IR Call Transcript (Edited Version)
QNB Group Q3 2023 Results

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PRESENTATION

Aybek Islamov *HSBC*

Good afternoon, good morning, everyone. My name is Aybek Islamov. I'm an Emerging Markets EMEA Financial Analyst at HSBC. I'm very glad to host you today at Qatar National Bank's Third Quarter Results Conference Call.

With us on the call, we have Ramzi Mari, Group Chief Financial Officer; Noor Al-Naimi and Mark Abrahams of Treasury and Trading; as well as Durraiz Khan of Financial Planning and Strategy.

With no further ado, I'd like to hand over the call to Mark Abrahams. Mark, please go ahead.

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

Thank you very much, Aybek, and to HSBC for hosting our Q3 2023 call.

Before we begin, it is customary to remind you all that this earnings call is for investors and analysts only, and any media personnel please personnel disconnect now. I will begin by giving an overview on the macroeconomic environment, then I will cover QNB's financial results for the nine months ended September 30, 2023, and finally, we'll open the floor to Q&A.

The global environment continues to be affected by the negative consequences of excessive post-pandemic policy stimulus and geopolitical tensions. Despite a recent moderation of global inflation, price pressures are still high in most major economies, justifying higher policy rates for longer. This slows down global growth and increases the likelihood of financial instability.

Elevated oil and gas prices fuel robust fiscal and external revenues in the GCC, resulting in large surpluses and the execution of large investment projects. This adds to the momentum created by structural reforms. All in all, the GDP growth in the GCC is expected to remain favorable, mainly based on stronger hydrocarbon output. Also for Qatar, the macroeconomic environment remains very positive. Qatar continues to lay the foundations for GDP growth over the medium and long term through investment, diversification, and stronger private sector engagement.

On the non-hydrocarbon front, following the successful preparation and organization of the 2022 FIFA World Cup Qatar, 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.

On the hydrocarbon front, tailwinds from investments and increasing gas production will drive economic growth, with six 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. This investment is expected to increase Qatar's LNG production by 64% to 126 million tonnes per annum, contributing to almost a third of global LNG demand.

The project will 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. The foundation stone for the project was formally laid just last week.

We expect domestic activity to remain strong with a GDP growth of 2.2% in 2023 and 2.5% in 2024 according to consensus estimates. 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 nine months ended September 30, 2023.

Key financial results are as follows. Net profit was QAR11.9 billion or $3.26 billion, a healthy increase of 8% compared to last year. Robust revenue growth resulted in an increase in operating income to QAR29 billion or $8 billion, up 13% demonstrating QNB Group's success in maintaining growth across a full range of revenue sources.

QNB's cost-to-income ratio remains very strong at 20%, which is considered to be one of the best ratios among large financial institutions in the EMEA region. Total assets are at QAR1.186 trillion, or $325.8 billion, up by 4% from the same period last year.

Loans and advances reached QAR815 billion, or $224 billion, up by 7%. QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 4% from September 2022, to reach QAR822 billion, or $225.9 billion. The Group's loan-to-deposit ratio remained stable at 99.2%. 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 is at 100%.

Total equity increased to QAR109 billion, up by 2% from September 2022. The bank's capital adequacy ratio, at 19%, is comfortably higher than both QCB and Basel III requirements.

We will now turn to questions and answers. Thank you.

Host - **Aybek Islamov** *HSBC*

Thank you for your presentation, Mark. So, yes, we'll now begin the Q&A session. So, there are three ways to ask questions. You can either type your question in the Q&A box; you can raise your hand and ask your questions live; and thirdly, you can also email your questions. I'll read them out to the management.

So, we have quite a number of participants on today's call. I would like to restrict the number of questions to three, please. So, we'll start with the live questions. I'd like to hand over the question line to Waleed Mohsin from Goldman Sachs. Waleed, please go ahead.

QUESTIONS AND ANSWERS

Q - Waleed Mohsin *Goldman Sachs*

Thank you, Aybek. Thank you, Mark. Thank you, Ramzi. A couple of questions from my side. Number one, if you could talk a little bit about the underlying trends for net interest margin and how sustainable it is. It seems that a lot of the improvement is driven by Turkey. I wanted to understand if this is mostly because of CPI linkers and you've kind of readjusted your CPI assumption for the third quarter and also retroactively for the full year. So, if you could talk about that, like, how much of this is sustainable, what's your kind of outlook on NIM, that will be very helpful.

