IR Call Transcript (Edited Version)
QNB Group Q2 2021 Results

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PRESENTATION

Operator

Good day and welcome to the QNB Group's Q2 2021 Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Elena Sanchez. Please go ahead.

Elena Sanchez-Cabezudo *EFG Hermes Holding S.A.E., Research Division – MD & Head of Financials Equity Research*

Thank you. Good afternoon everyone. This is Elena Sanchez and on behalf of EFG Hermes, I would like to welcome you all to QNB Group's Q2 2021 Results Conference Call. It is a pleasure to have with us in the call today the following speakers from QNB Group. Ramzi Mari, Group CFO, Noor Mohammed Al-Naimi, General Manager, Treasury, and Mark Abrahams, Assistant General Manager, Treasury.

The call will begin with a presentation on the key highlights of the Q2 results and then we can move on to Q&A. I would like to hand over the call now to Mark Abrahams. Please go ahead. Thank you.

Mark Abrahams *Qatar National Bank (Q.P.S.C.) – Assistant General Manager - Treasury*

Thank you very much indeed Elena for hosting the call. Before we begin, we would like to highlight that this call is only for investors and analysts. And any media should disconnect now please. I will begin by giving an update on the Qatar, in light of COVID-19, followed by a brief overview of the macroeconomic environment in Qatar. Then I will cover QNB's financial results for the period ended 30th of June, 2021.

And finally, open the floor to Q&A. Qatar has taken all necessary precautionary measures to protect the society, it's population and the economy from COVID-19. Whilst the impact of the COVID-19 pandemic provides uncertainty, Qatar's economy has weathered the storm and activity is rebounding as business resumes. Moreover, Qatar's COVID vaccination program is progressing fast, as more than 84% of the population aged 40 or above has now had both doses of the vaccine.

Qatar's non-energy private sector economy continue to expand strongly over the H2 of 2020 and the Q1 of 2021, as Coronavirus related restrictions were lifted, according to the Qatar Financial Centre's Purchasing Managers Index. The top line PMI has been comfortably above the expansionary threshold for nine months and has been accelerating in recent months, signaling sustained improvement in business conditions in the non-energy private sector segment of the economy.

Moving forward, private sector growth will be boosted by continued structural reforms, including ownership liberalization, the promotion of foreign direct investments, labor reforms and several initiatives to support SMEs as well as self-sufficiency in strategic sectors. Tailwinds for investment in increasing hydrocarbon production will drive economic growth going forward.

Six new LNG liquefaction trains, a plan to increase Qatar's LNG production by 64% to 126 million tonnes per annum. Qatar is going to go from 77 million tonnes per year to 110 million tonnes by 2025, and then up to 126 million tonnes by 2027. Positive spill overs from increased hydrocarbon production, or combined with diversification efforts and structural reforms to boost activity and spending in the manufacturing and services sectors.

I will now move on to QNB's quarterly financial results, for the six-month period ended 30th of June 2021. Net profit was QAR 6.8 billion, or $1.86 billion. Considering the global economic conditions, QNB Group, following its conservative approach towards building adequate reserves against potential loan losses, has opted to increase its Loan Loss Provisions, compared to last year, which will assist in protecting the Group from any adverse experiences in the portfolio.

In addition, QNB Group has continued on its operational rationalization exercise, which has resulted in it significantly reducing the Cost to Income ratio from 24.5% last year, to currently 22.9%. Operating Income maintained at QAR 13.6 billion or $3.6 billion, demonstrating QNB Group's success in maintaining growth across the range of revenue sources, even in these challenging conditions.

Total Assets remained over QAR 1 trillion, at QAR 1.065 trillion, or $292.5 trillion, up by 10% from June 2020. This was driven by a growth of 6% in Loans & Advances, to reach QAR 746.6 billion, or $205.1 billion. QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 8% from June 2020, to reach QAR 766.9 billion, or $210.7 billion. This helped to maintain the Group's Loan to Deposit ratio at 97%.

