IR Call Transcript (Edited Version)
QNB Group Q2 2024 Results

CORPORATE PARTICIPANTS

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

Noor Mohammad Al-Naimi *Senior Executive Vice President, Group Treasury*

Mark Abrahams *Qatar National Bank (Q.P.S.C.) – Executive Vice President - Group Treasury*

CONFERENCE CALL PARTICIPANTS

Ashwath PT *Goldman Sachs*

Aybek Islamov *HSBC*

Chiradeep Ghosh *Securities and Investment Company*

Janany Vamadeva *Arqaam Capital*

Mark Krombas *TFI*

Rahul Bajaj *Citigroup*

Salome Skhirtladze *Bloomberg Intelligence*

PRESENTATION

Janany Vamadeva *Arqaam Capital*

Thank you, Adam. Good morning. Good afternoon, everyone. And thank you for joining us today.

This is Janany Vamadeva. And on behalf of Arqaam Capital, I'm pleased to welcome you to Qatar National Bank's Q2 2024 earnings conference call. I have with me here today from QNB Management, Mr Ramzi Mari, the Group Chief Financial Officer; Ms Noor Mohammad Al-Naimi, Group Treasury and Financial Institutions; and Mr Mark Abrahams, Group Treasury Trading.

Without further ado, I'll now turn the call over to Mr Mark Abrahams. Mark, over to you.

Mark Abrahams *Qatar National Bank (Q.P.S.C.) – Executive Vice President – Group Treasury*

Thank you very much, Janany and the Arqaam Capital team for hosting our call today. Before we begin, it is customary to remind everyone that this earnings call is for investors and analysts only, and any media personnel should please disconnect now.

I will begin by giving an overview on the macroeconomic environment here in Qatar, then I will cover QNB's financial results for the period ended 30 of June 2024, and finally open up the floor to Q&A.

The global economy is set to expand moderately in 2024, decelerating slightly from last year. The macroeconomic environment remains challenging with increasing political uncertainty. Given the progress in bringing inflation under control, central banks and advanced economies were expected to cut interest rates this year.

However, despite the incoming cuts, policy rates will continue to remain relatively high over the coming months, weighing on growth and increasing financial vulnerability.

Elevated oil and gas prices fuel robust fiscal and external revenues in the GCC, resulting in either large twin surpluses or the execution of large investment projects. This adds to the momentum created by structural reforms and the continued expansion of international tourism.

GDP growth in the GCC remains favorable, mainly based on population growth, a large pipeline of CapEx projects, and robust FDI inflows. Also for Qatar, the macroeconomic environment remains very robust. With total exports of $128 billion and central government revenues of $66 billion, over the last four quarters, Qatar has been benefiting from large fiscal and current account surpluses, ranging from 5% to 15% of GDP.

Importantly, Qatar continues to lay the foundations for GDP growth over the medium and long term through new projects. On the hydrocarbon front, tailwinds from investments in increasing gas production will drive economic growth, with eight new LNG trains planned under the flagship North Field Expansion Project, one of the largest capital expenditure projects in the region and industrial engineering projects in the world. These investments, to be executed in three phases, are expected to increase Qatar's LNG production by 85% to 142 million tonnes per annum by 2030.

Qatar is also ramping up efforts to diversify its economy and increase private sector engagement. On the non-hydrocarbon front, the country further consolidated its position as a regional and international hub for business, investments, commerce, tourism, and culture. This accelerated the execution of Qatar National Vision 2030 and assisted in the ongoing transition towards a knowledge-based economy. The North Field Expansion Project will also include an equivalent expansion of Qatar's refining, downstream and petrochemical capacity.

Positive spillovers from these projects will combine with diversification efforts and structural reforms to boost economic activity and spending in the broader manufacturing and services sectors. According to median consensus estimates, GDP growth of 2.1% and 2.6% is expected for 2024 and 2025, respectively, with significant acceleration in later years as the different phases of the North Field Expansion come online.

As a result, the economic expansion continues in Qatar, while the banking sector is resilient and healthy, presenting significant growth, ample liquidity, adequate levels of capitalization, high asset quality, and robust profitability.