Secondly, on cost-to-risk, you were expecting some sort of an improvement, we saw that. How sustainable is it? And then if you are - and how are you thinking about your guidance for the full year in terms of cost-to-risk, NIM, and profitability?

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

Okay. Let's start, Waleed, question-by-question. Net interest margin and how sustainable it is, we are seeing good improvement in the third quarter around 3 basis points to reach 257 basis points. I expect by year-end, we're going to be close to that ratio between the 255 basis and 257 basis points. I agree with you, CPI income were a good reason for the increase, but to say, at the same time, we saw a good increase in Egypt and in Qatar, mainly in Doha, mostly because of that - reflecting the three increases that took place in the Fed rate on the loans starting from July 1.

Because we have a good chunk of our assets are priced six months later, and many of these are priced January 1 and July 1. So, the three changes that took place, the three increases were reflected only in July 1. So, the increase is not only in Turkey, but Turkey, Doha, and even Egypt.

Cost of risk, as you mentioned, we said at the beginning of the year and in March and June that we first got the risk to drop. Now we are at 96 basis points. How sustainable it is, we think by year-end, we are going to be between the 95 basis points and the 98 basis points, which means a big drop from where we were last year, which we, because we were at 111 basis points. How we see this progressing in next year, I think we are going to be at the same level, even lower, marginally lower by 5 basis points, but not more than 10 basis points.

Now in terms of guidelines, for the balance sheet, it will be lower than what we have originally gave. We expect at this stage balance sheet to grow between 2% and 4%. P&L will continue to grow as we promised at the beginning of the year between 7% and 9%. Thank you.

Q - Waleed Mohsin *Goldman Sachs*

Thank you, Ramzi. Just to follow up on this. So, we said that there's good improvement, obviously, in the NII, from your comments, it seems it's sustainable. So, I mean, if I look at the difference between second quarter and third quarter, it's almost QAR1 billion improvement in net interest income. I mean, is that kind of run rate sustainable, something close to QAR8 billion per quarter? Because there is an offsetting adjustment in the hyperinflation line, right?

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

Fourth quarter, as you know, it really depends on how many increases we are going to see during the remaining period. Everyone's talking about another one increase. So, technically, in the fourth quarter, we are not going to benefit similar to the third quarter on the increases that took place in the line from January to June. Because even if there is an increase, that increase, we will see it in next January, not in the fourth quarter.

Now, the other important factor is the CPI linkers. It really depends what the inflation rate is going to be in Turkey, but from what we are seeing, it will continue to be high. And that's why we don't drop the net interest income in just - Based on our model, we believe the fourth quarter will be very close to the third quarter in terms of net interest income. Now, what will happen next year? There are 20 factors that would impact what will happen next year. Budget-wise, we're still projecting a growth in net interest income between 6% and 8%, which reflect good and healthy progress in net interest income.

Q - Waleed Mohsin *Goldman Sachs*

Got it. Thank you very much, Ramzi.

Host - **Aybek Islamov** *HSBC*

Thank you. The next question comes from the line of Aaron Armstrong. Aaron, please go ahead.

Q - Aaron Armstrong *Ashmore*

Hi. Thanks for taking the question. It's Aaron Armstrong here. Can you talk a little bit more about the net interest margin outlook, please? So, you mentioned the repricing on the loan side at six-month intervals. Can you talk a little bit more about that, please? And then also on your cost of funding side, how do you expect that to progress? And maybe if we think about kind of one more hike or maybe a pause in the kind of the beginning of next year in a stable interest rate environment, say, for a couple of quarters, what would you expect your net interest margin to do?

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

Now, QNB is a corporate financial institution and that's why you see clusters in the re-pricing of loans. They are not the same month by month. A big chunk of our loans are priced six months LIBOR plus a margin. And many of these, the six months happen during January and during July. So, what happened in July is that they took advantage of the three increases that took place in the first six months of the year.

So, during - let's assume that an increase took place in April, so these loans from us, we will not benefit from that increase in April, May, or June, but immediately in July we will start to take advantage of that increase. And that's why you will see that in January and in July, a big shift in interest momentum based on the increases that took place in the prior six-month period. I hope this is - makes it clearer.

Q - Aaron Armstrong *Ashmore*

That's great. Thank you on the loan side. Perhaps on the funding side, could you talk a little bit about the re-pricing there, please?