The Group was also able to attract high quality wholesale funding. During the H1 of 2021, QNB Group tapped the global markets for debt securities issuance under its MTN program, including a $1 billion, 5-year bond, issued in January 2021, and the debut bond launch on the Hong Kong Stock Exchange, for $600 million, which was successfully placed in June 2021.

Despite several challenges and headwinds from the global pandemic, QNB Group was able to maintain the ratio of Non-performing Loans to Gross Loans, at 2.3%, a level considered to be one of the lowest among financial institutions in the Middle East and Africa region, reflecting the high quality of the Group's loan book, and the effective management of credit risk in these conditions.

In addition, the Coverage Ratio on stage three loans is at 108%. Total Equity increased to QAR 97.7 billion, up by 7% from June 2020. The bank's Capital Adequacy ratio, stands at 18.8%, comfortably higher than both QCB and Basel III requirements. The Group is well capitalized and comfortably exceeds other regulatory Liquidity and Leverage Ratio requirements.

Thank you all very much. We will now turn over to questions and answers.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask the question, please signal by pressing star followed by one. That is star one, if you wish to queue for a question. We'll pause for a brief moment to allow everyone an opportunity to signal for questions. We will now move on to our first question from Edmin Christo of Bloomberg, please go ahead. Your line is open.

Q - Edmond Christou *Bloomberg Intelligence – Analyst*

Hello. Good morning. This is Bloomberg Intelligence, Edmin Christo. I have two questions. First, when I look at the margin, there is improvement in the Cost of Funding. And also, there is improvement. Margin in Turkey has performed better than I expected. So, if you can give some light on what happened, and what's your outlook for the H2 of the year in Turkey?

The other question is on the lira depreciation. How do you see the impact of the lira on the capital? And are you comfortable with the capital buffer or do you see anticipation for more capital retention into the year? The third one is; what's your view on the M&A, especially now we have better control on the virus, there's uncertainty going forward? We talk about due diligence, it's too difficult to conduct during the last year COVID-19. So, what's your view going forward and which market you would be looking at again? Thank you.

A - Ramzi Talat A. Mari ***Qatar National Bank (Q.P.S.C.) - Group CFO***

Margin, we saw a drop of three basic points overall for the Group. But if we break down the movement on margin, we realize that Egypt margin dropped by around 22 basis points. Turkey margins dropped by around 70 basis points and materially improved in head office margin. And this is why the overall drop for the Group is only three basic points.

This is in line with what we have mentioned at the beginning of the year when we said that, especially in Turkey, we expect Net Interest Income to be materially hit, due to different factors, mostly regulatory. However, what we have seen in the last two months that interest is going back to normal. Considering that many analysts expect regulatory interest in Turkey to continue to be at current level, for the short period until June, sorry, until December of this year.

So, we are hopeful that Interest Income in Turkey, will continue to improve in the H2 of the year, which will help overall margin for the Group. At current number, we expect by end of this year, overall growth in this Interest Income, to be between 6.5% to 8.5%, which is much better growth than what we originally stated earlier this year. The bulk of the growth is coming off good management of our Cost of Funding, at the Group level, and more importantly, at head office level.

And that's why a little evaluation will not have a major impact in Capital Adequacy Ratio for Turkey standalone. Turkey standalone today, the Capital Adequacy Ratio is around 15.2%, and which is materially higher than the minimum required by their regulator. They have a buffer of around about 2%.

So, in terms of Capital Adequacy, we are fine. We don't see major changes from head office perspective on capital requirements for Turkey. We fully realize that Capital Adequacy Ratio for finance bank is lower than the peer group. But at head office, we need to consider overall implication at the Group level. And we believe that capitalization ratio for finance bank at this time, is sufficient.