I will now move on to QNB's financial results for the three months ended 30 of June 2024. Key financial results are as follows.
Net profit was QAR8.2 billion or $2.2 billion, a healthy growth of 7% compared to last year. Robust revenue growth resulted in an increase in operating income to QAR20.1 billion or $5.5 billion, up 9%, demonstrating QNB Group's success in maintaining growth across the full range of the revenue sources.

QNB's cost-to-income ratio remained strong at 22.4%, which is considered to be one of the best ratios among large financial institutions in the EMEA region. Total assets are at QAR1.261 trillion or $346.3 billion, up by 5% from the same period last year.

Loans and advances reached QAR879 billion or $241.5 billion, up by 7%. QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 6% from June 2023 to reach QAR891 billion or $245 billion. The Group's loan-to-deposit ratio remained stable at 98.7%. QNB Group's ratio of non- performing loans to gross loans stood at 3%, reflecting the high quality of the Group's loan book and the effective management of credit risk.

In addition, the coverage ratio on Stage 3 loans stands at 100%. Total equity increased by QAR110 billion, up by 6% from June 2023. The bank's capital adequacy ratio, at 19.2%, is comfortably higher than both QCB and the latest Basel III reform requirements.

Given recent changes in regulations and in line with QNB's stated payout policy, QNB will be distributing interim cash dividends of QAR0.33 per share. This will be payable to eligible shareholders at the close of trading on Wednesday, 17 July 2024. The dividends are subject to approval by the Qatar Central Bank.

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

QUESTIONS AND ANSWERS

Host - **Janany Vamadeva** *Arqaam Capital*

(Operator Instructions) We'll begin with audio questions, and our first question today comes from Ashwath PT from Goldman Sachs. Ashwath, your line is open. Please go ahead.

Q - Ashwath PT *Goldman Sachs*

Hi. Congratulations on the results. I have two questions. The first is on the group NIMs. It's actually marginally down quarter-on-quarter, but mainly driven from Turkey and Egypt. So I was wondering if there was like an offset from the underlying domestic business where NIMs perhaps improved sequentially. And I wanted to understand what were the drivers of this, whether it's more from the asset side or from the funding side. So some insight there would be great.

The second question I had was more on the cost of risk. So it seems stable, around 80 basis points from the first quarter and the second quarter, and the coverage ratio for the group as well remains at around 100% for Stage 3. But the coverages across Turkey and Egypt have decreased.

I wanted to understand whether this is more of a deliberate approach, especially in Turkey where the coverage buffers are extremely strong. And looking forward, I wanted to also understand if there's room for cost of risk to be perhaps lower than the 90 basis points that you had initially mentioned for as like a target for FY '24.
Thank you.

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

This is Ramzi. NIMs, second quarter lower than the first quarter, I agree, marginally because Turkey was - put some pressure on margin. That was compensated by other operations within the group, mostly local. And it came from better management of cost of funding.

Cost of risk, at the beginning of the year, we gave a guideline of 80 basis points to 90 basis points. At this moment, I prefer to stick with that guideline, but I would not be surprised if we are marginally lower than 90 basis points. Thank you.

Operator

The next question comes from Rahul Bajaj from Citigroup. Rahul, your line is open. Please go ahead.

Q - Rahul Bajaj *Citigroup*

Yes. Hi. Thanks for taking my questions. I have three questions, actually. The first one is on the interim dividend. So this is a new one that has come in. Just wanted to understand, is this interim dividend over and above your kind of full-year 35%, 37% payout that you do? Or are you basically splitting the full year 35%, 37% payout into two halves? So how should we look at interim dividend and the second half dividend? How should we think about that? So that's my first question.

The second question is on corporate income tax. Is there any update on the corporate income tax scenario in Qatar? Last I remember there were some talks about the implementation starting next year. But just wanted to understand, is there any update? And what rate of tax are we talking about over here? That's the second one.

And my third and final question, Ramzi, you mentioned about NIMs being lower in the Turkish business. How should we think about NIMs over the next couple of quarters in Turkey? If you could give us some idea about directionally, which direction should NIMs go in the international Turkey business, that will be really useful. Thank you. Those are my three questions.