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

The fund - the re-pricing of the - in terms of cost of funding, it is close to that, but of course, it makes much more - the mixing is different. It's month-by-month. You are not going to see the big cluster that you have seen in loans.

Q - Aaron Armstrong *Ashmore*

Understood. Thank you.

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

So, you will see maturity. I mean, there are a lot of deposits that are, some of them are one month, three months, six months, but if you look at the maturity month-by-month, you are going to see major variances between each month and the other.

Q - Aaron Armstrong *Ashmore*

That's great, thank you. And on the deposit mix side, are you seeing deposits shift in favor of higher-cost deposits or is it fairly stable?

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

I haven't seen major pickup in cost of funding in the last increase. In the last 25 basis points increase, we haven't seen a major increase in cost of funding for QNB. Whether this will continue in the next one, we need to wait and see.

Q - Aaron Armstrong *Ashmore*

Okay. Why do you think that is?

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

Because the market is liquid, there is no fierce competition with Qatar Riyal funding on the system. And at the same time, we are not seeing major pickup in loans, so banks are relaxed in terms of funding their Qatari riyal deposits.

Q - Aaron Armstrong *Ashmore*

That's great. Thank you. And if you kind of look at a stable, say, interest rate environment for a couple of quarters, maybe the beginning of next year, does that imply a stable NIM for you or because your assets reprice in these kind of six-month intervals, there's kind of a catch-up and your NIM could increase when interest rates stabilize?

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

If interest stabilizes in 2024, I don't expect major change on net interest margin. However, please note that I always said that having an interest margin close to 260 basis points for a bank at our side, close to QAR330 billion is not sustainable for the three to five-year period, especially for a corporate financial institution like QNB.

What I always said is that what is sustainable for an entity at the size of QNB. It's a margin between the 240 basis points and 245 basis points. QNB material benefits from the increase in interest rates in the last two years. Now, hopefully, if the rate stays at this level, 2024 will continue to be solid in terms of interest income.

Beyond that, once interest starts to come down, of course, margin needs to go back to where it used to be three, four years ago, where it was close to 245 basis points. The quickness of the impact will materially drop in how we are going to manage our cost of funding and the repricing of our loans, but this is what is sustainable. If you look at our profitability on a five-year timeline, this is where you need to assume that the normal margin or the sustainable margin for an entity at our size.

Q - Aaron Armstrong *Ashmore*

That's very clear, and thanks very much for taking the questions.

Host - **Aybek Islamov** *HSBC*

Thank you, Aaron. So, our next question comes from the line of Alay Patel, Barings Asset Management. Alay, please go ahead.

Q - Alay Patel *Barings Asset Management*

Thanks, Aybek. Hi. Can you hear me, Ramzi?

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

Yes.

Q - Alay Patel *Barings Asset Management*

Yes. Thanks for the call. Just a couple of questions. On NIMs, obviously, the NIM gets kind of optically inflated with the CPI linkers and Turkey, et cetera, but in your presentation, you generally put out a NIM excluding this for the group of somewhere between 2.5% and 2.6%. So, if we were to model going forward for the group, the Turkish impact, or even for the entire group, rather, 2.5% seems to be like a normalized margin, and then I don't need to worry about hyperinflationary losses, because I want to check this is correct, because in 2022, for example, I think the hyperinflationary impact on net interest income was around on QAR2.4 billion, and you took a hyperinflationary loss of QAR1.7 billion. So far the nine months, 2023, the hyperinflationary impact on net interest income seems to be about QAR1.8 billion, and you've taken a loss of QAR2.7 billion. So, it almost wipes it out a bit. So, is it fair just to kind of say, all right, this bank is relatively immunized interest rate movements, and 2.5% is a normalized NIM, and I don't need to worry about hyperinflationary loss?

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

I prefer that you assume 245 basis points to 260 basis points.

Q - Alay Patel *Barings Asset Management*

Okay. Fine. Thank you. The next question is, if I look at the Turkish segment from the presentation, the contribution in net profit, U.S. dollars, was only $7 million, I think, for the third quarter. In Turkey, you grew loans in dollars by 11% and you had improvement in NIM, I think the NIM was 7% in Turkey, so your net interest income growth is much higher than 11%. But yet, the net profit is down by 85% to only $7 million. The cost-to-risk seems contained, because it's only a 1.3% NPL in Turkey. So, where is the losses coming from? Is it from mark-to-market on investment gains? I mean, a bit of it will be OpEx.