Merger and acquisition, as we already said, we are opportunistic. We will look at opportunities that come to us. Today, there is nothing we are looking at. I don't have much to speak anything major at that level, during 2022. Thank you.

Q - Edmond Christou *Bloomberg Intelligence – Analyst*

Okay. Thank you.

Operator

We will now move on to our next question from Hooton Izaro of Bank of America. Please go ahead. Your line is now open.

Q - Hootan Yazhari BofA Securities, Research Division - MD and Head of MENA & Global Frontiers Equity Research

Hi, there. So we've seen some pretty encouraging trends in a number of factors. Firstly, on the loan growth side. Particularly in the Qatari market and the Egyptian market, we've seen some good momentum there. Can you maybe talk around what has been the key drivers of loan growth during the quarter? And the next point that I would highlight is on the Cost to Income Ratio, which continues to come down and remains well below your peer group.

Can we expect this ratio to continue going further down, given it is quite a lot lower than peers? Or is there something that will prevent this from continuing to move in the same direction? And the last point is; we've now seen Coverage Ratios in the Turkish side looking pretty healthy, on the NPL side. Do you foresee maybe a further pullback in requirements for provisioning from here?

Or will you continue to pursue a pretty conservative provisioning policy with regards to Turkey to build buffers there? Thank you.

A - Ramzi Talat A. Mari ***Qatar National Bank (Q.P.S.C.) - Group CFO***

The key drivers to loan, I know that many of you were very disappointed with growth in loans in the Q1, especially at the Qatari level, for QNB. And I mentioned that our expectations, that's for the H2 of the year and the Q2 of the year, we are going to be much better. And this is exactly what's happened. Growth in loans, especially in Qatar, allow us to go back and capture the market share we lost in the Q4 of last year and Q1 of this year.

The bulk of the growth were from, to be honest, it was split between public sector growth, mainly government agencies, and some government loans, and private sector loans. It's split among different sectors and it continues to be mostly focused on services industries and some projects surrounding Oil & Gas projects. Egypt's growth is not as strong as we wanted it to be. And we expect H2 of the year to be much better than H1 of the year.

But if we look at the growth in loans, in the overall Egyptian market, we see that [inaudible] is doing much better than overall growth. Hopefully growth in the economy in the H2 will be much better than the H1, which will allow Egypt to grow much faster than the H1. Turkey was very strong in growth in loans. We see that in Turkish lira, their growth was more than 25%.

And this is expected. Guidelines for Turkey, talk about growth of not less than 20% this year. And we are going to continue to focus on growth in Turkey, because, we still see opportunities, especially on the small Turkish lira loans. Our focus is mostly on Turkish lira loans, and we are staying away from any foreign funding. Cost to Income Ratio, we expected it to come down and this is what we have mentioned at the beginning of the year.

We are now at 22.9%. And this comes in two levels. The first level is the impact of growth on the yield on interest and indices. Growth in Net Interest Income, for the Group as a whole in the H1 of the year was very strong. And this materially helped us in improving the profitability for the whole group. If we add to that, our capacity to control costs, whereby we expect by the end of this year, that the cost will drop by around 1% from last year.

Overall growth in Revenue, we expect it to be between 6.5% to 7.5%. So if we take both strong growth in revenue generation, very strong management, of course, this will allow us to maintain a very strong Cost to Income ratio, for the Group for this year. Now the question is, what is sustainable? I think for a bank at our level, a sustainable ratio should be between 26% to 24%.

If we maintain that, our Cost to Income ratio, at those level, that means we are continuing to grow our overall revenue and controlling our costs. Third question is Coverage Ratio on Turkey. We said that we wanted to continue to take a very conservative approach on Turkey loan. One of the good points that we have seen in the first six months of 2021 is, a weaker inflow of NPL coming to Turkey.

