borrowers in Qatar by not mirroring all rate hikes to its benchmark lending rate. Additionally DHBK's deposit costs may further rise following regulation that encourages longer maturities for non-resident deposits (see funding section below).

DHBK's adjusted net income to tangible assets ratio was stable at 0.5% during 2021² compared to 2020, although below the 1.2% local system average (see Exhibit 6), because provisions consumed a significant part of pre-provision income.

Exhibit 6

DHBK's bottom-line profitability remains under pressure, although pre-provision profitability is in line with the sector average

Source: Moody's Investors Service

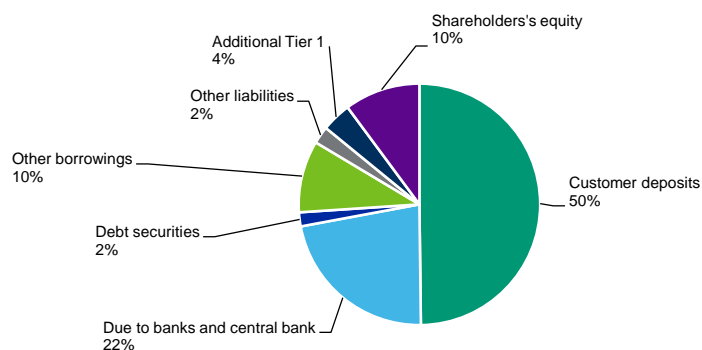
Pre-provision profitability, at 1.9% of average assets during 2021 was more in line with the system average, benefiting from a high net interest margin and the bank's established market position. The bank's net interest margin progressed to 2.2% during 2021 from 2.0% in full-year 2020, mainly due to a reduction in funding costs. The bank's efficiency also improved during this period, with a cost-to-income ratio of 30.9% (2020: 32.3%), but also somewhat weaker than a 23.5% system average.

High market funding reliance and concentrated deposit base, somewhat moderated by adequate liquidity buffers

DHBK's continues to rely heavily on potentially confidence-sensitive market and external funding given that loan growth has been stronger than domestic customer deposit growth. The net loans to deposits ratio rose to 125% as of the end of 2021, from 119% as of the end of 2020. These [trends are systemic](#) as credit growth in Qatar has outpaced deposit growth in the last few years. Furthermore, the bank's deposit base is fairly concentrated and a significant portion of deposits come from non-residents. These risks are somewhat mitigated by the bank's liquidity buffers. Although, domestic system liquidity will improve along with higher hydrocarbon prices, we expect external market funding reliance to remain high because of continued robust lending growth.

Market funding, including due to banks, debt securities and other borrowings, constituted 34% of DHBK's tangible banking assets as of the end of 2021 (see Exhibit 7; end-2020: 32%). The bulk of market funding is from foreign sources, such as foreign banks, and additionally a significant portion of the customer deposits comes from non-residents that include institutional and private banking clients, and these deposits are therefore significantly more confidence sensitive.

Exhibit 7

Deposits make up a large part of DHBK's funding base, however the bank has high and growing reliance on market funding
Total liabilities and equity breakdown as of the end of 2021

Source: Bank's financial statements and Moody's Investors Service

Of the market funds, a still high 69% were short term (less than one year in maturity) at the end of 2021 (end-2020: 85%) leading to significant asset and liability maturity mismatches. Also, 91% of the customer deposits has a contractual maturity of up to one year. Somewhat moderating these mismatches, the bank increased its long term funding in 2021, including through a \$500 million five year senior bond issuance and other term facilities, reducing reliance on short-term funding. Additional regulatory measures have been introduced in March and April that will encourage a lengthening of the term structure of foreign deposits and issuances of long-term bonds.³

DHBK's deposit concentrations are fairly high with the top 20 deposits accounting for 53% of total as of September 2021. A portion of these deposits are sourced from government-related entities, which have however proven to be stable and tend to roll over at maturity. Government and government-related entities' deposits represented - in line with other Qatari banks - a sizeable 28% of the bank's deposit base as of the end of 2021.

DHBK liquidity buffers at 35% of tangible banking assets as of the end of 2021, mainly in the form of Qatari government securities and cash and cash equivalents, help moderate the significant event risks related to the bank's reliance on confidence-sensitive funding. Our Liquidity score considers that a part of the bank's liquid assets are encumbered, although asset encumbrance has declined because of a significant reduction in repo borrowings during 2021. The bank also reported an improved Basel Liquidity Coverage Ratio (LCR) of 169.9% as of end-2021 (end-2020: 99.6%), above the 100% limit, and a Qatar Central Bank liquidity ratio of 133% also above the relevant 100% limit. The LCR improved during 2021 in line with the increase in long-term borrowings.

Corporate governance structure is evolving

DHBK's overall risk profile remains constrained by its dependence on few key personnel and high overall management turnover, underpinning our one-notch qualitative adjustment for Corporate Behaviour in the bank's standalone assessment.

In recent years, the bank has hired experienced bankers heading key business units, however, senior management turnover remains high. At the end of 2021, the chief risk officer who joined in 2020 left the bank and the position is being filled by an acting executive. Additionally, acting executives are filling the roles of chief financial officer since 2021 and chief compliance officer since 2020. A number of senior executives joined the bank in 2019, including the chief strategy corporate performance and marketing officer, the chief wholesale banking officer and the chief treasury and investment officer.