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

Very simple, the hyperinflation. The hyperinflation line, because materially it grew too.

Q - Alay Patel *Barings Asset Management*

Oh, okay. So you take the hyperinflationary loss impacts, of course, in the segmental of Turkey, yes?

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

Of course. Of course.

Q - Alay Patel *Barings Asset Management*

Okay. And just my final question is just on cost-to-risk and asset quality. So, if we were to assume at the moment you're 3.1% NPLs, which is sort of a higher end to where you've been historically -

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

We are not really. We are now - NPL is 3.0%.

Q - Alay Patel *Barings Asset Management*

Yes. 3% NPL. So, if I was to assume, 70 basis points to even 80 basis points cost-to-risk in my numbers on constant 3% NPL, I've got your coverage numbers ballooning out to like 250%. You're not going to do 250% coverage. So, can you explain how you square this -

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

But you're taking -- I think, to end up with this number, you're taking Stage 1, Stage 2, Stage 3. And this is -- this can be misleading to the reader. What you need to take is only Stage 3. Some banks, when they issue their coverage ratio, they include Stage 1, Stage 2, Stage 3, ECL plus provision in the ratio. And this is misleading. You should only take Stage 3 against your NPL. And this is exactly what we do. So, 100% --we have 100% coverage in Stage 3 provisioning for NPL, for Stage 3 loans and this is the way it should be presented.

Q - Alay Patel *Barings Asset Management*

Okay. That's right, yes.

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

Even NII, sometimes when I analyze numbers for banks, even in the region, I get misleading numbers because they include the three stages, and they tell me that their coverage ratio is 120%, but when you take Stage 1 and Stage 2, you end up with not more than 45% to 55%.

Q - Alay Patel *Barings Asset Management*

So, okay. So, I should be just focusing on the QAR25.3 billion in Stage 3 and using coverage based on that number; okay, cool.

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

Exactly.

Q - Alay Patel *Barings Asset Management*

That's it. Thanks a lot. Appreciate it.

Host - **Aybek Islamov** *HSBC*

Thank you, Alay. We are moving on to our next question from Chiro Ghosh from SICO Bahrain. Chiro, please go ahead.

Q - Chiradeep Ghosh *Securities and Investment Company*

Hi. This is Chiro Ghosh from SICO Bahrain. Just a couple of questions. First is, the asset quality of both Turkey and Egypt has remained quite well, especially in an upward interest rate environment, high-interest rate environment. How do you expect this to carry on over 2024 and onwards? So, if you can throw some light on that.

The second question is on the government deposit side. So, I see that the government deposit in this quarter has come off a little bit. So, in a high oil environment, I can understand government loans coming off, but can you throw some light why the government deposits are coming down in the current scenario?

And just one more, just third one is, in the past year, you used to give some guidance on both your Egyptian operation and Turkey operation. So, if you can throw some outlook on these two banks.

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

I'll start with the guidelines for QNB Alahli. Loans 12% to 15%, depositors 23% to 26%, profit and loss between 42% to 47%. And in terms of finance plan, loans 45% to 65%, I'm talking of fixed (inaudible) 45% to 65%, deposits, same number, 45% to 65%. P&L, we are going to be between breakeven to 5%.

Now, in terms of Turkey NPL, NPL ratio now is 1.3%. So, if we look at history, Turkish banks always had an NPL ratio between 3.5% to 4.5%.

We, in the longer term, need to go back to that ratio, because this is a normal ratio for a market like Turkey, it's the 4% to 4.5%. And that's why in the last two years, we have been taking a lot of provision in Turkey, to an extent we reached 166% coverage ratio because we know that NPL will gradually start to pick up, and we want it to be prepared.

Now, in terms of government deposits, I agree with you, there was a drop in government deposits in the last nine months. One of them was to reduce loans, the other one to build more reserves in the Central Bank. So, different factors, how they manage their own funding. And at the same time, there is no major demand from banks to the government to increase the deposit, as we mentioned before, the market is liquid, banks are not major pressure, we don't see growth, material growth in Qatar riyal loan and that's why there's - the government is relaxed, and there is no push by banks to demand more, more share in their own funding that's why we have seen the drop in government deposit.

Q - Chiradeep Ghosh *Securities and Investment Company*

Just a follow-up, so approximately the corporate deposits, the average corporate deposit versus government is there's a huge gap or if you can throw some light, I mean how much the funding cost will go up for this - because of this shift?