And that's why we saw that the NPL ratio dropped from 4.4% in December to 4% in June. One of the main reasons for that is that many customers in Turkey, materially benefited from the growth in Turkish lira, done by some peer group in Turkey, at the very low prices, especially in the Q1 of the year. And they used some of that cash generated from other loans to repay their loans to commercial banks, which were at a much more expensive rate.

And that way you materially benefited from this. And at this stage, monitoring NPL, on a weekly basis in Turkey, we are much more optimistic on that momentum for NPL ratio in Turkey. Coverage Ratio will continue to be improving. Today we are at 105. We're going to continue to push this further. More importantly, is the coverage ratio for the Group. For the Group, we started the year at 107, today we are 108.

This is an extremely important ratio for the Group because, it is extremely important for us to continue, a Coverage Ratio higher than 100%. And this takes us to, because, I'm sure this question would come, to Cost Difference. What do we expect Cost Difference for the Group? At the beginning of the year, I said, it would be 70 - 75 basis points. Today, it is 77 basis points. What is my expectation? I would be very honest with you.

That ratio can, because, that number can go up, if we see growth in revenue continue to be very strong, that means we will have more room for us to be more conservative, in provisioning, whether at the level of Qatar or other locations in the Group. Do I expect the number to be beyond the 80 basis points, no. But if it would end up between 75 and 80, I will not be surprised. Thank you.

Q - Hootan Yazhari BofA Securities, Research Division - MD and Head of MENA & Global Frontiers Equity Research

Thank you, very clear.

Operator

We will now move on to our next question from Waleed Hassan of Goldman Sachs. Please go ahead. Your line is now open.

Q - Waleed Malik Mohsin Goldman Sachs Group, Inc., Research Division - Equity Analyst

Yes. Thank you much for the call, good afternoon. So three questions from my side. First on loan growth. I wanted to get your thoughts on medium term loan growth, for the Group. The reason why I asked this is, on Turkey, as you said, we've seen pretty strong growth. Turkish banks are seeing 20% plus loan growth this year, on the Turkish lira side. Egypt, we've also seen a pickup on the corporate lending side.

And it seems that Qatar, if you look at the Qatar Central Bank data, double digit loan growth driven by both public sector and private sector. So with the LNG expansion, some infrastructure projects coming in Qatar, would it be unfair to assume that QNB Group loan growth for the next two to three years would be high single digits to double digit? That would be the first question.

And just linked to this, if you could also comment on what you're seeing in terms of competition, a number of private sector banks are saying, they want to take up a higher market share on the public sector side. And we're seeing some international banks on some of the syndicated loans as well. So that's the first one. Then, Ramzi talked about Cost of Risk, being around 70 bips or so for this year.

I just want to get your thoughts on what is normalized Cost of Risk for the group? Because, if I look at some of the other banks, they're guiding for normalized Cost of Risk of around 50 basis points, and they also have Turkey as an exposure. So just wanted to get your thoughts on, where this Cost of Risk would end up in the next year or so? Last question, given the strong growth on loans, better margins, et cetera, does it not pose upside risk to your Net Income guidance of 5% to 7%?

It seems that you're very conservative there. If I analyze the H1 number, in terms of Net Income, you're looking at double digit earnings growth. So just wanted to get your thoughts on the bottom line as well.

A - Ramzi Talat A. Mari *Qatar National Bank (Q.P.S.C.) - Group CFO*

All your questions go around the guidelines for 2021, Waleed. So just to summarize, let me give you the guidelines for the three home markets, for the group and then Egypt and Turkey. Guidelines for the Group, as it stands today, the balance sheet is 6% to 8%, including loans. Profit and Loss, 7% to 9%. However, based on what we have seen in the H1, my expectation is that we are going to be at close to the top of the guidelines that I gave in terms of balance sheet or profit and loss.

For QNB, we expect their growth in loans to be 7% to 9%, and their growth in deposits to be 13% to 15%, and profit and loss to be 5% to 7%. For 30, growth will be much stronger at, sorry, loans will be 18% to 20%, deposits, 22% to 24% and P&L, 12% to 14%. All these guidelines are higher than what I gave at the beginning of the year, which means that the momentum is positive.