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

Interim dividend, we can say it's split, but we cannot say 50-50. Income taxes, no change from what we mentioned before, 2025. And the rate is known for everyone. It is 15%. But until the local laws comes out and detail the specification, we need to wait. But I think everyone expects how much will be the rate.

NIMs, Turkey, last year they were -- for December '23, they were 777 basis points. Now they are 660 basis points. They still enjoy good margin. But we knew that it will drop. And we knew that the 777 basis points that we had last year, it was abnormal. And all banks in Turkey benefited from the unorthodox policies that were given.

And we knew that this is only temporary and the reality kicks in. I expect third quarter Turkish banks as a whole, not only finance banks, to be under pressure in terms of margins. But starting from fourth quarter, we strongly believe that Turkish banks would have been -- took all measures in the previous nine months to absorb the changes that took place in terms of regulation and go back to normal margin of 650 basis points to 700 basis points. So we need to wait for the fourth quarter.

Rahul Bajaj *Citigroup*

Understood. Thanks, Ramzi.

Operator

The next question comes from Chiro Ghosh from SICO. Chiro, your line is open. Please go ahead

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Q - Chiradeep Ghosh *Securities and Investment Company*

Hi. This is Chiro Ghosh from SICO Bahrain. Thanks for the call. So I have three quick questions. The first one is, I can see your debt has gone up in the second quarter, the wholesale funding, I mean. And it has been placed more in the cash and the investment book. So if you can give some guidance on what is the strategy going ahead? Was it raised at the last part of the quarter so you have still not been able to place it and will place it in the lending book over the second half of the year? So just want to get a sense of the strategy. That is one.

Your cost-to-income ratio in the second quarter has been a little weaker than what you have achieved in the past. I know it's still quite good, but how should we see your cost of income ratio going ahead? That's my second question.

And third one is, how should we try to forecast the FX income? Because there seems to be a lot of volatility in that FX income. These are my three questions.

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

Now, the increase in cash or due from banks is just a way for us to manage the overall balance sheet. Loan to deposit ratio for the group continues to be stable between 98% and 100%. It didn't change. So we cannot say there are major shifts in the funding or the utilization of the cash. It's temporary changes that you see. But overall, liquidity in the entity is still solid. We still have enough cash to support the growth that we're seeing in loans. And there is no change on the strategy for the QNB in this regard.

Cost-to-income ratio, we always said that what is sustainable is 22.5%. And this is where we are today. We're still optimistic that we are going to end up the year very close to that level, marginally above or lower, but not a major change from where we stand today.

FX income, FX income materially impacted by devaluation that takes place in Egypt and Turkey. It's one-off income, because we have a long position on dollars in these two countries that cause material profitability when there is a devaluation. But these are one-off incomes. And this is why we do see the major fluctuation. There's no other thing. If you exclude these two one-off reasons, FX income is steady and QNB is expected to grow between 8% and 12% year-on-year, after you exclude those one- offs.

Q - Chiradeep Ghosh *Securities and Investment Company*

Just for my understanding, so in an economy, if there is a currency volatility, I mean in a usual year, so the FX income tends to be higher, right? I mean, next year, let's assume there is a heavy volatility in Turkish Lira and Egypt -

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

Yes. Agreed.

Chiradeep Ghosh *Securities and Investment Company*

- it will be higher, right? Okay. Okay. That's all from me. Thank you.

Operator

The next question comes from Aybek Islamov from HSBC. Aybek, your line is open. Please go ahead.

Q - Aybek Islamov *HSBC*

Yes. Thank you. Thank you for the conference call. I think I wanted to touch base with you on the overall growth environment, in particular in Qatar. That's one.

I think secondly, given the sequential decline in margins, I mean, there's quite a few questions already being asked from this. If that pressure on margins continues, what's your plan? What's the main mitigant for this to basically deliver your guidance in that income growth? Is that going to be loan loss provision expenses, like benefit charges or more focus on cost controls? I think that color will be useful.

And I think lastly, in this quarter, I can see that there is a good growth in funding - international funding. So, can you comment on that as well, please, yeah? Thank you.