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

As you know, governments deal with their deposit exactly like any other corporate.

Q - Chiradeep Ghosh *Securities and Investment Company*

Okay. Okay. That's all from my side. Very clear. Thank you.

Host - **Aybek Islamov** *HSBC*

Thank you, Chiro. Moving on to the next question from Olga Veselova, Bank of America Merrill Lynch. Olga, please go ahead.

Q - Olga Veselova *Bank of America Merrill Lynch*

Thank you. Thank you for this presentation and taking my questions. I have three, please. The first one is on capital. We're hearing that QCB is moving from Basel 3 to Basel 3.5. Can you please clarify for us the timing and which impact we might see from this change? So, this is my first question.

The second question is on NPL on asset quality, what was the source of NPL growth in the corporate segment year-to-date? If you can share this by regions and industries.

And the third question is actually a follow-up on net interest margin. Just to clarify, so 2.57%, which you have in the presentation is a group margin. What was the margin excluding Turkey and Egypt in the third quarter? And what is your outlook on unlikely margin for the next 12 months? Thank you.

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

I agree with you. We started just in the other four. In fact, we have started around six months ago, impact that we have seen now is not material, between 10 basis points to 25 basis points, not more than that.

NPL by sector, there was a pickup in NPL, but it's not that big. I think in terms of sector concentration, I cannot pinpoint one sector that we have seen most of the increase from, but I will point out real estate sector was an important sector, which added to it, but it's not the majority in terms of contribution. NIM, if we exclude Turkey and Egypt, I think you can assume it's between 220 basis points to 225 basis points.

Q - Olga Veselova *Bank of America Merrill Lynch*

That's great. And what about outlook on margin for Egypt for the next year?

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

Egypt has seen good growth in margin during the year. If we started the year at 540 basis points, we ended the year at 650 basis points. Is this sustainable? No. You cannot maintain 615 basis points if you want to increase the book. But what is sustainable? I think, 550 basis points should be sustainable for Egypt. But this will be a long-term movement.

Q - Olga Veselova *Bank of America Merrill Lynch*

Yes. That's great. Just to clarify on the first answer, you mentioned that for now, the impact is small, 10 basis points, 25 basis points. Do you expect more impact to come? So, it's a process, it's not over. And if yes, then what is the timing? Is it - okay.

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

I'm not really, comfortable - I said 10 basis points to 25 basis points, and I think today it's around 10 basis points. But I'm capping at 25 basis points. I don't see more impact from what we have seen until today unless the QCB goes to a more conservative approach, which we have not seen until today on this matter, it will be kept between the 10 basis points and the 25 basis points.

Q - Olga Veselova *Bank of America Merrill Lynch*

Yes. That's great. Thank you, Ramzi.

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

Thank you.

Host - **Aybek Islamov** *HSBC*

Thank you, Olga. We're moving on to the next question from the line of Edmond Christou, Bloomberg Intelligence. Edmond, please go ahead.

Q - Edmond Christo *Bloomberg Intelligence*

Thank you for the call. Can you hear me?

Host - **Aybek Islamov** *HSBC*

Yes. Loud and clear.

Q - Edmond Christo *Bloomberg Intelligence*

Excellent. So, the first question is a broader question. Just looking at the private sector deposit in Qatar, and if I look year-to-date, it's been falling. Is there a reason for the deposit for the private sector to not be growing? I'm just trying to reconcile this with the credit growth we have seen. So, we have seen almost 1% credit growth for the private sector this year, so we'll expect deposit also to be growing. So, what is the rationale behind this?

So, the second question is -- so the pickup in the private sector, probably you were expecting better private sector loan origination than what you have delivered. What's your expectation into next year? And how conservative we should be when we talk about next year asset growth for the bank or the banking sector in Qatar in general?

The last one is, maybe I'm wrong, but it seems you have done some optimization for your cost of funding in Turkey. My understanding, your depository price quicker than loan and you should have a negative carry, but you have a positive here. So, how should I think about the margin for Turkey going forward?

And the last one on margin is, if I may, let's assume the Fed starts next -- half of next year cutting interest rate gradually. Do you have a room to optimize your cost of funding in Qatar and probably you are able to enhance your asset yield and is there an opportunity for margin to be stable? I understand that you don't think margin are stable going forward, but you will expect with cost of funding and some competition on the local liquidity from last year that there is opportunity for Qatari bank to optimize on the cost of funding and gain and falling into the state environment if the cut is gradual, not significant. Thank you.