Now, to go back to the rest of your question. What is a normalized Cost of Risk for a Group? Waleed, it's close to impossible to give an answer on this, considering that we are operating in 31 countries. You will have a good year in four or five countries. And I will not be surprised if you have very bad year in the rest of the Group. So to be able to give you where we expect, Cost of Risk, on average, to be in the next two to three years, this is close to impossible.

I can't predict. And so I said last year that I expect 2021 to be a tough year in terms of Cost of Risk. And I expected 70 to 75 in net basis points and now I'm saying 75 to 80 basis points. So I'm being even more conservative. If I want to expect it to give you guidelines in terms of Cost of Risk for the next two, three years, for your model, I prefer that you continue to be conservative.

If you continue to assume between 60 to 70 basis points for the Group, this is better than expecting 50 basis points. And I will tell you all, I would add, that any bank that expect the next two to three years to be good years in terms of Cost of Risk, they are very, very optimistic. The impact of COVID-19 to many of the customers, will not appear in one day, you will see it on the longer term.

And it will take maybe two to three years until you say that the overall implication on [inaudible] is finished. But it's now too early to say that things are, that the COVID-19 is beyond us, and we know the impact. And that's why we prefer to continue to be conservative. Now, in terms of, again, what we expect the growth in loans for the next three years, I mentioned that this year, we talk about 6% to 8%. And I expect it to be, close to the top.

Budget wise, for the next two, three years, I would expect to continue to project a similar growth number, not more than that. I doubt double digit, please note query. Today QNB is very very close to QAR 300 billion. When you talk about a 10%, we talk about QAR 30 billion. This is not a small number, even at Qatar level, including the rest of where we operate. And when we want to also project loans, it's extremely important also to consider funding.

They always say that it's easy to lend, but it's very difficult to fund. And that's why when we talk about lending $30 billion, that means we need to start thinking about funding of $30 billion, which is extremely difficult, especially, if you want to maintain an overall margin of 240, close to 250 basis points. All these points need to be considered when we project a number. And that's why I do not doubt that our growth will ever come back to double digits considering the size. Thank you.

Other banks, do we expect other banks to capture market share from QNB? I really, really doubt this. We will continue and the most important target for executive management is to maintain our leading role in Qatar. This is objective number one for executive management. And we know that international banks compete with us now. But they mostly compete on Oil & Gas project, mostly gas products. And I said, I remember around six months or even last year, is that, QNB's capacity to compete on this project is extremely limited.

Because, number one, financing is a huge number. And number two, QB had always been able to finance this project at very low rate in which we actually cannot compete. And that's why we prefer to focus on other projects whether for public sector or private sector, where we can generate, which is ancillary projects around new Oil & Gas projects. Especially on the private sector, that allow us to generate around the 250 basis points. Thank you.

Q - Waleed Malik Mohsin Goldman Sachs Group, Inc., Research Division - Equity Analyst

Got it. Thank you so much Ramzi.

Operator

We will now take our next question from Jagdeep Ghosh of Sico. Please go ahead. Your line is open.

Q - Chiradeep Ghosh ***Securities & Investment Company BSC, Research Division - VP of Research***

Hi. This is Jagdeep Ghosh from Sico. And thanks Ramzi for the call. Two three very quick questions. First one is, you gave us a good, long term perspective of the Cost of Risk and the loan growth. Can you also give us a perspective on the NIM? What should be a NIM guidance for the next two, three years? Because, considering the big size that you just alluded, so it might be helpful for us. That's one.

Second is in the previous call, you have said that you've conservatively tried to boost up your stage two loans, because, you're forcing the non-performing loans might go up in the future. So if you can throw some light on bad stance. Is it still as conservative as the first two quarters back or it is a more normalized level? So that will give us some more comfort looking forward?

