

Qatari Islamic Banks: 2019 Results Dashboard

Weakening Asset Quality; Still Better than Conventional Banks

Key Message on 2019: The challenging operating environment continued to put pressure on asset quality, although Islamic banks fared better than their conventional peers. Islamic banks continued to grow faster and reached 24% of sector assets at end-2019 (end-2018: 22%).

Asset Quality: Asset-quality metrics deteriorated in 2019, particularly due to pressures in the real estate and contracting sectors. The average impaired financing ratio increased to 1.8% and partially closed the gap with conventional banks (2.5%). The financing impairment charges to average gross financing ratio also increased significantly and got closer to conventional banks' as Islamic banks built up provision levels against new impaired financing.

Performance: The operating profit/risk-weighted assets ratio deteriorated in 2019 to an average 2.5% due to increased financing impairment charges and was below conventional banks'. Cost-to-income ratios improved slightly and remained marginally below conventional banks'.

Funding and Liquidity: The gross financing/deposits ratio deteriorated slightly to 111% at end-2019 and was 500bp above conventional banks'. Islamic banks remain mainly domestic deposit funded (74% of total funding; roughly in line with conventional banks). Islamic banks have continued to widen their investor pools, including the first issuance of a Formosa Sukuk.

Capital: The average common equity Tier 1 ratio increased in 2019 to 15.9% owing to reasonable internal capital generation. It exceeds that of conventional banks by 190bp.

Regulation: The Qatar Central Bank does not allow Islamic windows at conventional banks. Islamic banks report in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) accounting standards and use IFRS standards if AAOIFI standards are not available. However, concepts such as profit and loss sharing have not been adopted and reporting is similar across all banks. A framework of sharia principles and standards is being introduced, including a centralised sharia body, covering Islamic banking products and transactions.

Key Expectations for 2020: Islamic banks' profitability will be hit by lower profit rates, lower business volumes, and higher financing impairment charges as a result of lower oil prices and the coronavirus pandemic. Asset quality will also weaken but the true impact will be masked in the short term by financing deferral programmes and regulatory flexibility for banks to recognise impairments. If economic disruptions persist, weaker asset quality and profitability will put pressure on currently adequate capital buffers. Liquidity is adequate and likely to benefit from government support if needed. Mergers and acquisitions are still possible to create larger Islamic institutions in the market.



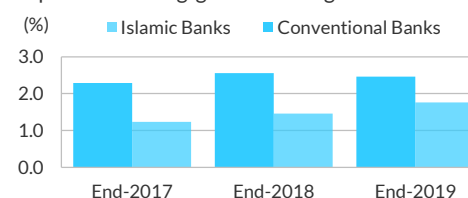
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Asset Quality

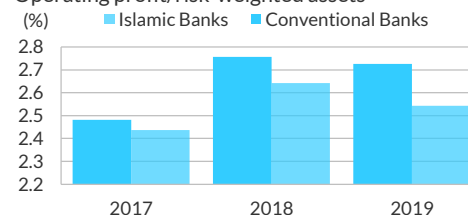
Impaired financing/gross financing



Source: Fitch Ratings, Banks

Earnings & Profitability

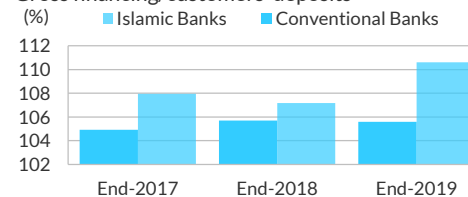
Operating profit/risk-weighted assets



Source: Fitch Ratings, Banks

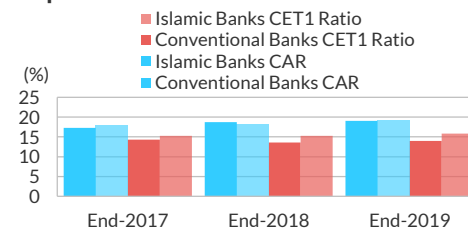
Funding & Liquidity

Gross financing/customers' deposits



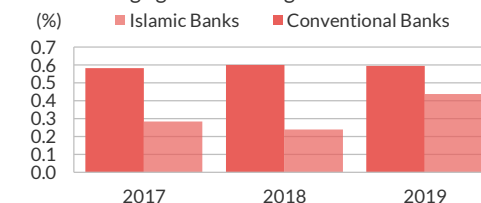
Source: Fitch Ratings, Banks

Capital Ratios



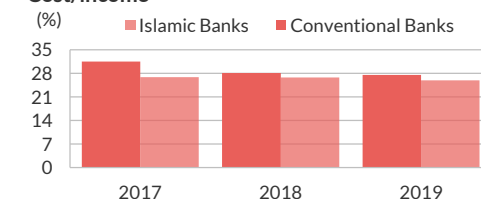
Source: Fitch Ratings, Banks

FICs/average gross financing



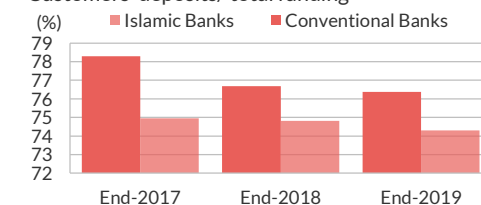
Source: Fitch Ratings, Banks

Cost/income



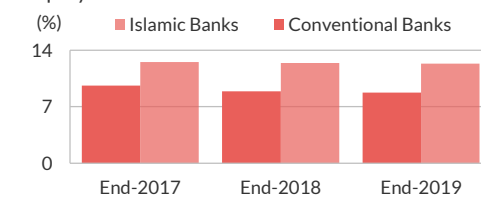
Source: Fitch Ratings, Banks

Customers' deposits/ total funding



Source: Fitch Ratings, Banks

Equity/assets



Source: Fitch Ratings, Banks

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