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

Private sector deposit coming down, one reason is to look at the system of - we have seen a drop, a good drop in management funding and this is a continuation from what happened in the prior year. Again, the increase in deposits, it really depends on the private sector, it really depends on the momentum in loans and the rates that banks are willing to pay. This mechanism impacts the overall growth in deposits.

Loan next year, I'm budgeting 5% to 7%, we have a good sign that next year in terms of growth in the private sector will be much better than this year. Of course, this year was also impacted by the repayments of loans by the states, which we assume will continue next year if all the prices continue at the current level. But in terms of growth in private sector loans, definitely, we see a good momentum, Even in the last quarter, there are signs in terms of new applications for loans that things are moving better than what we have seen in the first nine months of the year.

Margin for Turkey, this is probably the most difficult question that anyone can ask me in terms of how to predict how margin in Turkey will move. This can move every month different from the previous month, depending on 10 factors. But the most important one, how the regulator is going to move in terms of policy. No one can predict what is going to happen. And that's why it's very, very difficult for us to predict.

Last year, we ended up close to 800 basis points. In this year, for nine months, we dropped to 700 basis points. For the third quarter, we have seen major pickup in margin than the first six months. It will be extremely difficult for me to predict how we manage this with our Turkish team quarter-on-quarter, and we focus on short-term loans to short-term deposits to allow us to move very quickly and to absorb any sudden movement in terms of policy.

If it drops rate in the next half of 2024, we always said that. We benefit from an increase in interest rate, and we always said that an increase of 100 basis points positively impacts our total net interest income annually by between the QAR500 million and QAR600 million.

Of course, that number can go down based on how we manage the cost of funding during the period, how much pressure we have in terms of deposits based on the growth in loans; and based on different factors, we can control cost of funding. But at the end, if interest starts to come down, definitely interest margin on a monthly basis will come down, but that interest margin is not huge to an extent that it can impact the group.

Net interest income for the group, now it's around QAR30 billion annually, so an annual increase of QAR500 million, that is manageable in terms of reducing it, we'll reduce the impact. And that's why when we talk about margin, I always say that we need to assume that sustainable margin for the group is not 257 basis points, but it is between 240 basis points and 245 basis points, just to be in the conservative side.

Q - Edmond Christo *Bloomberg Intelligence*

Okay, interesting. Yes, I think this is very clear. And in terms of the cost of funding optimization, I'm right that there has been some action taken in the quarter in Turkey to avoid significant increase in re-pricing of deposits. I mean, you let some deposits go, right?

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

Please drop me an email on this and I'll respond to you based on exactly what took place.

Q - Edmond Christo *Bloomberg Intelligence*

Okay. The last one on the fees. Is it sustainable? The fees has been very strong in Q3. I mean, is it sustainable for Q4?

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

Yes.

Q - Edmond Christo *Bloomberg Intelligence*

Okay, perfect.

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

From what I've seen the momentum in the first quarter, yes.

Q - Edmond Christo *Bloomberg Intelligence*

Okay. Good luck. Thank you.

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

Thank you.

Host - **Aybek Islamov** *HSBC*

Thank you. We're now moving to the next question from the line of Mujib Moosa, CBQ Asset Management. (inaudible), please go ahead.

Q - Mujib Moosa *CBQ Asset Management*

Hi, sir. Thanks for the wonderful set of results. I think early - a lot of questions have been answered, but just to understand a little bit more on the Turkey side, as you rightly mentioned, rising interest rates will help you enjoy a better fit.

From that point of view and understanding Enpara Digital Bank's operation is now concentrating more than a two-third of your overall profit as a finance bank. Do we see the similar trend to continue given the fact that we are seeing increasing loan - retailing of market share and reducing cost-to-income ratio?

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

As I mentioned, to be able to predict how margin will move in Turkey, it's highly dependent on a lot of factors. The most important one of them is how the regulator will move the interest rate system more. This is very important and very difficult to predict, even that's why when we built our budget for Turkey, we built it with three assumptions, using three different scenarios. And some scenarios, there will be an increase, there will not be an increase, or there will be a very fast increase. And so, each scenario ends up with extremely different numbers. At the same time, then you end up with the impact of devaluation, pressure - how much pressure and cost of funding, so different factors. It is very difficult for me to give you a number on how we see margin in Turkey is going to move at this stage. Because I can give you a number, but I can guarantee to you, it will not be very accurate.