And the third one is, in continuation of the previous answer, which you give. So most of the other conference call, the other Qatari banks are saying that they are looking into getting into public sector loans. So do you believe that they can be a threat to you, not international banks, I'm talking about domestic banks. Would they be a threat to you or you will still continue to get the needs of the primary part of the public sector geometries?

A - Ramzi Talat A. Mari ***Qatar National Bank (Q.P.S.C.) - Group CFO***

Okay. Just, when I answered the question for Corporate Risk and projection for two three years and I said it's extremely difficult. So if projecting costs is difficult, you can imagine, how difficult it is to project a NIM, for a bank at our size, for the next two or three years. However, I need to go back to what I always said. What is sustainable for a bank with a balance sheet of QAR 300 billion? And if we compare QNB, with the peer group at that level, worldwide, what is their margin?

And a very quick study will clearly show that QNB enjoy at least 50 basis points growth compared with the peer group, at the level of $300 billion of balance sheets. We know why we have this. And we know about our efficiency to manage our Cost of Funding very carefully. And we know that the rating of QNB materially allow us to be able to generate these numbers. And that's why our focus continues to be in managing our Cost of Funds, building relationships for long term funding that allow us to continue to generate that type of funding.

Working hard to maintain rating for QNB, to allow us to maintain a strong relationship with our main funding sources. And at the same time, capturing the right market share in the right sector within the economy, especially in Qatar, that would allow us to generate the 250 basis points. And one of them I've mentioned before, is that we cannot compete on funding for gas projects, because, these usually have a very low spread over LIBOR rates.

Saying all this, if we are going to continue growth in our balance sheet by let's say, 6% to 8% in the next three to five years, being able to maintain margins of close to 250 basis point is close to impossible.

The higher the balance sheet, that means that we are going to start focusing more on smaller markets and more on private sector, being able to generate 250 basis points will be difficult. However, what we have been doing in the last five years is managing that margin very carefully, whereby drop was always between five maximum seven basis points.

And I always said that what is sustainable, hopefully, for our generation in the bank, which is our executive management, we're going to continue to be here for the next five to seven years, is 225 basis points. Beyond this, it is extremely important to project because, it really depends on where we are going to be operating, what is the focus in terms of growth on growth in loans, and to what extent we are going to be successful in, to continue to manage our cost of funding?

So, different factors, not easy to project. But for your model, if you project a drop of, let's say, three basic points, maximum, five basic points for the next five years, this is logical. Now, on stage two. When I spoke about Cost of Risk, I said that we are going to continue a very conservative approach on building coverage and building provisions. Part of that methodology is that we need to continue to be conservative, especially on stage three loan, and on stage two loan.

If you monitor our stage two numbers for the last maybe, six or seven quarters, you'll see that we have been growing the number by around QAR 1.5 billion to QAR 3 billion every quarter. This will continue. Because, this allow us more room to be conservative in building a better coverage with our Stage two. And easier for us to shift some of these loans to stage three, in the longer term.

Would other Qatari banks be able to capture market share from QNB from the public sector? Last maybe 10 years. This does not happen. We are going to work hard to ensure that this does not happen. Because, the public sector in Qatar is one of the most important sectors for QNB. And we manage that relationship very carefully. We know that we are the most capable financial institution in Qatar to serve that sector, considering the size and the historical relationship that we have.

So, what I'm going to say, is that we will do our best to show that this does not happen. Thank you.

Q - Chiradeep Ghosh ***Securities & Investment Company BSC, Research Division - VP of Research***

Just one very quick one. So that's a continuation of the question, two. So if you're being conservative on stage two, does it mean that a loan which say, one year back, or one and a half year back was considered a stage one loan, this time you're having a more strict parameters, and that's why it's getting considered at stage two, right? If my understanding is right?