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

Okay. Growth environment, we've seen good momentum in the local market and international operation as a whole. In the first six months of the year, we are seeing 3% growth in Doha standalone in public sector, and another 3% in private sector, which is very good growth and higher than what we anticipated at the beginning of the year, because we were talking about 2%. That's why I'm updating the guidelines for the growth in the balance sheet this year from 4% to 6% to 5% to 7%, based on what we have been seeing in the six months and our expectation for the following - for the next six months.

In terms of international funding, again, it's something that you utilize to maintain your loan-to-deposit ratio, to maintain strong margin. And it's part of the overall management of the balance sheet and the management of cost of funding. This number will go up and come down based on the momentum that we are seeing in the balance sheet.

Now, NIMs and mitigants. There are a lot of mitigants that you can do. Cost of risk is one of them, because cost of risk went up in the last three years, because NIMs was very strong, but that's one of them. The structure of the growth in loans that you get, the momentum of growth, how you manage your cost of funding, all these are mitigants that you utilize to manage your NIMs.

We go back to the point that we always said. For QNB, what is sustainable is between 240 and 245 basis points, but the drop in NIMs will be compensated by the balance sheet size and the growth in the balance sheet, so that profitability will not be impacted. And we are going to stick with that for the next three to five years of a growth in profitability that is similar to what we have enjoyed in the last three to five years.

Aybek Islamov *HSBC*

Thank you. Thank you, Ramzi.

Operator

The next question comes from Mark Krombas from TFI. Mark, your line is open. Please go ahead.

Q - Mark Krombas *TFI*

I wanted to get an outlook from the management on Qatar real estate and what their view is on the contractors and overall exposure to that segment, please.

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

From QNB side, there is nothing changed in terms of exposure to the real estate sector for the last three years. Exposure to the real estate sector is very, very limited. We are not seeing any major change on that regard. Anything -- any issue in that sector we would have already provided for 100%. So we don't see it as a challenge or as a risk for continuous growth in the performance of the entity.

Q - Mark Krombas *TFI*

Thank you.

Operator

The next question comes from Salome Skhirtladze from Bloomberg Intelligence. Salome, your line is open. Please go ahead.

Q - Salome Skhirtladze *Bloomberg Intelligence*

Hello, can you hear my voice? Hello.

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

Yes.

Q - Salome Skhirtladze *Bloomberg Intelligence*

Thanks, first of all, for taking the question. You mentioned that the NIM contraction could be compensated by the growth. Could you give us a bit more details? You referred to growth from Qatar market, international market. Is there any progress for the Saudi expansion plans?

And another one on the real estate, the recent state data show that there is actually some drop in the real estate market transactions and the flow of tourism. Do you think that could somehow affect the local domestic growth of lending? Thank you. Thanks.

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

Real estate, as I mentioned, exposure to QNB is limited. And that's why we don't see any slowness in the real estate, as you mentioned, to impact. To be honest, I haven't seen the report that you mentioned. But in terms of overall impact on QNB, the real estate is extremely low because exposure to QNB, to the real estate sector, as we always disclose, is limited. And it's not a new exposure, it's an old exposure. So if there were any challenge in that exposure, it would have been old, it would have been provided for already.

Now, growth will be across the group, it will not be compensated in Qatar, it will be across the group. We have seen good momentum from overseas operations, especially London, Paris, Singapore, Hong Kong, in terms of growth, in terms of business. And this will continue.

In addition to the growth that we are seeing in Qatar, Turkey and Egypt, if we look at their growth momentum, whether it was in the balance sheet - loans and deposits, it's very, very strong. In Egypt this year, they expect to grow their loans by more than 22%, deposits, again, at the same level. The same applies to Turkey.

So I cannot say that there are specific markets where the growth will come from, it's across the group. The focus, we materially changed the guidelines, as I mentioned, from 4% to 6% to 5% to 7%, mostly because the number that we are seeing from Doha is much better than what we anticipated at the beginning of the year.

Salome Skhirtladze *Bloomberg Intelligence*

Thank you.

Operator

No further audio questions at this time, so I'll hand over to Janany for text questions.