Q - Mujib Moosa *CBQ Asset Management*

Okay. Again, coming back on the Turkish side, I mean, your hyperinflation numbers actually has been seeing a sharp increase. I know related to your second quarter, for example, we have seen a quite sharp increase, I mean I just wanted to understand the background behind this. For example, in the currency, it's got devalued from - in the TRL19 to $1 to TRL26 during the second quarter and the third quarter is quite flat. So, are we missing something? I mean, how the hyperinflation is accounted? I mean, can you just throw some light on this so that we understand it better?

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

The hyperinflation number is not impacted by devaluation. The hyperinflation number is impacted by the inflation number that the state issues every month. We have seen an increase by a month of around 9% in July and August. So, there is a major pickup in inflation number that the state is issuing. This is the most important factor that impacts inflation (Multiple Speakers) hit back hyperinflation lines.

Q - Mujib Moosa *CBQ Asset Management*

Okay. So, I mean, do you foresee, I mean, a similar trend going forward also in the fourth quarter?

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

If you can predict inflation in Turkey, I will be able to give you a number.

Q - Mujib Moosa *CBQ Asset Management*

Thank you. Thank you, sir. And one last question on Egypt's operations, sir, if possible, given the recent data upgrade, recent downgrade, which we saw from Moody's on the debt issues and record inflation and going forward in SMCs also, October is coming up and all that, how do you foresee your Egyptian operations in terms of provisions and currency regulation affecting QNB as a group? I mean, overall, what do you see going forward in 2024, sir?

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

The downgrade should not impact the NPL, because loans, deposits in Egypt are Egyptian pounds above. And we carefully manage our NPL and our coverage ratio in Egypt. I don't see the downgrade of the state to impact the NPL ratio.

Q - Mujib Moosa *CBQ Asset Management*

Okay, thank you. Thanks for that.

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

Thank you.

Q - Mujib Moosa *CBQ Asset Management*

Yes.

Q - Host - **Aybek Islamov** *HSBC*

We now have a few questions, which came through the Q&A box; I'll read them out for you. The first question is about the asset policy. Can you please share Qatar cost of risk on a stand-alone basis? Was there any write-back or recoveries from Turkey this quarter?

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

The QD[ph] excludes the Turkey and Egypt. Cost of risk is around 75 basis points. Was there any write back, so you mean write back in Turkey during the quarter? Material -- that will be material impact and net profitability for the group.

Q - Host - **Aybek Islamov** *HSBC*

All right. Thank you. Thank you, Ramzi. Next question, it's about could you comment about the share of GRE deposits in your total deposits, and what led to the decrease in assets and deposits compared to the previous quarter?

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

GRE deposits are 26.6% of the total. What is the next part of the question, please?

Q - Host - **Aybek Islamov** *HSBC*

Yes. What was the reason behind the decline in assets and deposits compared to the previous quarter?

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

Again, it is the sides of the private sector for longer deposits, and of course, it adds to that the decline that took place in terms of devaluation. The devaluation also impacts the overall consolidated number.

Q - Host - **Aybek Islamov** *HSBC*

Sure. Thank you, Ramzi. Another question, which is coming from the Q&A box. It's about M&A plans. What's the long-term strategy regarding the M&A, and what regions is Qatar National Bank looking at?

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

Southeast Asia will continue to be the focus. We are going to continue to be opportunistic if we can find a good target at a good multiple with good potential for growth, we will look at it. But today, obviously, we are not looking at anything specific, but again, things can move if we find a good target at a good multiple, we will look at it.

Q - Host - **Aybek Islamov** *HSBC*

Thank you, Ramzi. Another question from the Q&A is regarding funding. So, we hear that the banks have been guided to lower their international deposits. Is there any guidance to lower your Eurobond issuance as well?

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

No. It is not to reduce non-resident funding, it is more to focus on longer-term funding and to reduce short-term, non-resident funding. This is where the QCB wants things to move forward. But I don't see this impacting our euro markets here and - if you, Mark, have any thoughts.

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

So, exactly as Ramzi says, I mean actually we've been very quiet in the bond markets over the last couple of years, so there's not been a material increase in our EMTN utilization over this period, and correctly as Ramzi says that the focus, if you like, is on extending tenure and the EMTN issuance that we do is longer tenure funding anyway, so there's no pressure or no guidance at all to reduce that number. If anything that will go up slightly going forward.