A - Ramzi Talat A. Mari ***Qatar National Bank (Q.P.S.C.) - Group CFO***

We have seen marginal increase in NPL in Egypt from 2.2 to 2.3. But nothing to worry about especially that their coverage ratio is still more than 140%.

Q - Chiradeep Ghosh ***Securities & Investment Company BSC, Research Division - VP of Research***

I ask because in Turkey, I saw your NPL ratio has in fact come down in the last one year by 40 basis point, which is different than what we're reading in the media and your cost of risk.

A - Ramzi Talat A. Mari ***Qatar National Bank (Q.P.S.C.) - Group CFO***

Yes. Because, the reclassification between stage one and stage two is highly dependent on how conservative you are on the parameter you put in your model. And based on how conservative you are, some of the loan will move to page two. You can be very relaxed, and consider everything perfect, and everything in stage one. Or you can be conservative, and some of the loans will shift.
Historically, QNB always took the conservative approach. Thank you.

Q - Chiradeep Ghosh ***Securities & Investment Company BSC, Research Division - VP of Research***

Okay. Thank you very much. That's all from my side. Thank you.

Operator
We will now move on to our next question from Ibac Islamov of HSBC. Please go ahead. Your line is open.

Q - Aybek Islamov HSBC, Research Division - Analyst

Yes. Thank you. Yes. So a couple questions from me, please. So firstly, I was curious if you could comment about the situation in the private sector. I know you are a public sector bank, but if you could, provided you, how is the private sector economy doing in Qatar? Is there much happening? Because, that hasn't read across for other banks in the country?

And a question linking up with that, do you think there is a scope for consolidation in the Qatari banking market? Right. And secondly, what I was curious to ask you is that, in your slide deck, you provide more disclosures about your sustainable funding, green funding, et cetera? Is that becoming a part of the strategy? Is there a way to manage your funding costs that by tapping into sustainable funding sources? Thank you.

A - Ramzi Talat A. Mari ***Qatar National Bank (Q.P.S.C.) - Group CFO***

Now, a private sector. Now, if we look at QNB numbers for private sector, for the H1 of the year, there's a growth of around 3%. By the end of this year, we expect that growth to be higher, and I expect it to be between 4% to 5%. So growth in the private sector loans tend to continue to be strong, in different sectors in the economy. Is it as strong as we have seen prior to COVID-19? No. But what applies for Qatar, applies to everywhere else.

Do we expect the growth to continue at that level or to continue to grow? We expected it to marginally improve, but this will be a gradual growth. Now, when we talk about consolidation, we always said and we always believe that consolidation is extremely important for any banking industry in the world.

And when we look at the parameter in the Qatari market, definitely consolidation is very, very important. However, today, we have seen Rayan and Khaliji consolidate, which is very good, and it is healthy for the markets. Do we expect other consolidation to happen? To be honest, I don't have any information that allows me to say yes or no. Is it good to happen? Of course, we strongly believe it is good for the market if that happen.

In terms of funding, I will leave that to Mark.

A - Mark Abrahams Qatar National Bank (Q.P.S.C.) – Assistant General Manager - Treasury

Hi there. On the funding and market side, obviously, we did our baby Green Bond last year. And you asked the question about how it will impact upon our funding pricing going forwards? Evidently having spent a lot of time and effort in setting up the green framework for the bank, PSD framework, very much in tandem with the long-term goals of the Qatari economy as well. QNB is very, very committed and very invested in actually growing this part of the market, going forward.

The reality of this very nascent market, the volumes we're talking about, although they're growing substantially globally, there still remain a very, very tiny part of the overall wholesale funding on a global scale. So we will endeavor as always, we're looking at, potentially, future issuance, would have been different products. We have inquiry on green deposits. We're looking, at different markets, so globally as well. So we are very, very committed to developing that side of our business on the funding side. But in terms of the actual impact on our funding cost, it will be negligible.

