

**Rating Action: Moody's downgrades Al Rayan Bank's long-term deposit ratings to A1, outlook stable**

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18 May 2020

London, 18 May 2020 -- Moody's Investors Service, ("Moody's") downgraded Al Rayan Bank PLC's (ARB) long-term deposit ratings to A1 from Aa3, its long-term Counterparty Risk Assessment to Aa3(cr) from Aa2(cr), its long-term Counterparty Risk Ratings (CRRs) to Aa3 from Aa2 and its Adjusted Baseline Credit Assessment (BCA) to baa2 from a2. At the same time, Moody's affirmed ARB's baa2 BCA. The outlook on the bank's long-term deposit ratings remains stable.

A full list of affected ratings is at the end of this press release.

The rating action reflects changes in ARB's liability structure resulting in higher loss-given-failure, partly offset by a very high probability of support from the Government of Qatar (Aa3 stable).

**RATINGS RATIONALE**

Following its rapid growth in recent years, ARB's liability structure has shifted towards retail deposit funding and away from deposits from Qatar-affiliated entities. Moody's now assumes that "junior" wholesale deposits from institutions and larger companies make up only 10% of the bank's total deposit book, versus 26% previously. This increases the loss-given-failure for rated deposits to moderate from very low, reflected in no uplift from the bank's Adjusted BCA, from two notches previously.

Moody's affirmed ARB's baa2 BCA which is supported by ARB's low stock of problem financings, strong capital and granular retail base. These strengths are moderated by (1) a deposit base likely to be less stable given its cost-sensitive nature and internet sourcing; (2) high financing concentration; (3) its limited operating history and product offering; and (4) evolving business model with rapid growth in recent years, which is likely to result in a deterioration in asset quality and in its modest profitability in the current downturn.

Moody's continues to consider a very high probability of support for ARB's senior creditors from the bank's parent bank, Masraf Al Rayan (Q.P.S.C.) (MAR, A1 stable, baa2), as well as from its ultimate majority shareholders, the Qatari Government and Qatar affiliated institutions. Moody's now limits affiliate support uplift from MAR to reflect the ability of the parent bank to support ARB on a standalone basis, which results in no uplift given that MAR's BCA is also baa2. ARB's Adjusted BCA was therefore downgraded to baa2 from a2 previously. Instead, Moody's factors in directly the very high likelihood of support for ARB's deposits from the bank's ultimate majority shareholder, the Government of Qatar, via four notches of uplift, in line with the support for MAR's own deposits. This support partly offsets higher loss-given-failure and resulted in the downgrade of the bank's long-term deposit ratings to A1 from Aa3, CRRs to Aa3 from Aa2, and Counterparty Risk Assessment to Aa3(cr) from Aa2(cr).

Moody's assumption of very high government support reflects (1) MAR's evolving role as a flagship Islamic bank in Qatar with ARB as its largest overseas subsidiary; (2) ARB's direct and indirect ownership by the Qatari government and related institutions; (3) the strong track record of the Qatari government preemptively supporting its banks in the past; and (4) material committed credit facilities from Qatari-affiliated companies, which replaced the deposits previously placed with ARB. Moody's continues to have a low expectation of support from the Government of the United Kingdom (Aa2 negative) because of ARB's very small role domestically.

**-- OUTLOOK**

Moody's maintains the stable outlook on the long-term deposit ratings, reflecting the stable outlook on MAR's and Government of Qatar's ratings.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

An upgrade of ARB's long-term deposit ratings could be driven by an upgrade of the Adjusted BCA of the bank, following an upgrade of the BCA of MAR, or following a significant increase in its bail-in-able funding

sources. This may however be offset by a reduction in the support uplift from the Government of Qatar. An upgrade of the bank's BCA is subject to an upgrade of MAR's BCA, which Moody's considers likely to constrain ARB's own BCA due to the bank's material interlinkages with its parent. An upgrade of the bank's BCA could be triggered by an improvement in asset risk and profitability, as well as the bank achieving a longer operating history, expanded product offering and client base.

A downgrade of ARB's deposit ratings could be driven by a downgrade of MAR's BCA, or a lower probability of government support. A downgrade of ARB's BCA could also be driven by a material deterioration in its solvency and liquidity, but the very high likelihood of support from MAR and from the Government of Qatar could offset the impact of a lower BCA on the bank's Adjusted BCA and ratings.

#### LIST OF AFFECTED RATINGS

Issuer: Al Rayan Bank PLC

..Downgrades:

....Long-term Counterparty Risk Ratings, downgraded to Aa3 from Aa2

....Long-term Bank Deposits, downgraded to A1 from Aa3, outlook remains Stable

....Long-term Counterparty Risk Assessment, downgraded to Aa3(cr) from Aa2(cr)

....Adjusted Baseline Credit Assessment, downgraded to baa2 from a2

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Baseline Credit Assessment, affirmed baa2

..Outlook Action:

....Outlook remains Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1147865](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Arif Bekiroglu  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Nicholas Hill  
MD - Banking  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

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