Q - Host - **Aybek Islamov** *HSBC*

Sure. Thank you Mark, and thank you Ramzi. Another question it's about your FX income that you earn in Egypt and Turkey from your FX operations. Do you hold that income in respective countries or are you able to repatriate it to Qatar?

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

No. This is part of the income of the individual countries.

Q - Host - **Aybek Islamov** *HSBC*

Thank you. We have another question, which came through the Q&A box. Let me read it out for you. Any update on the group guidance? That's the first question. There's a question about the cost (Multiple Speakers) yes.

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

We already answered this question. We said balance sheet 2% to 4 %, P&L 7% to 9%.

Host - **Aybek Islamov** *HSBC*

Excellent. Thank you, Ramzi. We have one question, which is coming in through the live line. It's coming from Deep Shah. Please go ahead.

Q – Deep Shah *J. P. Morgan and Chase*

Hello. Can you hear me well?

Host - **Aybek Islamov** *HSBC*

Yes, we can.

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

Yes. Yes.

Q – Deep Shah *J. P. Morgan and Chase*

Yes. So, actually, I have a question related to deposits, split of deposits with government is 26.6% and corporate is 56.6%. Just wanted to understand in corporates, does government-owned entities are included or it just includes corporates, which are privately owned?

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

This will include only private sector corporates.

Q – Deep Shah *J. P. Morgan and Chase*

Okay. So, Qatar Telecom, which is not owned by - it's owned by government will not be part of corporates, right?

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

Ooredoo? You mean Ooredoo?

Q – Deep Shah *J. P. Morgan and Chase*

In deposit split Qatar Telecom, which is owned -

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

I think they changed their name 10 years ago.

Q – Deep Shah *J. P. Morgan and Chase*

Yes, yes.

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

Ooredoo is part of corporate.

Q – Deep Shah *J. P. Morgan and Chase*

Yes, it's part of corporate even though it's government-owned, so government and government it is -

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

It's a listed company. It's a listed company, it's a private sector, and you cannot see it as government.

Q – Deep Shah *J. P. Morgan and Chase*

Okay. Thank you. No further questions.

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

Sure. Thank you.

Host - **Aybek Islamov** *HSBC*

All right. Thank you, Ramzi. Well, we appear to have no further questions from the audience. So, yes, we're - all right we have from Alay Patel. Yes, Alay, please go ahead.

Q – Alay Patel *Barings Asset Management*

Hi. Sorry. Just one follow-up please Ramzi. Just with the -- I think, the central bank is implementing Basel IV from 1st of January '24. Do you have any indication normally I've been reading that this is actually better for your capital ratios and would you consider given, your currently strong card improving your payout ratio, especially in light of the fact that you don't have any M&A on the horizon?

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

Basel IV will not have positive impact on our capital situation. As we already answered another participant that the impact will be negatively between 10 basis points to 25 basis points.

Q – Alay Patel *Barings Asset Management*

Okay.

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

Because with the way it calculates risk weighting, it punishes some financial institutions, not (inaudible) financial institutions.

Q – Alay Patel *Barings Asset Management*

Okay.

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

To be honest, nothing is coming today that benefits the government, that benefits FIs. Everything that comes, it usually puts more limits to financial institutions around the world, not only in QNB.

Q – Alay Patel *Barings Asset Management*

Okay. So, I guess, if it penalizes 15 basis points to 25 basis points, you're still at close to 20% Tier 1. So, on the dividends, is it just the policy?

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

Are we going to reduce capital, you mean?

Q – Alay Patel *Barings Asset Management*

No, I was just asking if you would improve the dividend payout ratio.

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

No, I think payout ratio is now around the 40%. I think this is where we are going to get between the 40% and 45%.

Q – Alay Patel *Barings Asset Management*

Okay. Cool. Thanks a lot for your time.

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

Thank you.

Host - **Aybek Islamov** *HSBC*

Thank you, Alay. Yes, so at this point of time, we don't have any further questions. Ramzi, would you like to make any closing comments for the call?

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

I just want to thank everyone for participating. The finance for the fourth quarter continues to be very solid and very profitable. We still believe that operating profitability for the group will be around 11%, which is very healthy and very strong, which will allow us to continue to be -- to have a very strong number, but at the same time a conservative number. Thank you all for participating and, hopefully, to see you again in January.

Host - **Aybek Islamov** *HSBC*

Thank you, Ramzi. Thank you everyone for joining this call.

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

Have a good day. Bye.