Because, again, we have to have a certain amount of qualifiable assets. There is a pipeline that is growing, that is very important from our point of view. But again, if you look at QNB, in terms of the overall size of the bank, nearly $300 billion, this will be a very, very small piece of that initially, and it will grow over time. So it won't have a material impact on the funding cost, at least for the next two or three years. Thank you.

Q - Aybek Islamov HSBC, Research Division - Analyst

Thank you.

Operator

And we go to our next question from Naresh Bilandi of JP Morgan. Please go ahead. Your line is now open.

Q - Naresh N. Bilandani JPMorgan Chase & Co, Research Division - Research Analyst

Yes. Hi, it's Naresh from JP Morgan. Thank you for the presentation. Two questions please. The first one is on, if you take a look at your Qatari segment, within the segment till break down, one trend that we have observed since Q4, is steady increase in the size of your investment book at the Qatari level. And I remember you had mentioned in your previous calls that you will make a conscious effort towards focusing or boosting your investment book compared to previous years.

To what extent is the conscious effort in this direction? And led by the fact that, is there any effort from your side to encourage customers to either opt for investments for funding their businesses or go into bilateral or syndicated credits which will sit in the loan book? And how should we think of the evolution on both these lines as we go in to the medium term? Especially, given the fact that the growth on the hydrocarbon/public sector side will be a focus area for you and for the economy as a whole in the next couple of years? That's the first question.

Second question, and maybe we can have a separate discussion there. But just keen to understand, we focused a lot in Turkey and Egypt, but you have significant presence in other geographies. So just keen to understand, how do you see the medium-term strategies for smaller entities in your overall Group? Say, for example, I know you've mentioned that Ecobank good opportunities for referring customers linked to Africa. Is achievement of a control in any ways a part of your medium-term strategy?

Or, say alternatively, how is the medium-term plan for your network in Indonesia? Would you as banking market tends to have a significant opportunity for future growth?

A - Ramzi Talat A. Mari *Qatar National Bank (Q.P.S.C.) - Group CFO*

Okay. This is book. I agree with you. Without the effort that QNB did in the last year and a half, we wouldn't have seen the growth that we have seen in the investment book. QNB still [inaudible] encourages companies to diversify their funding resources and not to depend only on normal loans. But also, to look at the bond market. This effort would continue. In terms of how we see this progressing, I will not be surprised if you continue to see between $1 billion to $3 billion increase in QOQ, in that sector. In terms of strategy, this is a very detailed question.

But I can summarize by saying this. The most important home market for QNB continue to be Egypt and Turkey and Qatar. This is the main focus. All other countries, especially where we have branches, they just complement what we have operation here. And the focus will continue to be, how these countries, e.g. Singapore, runs on [inaudible] will support our operation in Qatar and the GCC. ETI, we are happy with the ratio that we have today. Do we have short term plans to increase that ratio? No.

But we are very happy with how things have been improving in ETI, in terms of performance, profitability, Coverage Ratio. We have very good find that future prospect for ETI is very positive. We will continue to support in addition to other major shareholders. But is there a plan to increase it beyond current ratio? Not today. Again, it's a very small market to QNB. Do we have plans short term to expand that business? Not, as of today. But anyway, we can, Naresh, discuss the details of this at a separate session.

Q - Naresh N. Bilandani JPMorgan Chase & Co, Research Division - Research Analyst

Okay. Thank you very much.

Operator

And it appears we have no further questions at this time. I would like to turn the conference back for any additional or closing remarks.

A - Mark Abrahams *Qatar National Bank (Q.P.S.C.) – Assistant General Manager, Trading – Treasury*

Nothing else from the QNB team. Thank you very much for your time today. And we will speak again in three months' time. Thank you so much. All the best.

A - Ramzi Talat A. Mari *Qatar National Bank (Q.P.S.C.) - Group CFO*

Thank you everyone for joining. And hope to talk again after September-November.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.