Q - Janany Vamadeva *Arqaam Capital*

Thank you, Adam. We have a couple of questions. The first one has already been asked, it's full year loan growth, and whether you continue to see 4% to 5% growth for full year 2024.

So I'll move on to the second one, it's from Fatima. With Stage 3 coverage at 100%, why are you not expecting provisioning to decline further in Q2? How has been the borrowing demand from North Field projects?

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

You mentioned - because coverage ratio is 100%, why cost of risk is not coming down?

Q - Janany Vamadeva *Arqaam Capital*

Yes, Ramzi. So given Stage 3 coverage is already 100%, why is then provisioning declining any further in Q2?

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

The cost of risk will highly depend on the strength and the growth in the operating income for the group. Let's wait and see. As I mentioned, we dropped from 100 to 80. Let's see how operating income will continue to perform for the next six months. And based on that, we will know. Even with 100% coverage ratio, cost of risk for Stage 1 and Stage 2 can be higher than what we have today if operating income is very, very strong. So it doesn't have to be Stage 3 always.

North Field, the project is going as planned. In terms of contribution to the growth in our loans, it's still normal, nothing very, very strong to QNB. We haven't participated a lot in many of the loans that they are having. But we are benefiting a lot from the ancillary projects surrounding the North Field. This is where the added value comes to QNB, and we expect this to continue until the year '26.

Q - Janany Vamadeva *Arqaam Capital*

Thank you, Ramzi. Next question is on hyperinflation losses. Can you give guidance on hyperinflation losses expected for 2024? Also based on current inflation data in Turkey, should we expect no hyperinflation losses in 2025?

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

Well, I don't think anyone in the world can answer this question. Now what we are seeing, all expectations were for inflation in Turkey to drop much faster than what we have seen. It didn't happen.

Now suddenly in June, we've seen a very strong momentum of a drop that no one anticipated. So all experts in this field cannot predict how inflation will evolve, but definitely we are expecting much better momentum of drop in inflation in Turkey, based on what all the people who are experts or specialize in this field are saying. So let's wait and hope that what we have seen in June will continue.

Now, will we have hyperinflation in next year? Probably we will, but definitely at a much lower level than what we have seen in '24.

Q - Janany Vamadeva *Arqaam Capital*

Thank you, Ramzi. So the next question is on growth from Andrew from Ashmore. You mentioned both public and private sector growth in credit demand was higher than expected at 3%. In what sectors are you seeing this? Is it diverse or quite concentrated in, say, energy? What do you think has driven this unexpected increase in demand?

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

No, it's not energy. It's services, retail, different sectors. But it's not - definitely, it's not energy.

Q - Janany Vamadeva *Arqaam Capital*

Thank you, Ramzi. Next question is on Saudi. Could you please provide an update on the progress on your growth strategy in Saudi Arabia?

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

As per the plan, good momentum, a prime market, a lot of focus we are giving to this market. Of course, it would take us time to get to the point where we want to, but definitely all going as per the plan. We opened our second branch in Jeddah, a lot of focus is being given to that branch, but the strategy of QNB on focusing on Saudi Arabia continues, and definitely, Saudi Arabia is the fourth home market for the group.

Q - Janany Vamadeva *Arqaam Capital*

Thank you, Ramzi. The next question is also on growth, how do you expect loan growth to evolve over the next couple of quarters, and any guidance you could give on Qatar-only loan growth?

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

For the first six months, we mentioned 3%. By the end of the year, I expect it to be around 5% - 4.5% to 5%.

Q - Janany Vamadeva *Arqaam Capital*

Thank you Ramzi. I have just one more question, Sonny [ph] from J.P. Morgan is asking whether you have any other revisions to guidance in terms of P&L or balance sheet growth apart from the loan guidance you just mentioned?

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

No, balance sheet as a whole is 5% to 7%, P&L is the same 7% to 9%.

Janany Vamadeva *Arqaam Capital*

Thank you, Ramzi. That's all we have. So Adam, do you have any on the audio line?

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

If there's no more questions, I'd like to thank everyone for joining us, and hopefully, the next two quarters will be as good as what we have seen in the first six months of the year. Enjoy the rest of the day, and see you later. Thank you.

Operator

This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.