Source of facts and figures cited in this report

Unless noted otherwise, data related to systemwide trends is sourced from the central bank. Bank-specific figures originate from the bank's reports and all figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#) published on 9 August 2018.

ESG considerations

DHBK has a low direct exposure to Environmental risks because its lending to the hydrocarbon sector is fairly limited. However, similarly to domestic peers, the bank has a sizeable indirect exposure to environmental risks, mainly relating to carbon transition, because of the very large dependence of the Qatari economy and the government's revenues on the hydrocarbon industry. Qatari banks are highly interlinked with the domestic sovereign given their direct lending to government-related entities and holdings of government securities, the sovereign's economic footprint and employment of Qatari nationals, and the extraordinary government support that we impute for the banks in case of need. Additionally, the gradual incorporation of environmental considerations in the asset allocation process of international investors that extend funding to Qatari banks could also be a transmission channel of environmental risks for the banks over the longer term. See our [Environmental](#) risks heat map for further information.

The most relevant Social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are other social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology cost, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue base. Overall, we consider banks to face moderate social risks. See our [Social](#) risks heat map for further information.

Governance is highly relevant for DHBK, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Although governance risks are largely internal rather than externally driven, in addition to DHBK's specific governance challenges detailed earlier in the report, in the GCC, governments along with government-related issuers, tend to have a large footprint on the overall economy. Consequently, they are often among the largest borrowers, depositors and — in some cases — shareholders in the banks across the GCC. For DHBK and other GCC banks, corporate governance remains a key credit consideration and requires constant monitoring.

Support and structural considerations

Government support considerations

DHBK's Baa1 deposit ratings incorporate four notches of government support uplift from its ba2 BCA because of our assessment of a very high probability of support from the Qatari authorities, in case of need. This assessment is based on (1) the demonstrated willingness of the Qatari government to provide support to local banks in the past, including a track record of preemptive support; (2) the shareholding in DHBK by the government-related QIA; and (3) the bank's importance to the local financial system.

Counterparty Risk (CR) Assessment

DHBK's CR Assessment is positioned at A3(cr)/P-2(cr)

Prior to government support, the CR Assessment is positioned one notch above the bank's Adjusted BCA of ba1, reflecting our view that its probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimise losses and avoid disruption of critical functions. The CR Assessment also benefits from government support uplift, in line with our support assumptions on deposits.

Counterparty Risk Ratings (CRRs)

DHBK's CRRs are positioned at A3/P-2

For jurisdictions with a non-operational resolution regime, such as Qatar, the starting point for the CRR is one notch above the bank's Adjusted BCA. Similarly to other ratings, the CRRs of DHBK also benefit from four notches of government uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Doha Bank Q.P.S.C

Macro Factors							
Weighted Macro Profile		Strong - 100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	4.8%	baa3	↓↓	ba3	Single name concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.0%	a3	↔	baa3	Stress capital resilience		
Profitability							
Net Income / Tangible Assets	0.5%	ba2	↑	ba1	Expected trend		
Combined Solvency Score		baa2		ba1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	34.4%	ba2	↔	b1	Term structure	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	35.1%	a3	↓↓	baa2	Asset encumbrance		
Combined Liquidity Score		baa3		ba2			
Financial Profile							
				ba1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				-1			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aa3			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				0			
Adjusted BCA				ba2			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	ba1	4	A3	A3	
Counterparty Risk Assessment	1	0	ba1 (cr)	4	A3(cr)		
Deposits	0	0	ba2	4	Baa1	Baa1	
Senior unsecured bank debt	0	0	ba2	4		(P)Baa1	
Dated subordinated bank debt	-1	0	ba3	2		(P)Ba1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
DOHA BANK Q.P.S.C	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured MTN	(P)Baa1
Subordinate MTN	(P)Ba1
DOHA FINANCE LIMITED	
Outlook	Stable
Bkd Senior Unsecured	Baa1
Bkd Subordinate MTN	(P)Ba1

Source: Moody's Investors Service

Endnotes

- ¹ The QIA is the sovereign wealth fund of the State of Qatar. It was created in 2005.
- ² In line with Moody's standard adjustments we include payments for the bank's Additional Tier 1 (AT1) instruments in interest expense, whereas the bank reports them under dividend distributions. The unadjusted net income/tangible asset ratios was 0.7% in the end of 2021.
- ³ As of March 2022, the Qatar Central Bank (QCB) has amended the calculation of the loan-to-deposit ratio to include long-term debt securities and sukuk issuances in the denominator. Banks can include within the denominator 100% of the issuances (issued domestically and abroad) that are due in three years or more, 50% if they are due in two years or more and 25% of those that are due in one year or more. From April, the QCB is also increasing the mandatory reserve for non-resident deposits to 9% of those deposits that mature in less than a year; and to 7% for those with a maturity of one to two years. It also maintains a 4.5% reserve requirement for non-resident deposits with a maturity of more than two years.

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