IR Call Transcript (Edited Version)
QNB Group Q1 2022 Results

CORPORATE PARTICIPANTS

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

Noor Mohamed Al-Naimi *Qatar National Bank (Q.P.S.C.) – General Manager - Group Treasury*

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

Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Head of Financial Consolidation*

CONFERENCE CALL PARTICIPANTS

Rahul Bajaj *Citigroup*

Waleed Mohsin *Goldman Sachs*

Aybek Islamov *HSBC*

Naresh N. Bilandani *JPMorgan Chase & Co*

Edmond Christou *Bloomberg Intelligence*

Jaap Meijer *Arqaam Capital*

Leah Al Haig *Bloomberg*

PRESENTATION

Operator

Hello, everybody, and a warm welcome to QNB Group First Quarter 2022 Financial Results Conference Call. My name is Bethany and I will be your operator today. I will now hand over to our co-host, Jaap Meijer. Jaap, please go ahead

---

Jaap Meijer *Arqaam Capital*

Thank you, Bethany. Good afternoon, everyone. Thank you for joining us today. This is Jaap Meijer, the Head of Research at Arqaam, and on behalf of Arqaam Capital, I'm pleased to welcome you to the Qatar National Bank's Q1 2022 earnings conference call.

I have with me here today from QNB management, Mr. Ramzi Mari, the Group Financial Officer; Ms. Noor Mohamed Al-Naimi, General Manager, Treasury; and Mr. Mark Abrahams, Assistant General Manager, Trading and Treasury. I'll now turn the call over to Mark Abrahams. Mark, over to you.

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

Thank you very much, Jaap from the Arqaam team for hosting the call today and welcome everyone for our call. Before we begin, it's very important to mention please, this call this for analysts and investors only, and any media should please disconnect now.

I will begin by giving an overview on macroeconomic environment in Qatar. Then I will cover QNB's financial results for the quarter ended 31st of March 2022. And finally, we'll open the floor to questions and answers.

Qatar was one of the least affected countries in the world by the economic effects of the COVID-19 pandemic. This was in large part due to the effective management of the economic support measures launched by the Qatari Government and the Qatar Central Bank. As a result, the economic recovery is in full force, while the banking sector remains resilient, presenting significant growth, ample liquidity, adequate levels of capitalization, high asset quality and robust profitability.

The ramp up of preparations for the 2022 FIFA World Cup are driving a strong growth in Qatar's non-energy private sector. Indeed, the Qatar Financial Center's Purchasing Managers Index, has been indicating expansion since July 2020 and has even accelerated in recent months, reaching

$61.4 billion in February of this year. This signals sustained improvement in business conditions.

Kicking off in November, the 2022 World Cup will be the largest event ever hosted in the region and will boost economic growth across the economy, particularly in transport, communication, media, hospitality, retail trade and other service sectors. In the medium term, tailwinds from investment and increasing hydrocarbon production will drive economic growth, with six new LNG trains planned that will increase Qatar's LNG production by 64% to 126 million tonnes per annum. Positive spillovers from increased hydrocarbon production will combine with diversification efforts and structural reforms to boost economic activity and spending in the manufacturing and service sectors.

Over the longer term, private sector growth will be further boosted by continued structural reforms, including ownership liberalization, the promotion of foreign direct investments, labor reforms, the permanent residency program and several initiatives to support entrepreneurship as well as self-sufficiency in strategic sectors. Qatar is therefore laying a foundation for continued GDP growth over the medium and long term through investment, diversification and stronger private sector growth. I will now move on to QNB's financial results for the quarter ended 31st of March 2022.

Key financial results were as follows. Net profit was QAR3.6 billion or $1 billion, up 9% compared to the first quarter of last year. Robust revenue growth resulted in increase in operating income to QAR7.7 billion or $2.1 billion, up 16%, demonstrating QNB Group's success in maintaining growth across the whole full range of revenue sources, despite market volatility. As a result of higher revenue growth, QNB Group has continued to reduce the cost to income ratio downwards, from 23.4% in Q1 of last year to currently 20.8%. Total assets are at QAR1.108 trillion or $304.5 billion, up by 6% from March 2021.This was driven by growth of 6% in loans and advances to reach QAR763.2 billion or $209.6 billion.

The QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 5% from March of 2021 to reach the current level of QAR788.1 billion or $216.5 billion. This has improved the group's loan to deposit ratio to 96.8%.

QNB Group was able to maintain the ratio of nonperforming loans to gross loans at 2.3%, a level considered to be one of the lowest amongst financial institutions in the Middle East and Africa region, reflecting the very 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 123%. Total equity increased to QAR97.9 billion, up by 5% from March 2021. The bank's capital adequacy ratio stands at 18.9%, comfortably higher than both QCB and Basel III requirements. The group is well capitalized and comfortably exceeds other regulatory ratios.

Operator

Thank you. (Operator Instructions) Our first question comes from Rahul Bajaj from Citibank. Rahul, please go ahead.

QUESTIONS AND ANSWERS

Q - Rahul Bajaj *Citigroup*

Hi. Thanks for taking my question. Really two questions from my side. The first one is on margins, and if I recall correctly, you talked about a gradual sort of 2 to 3 basis point kind of compression in margins over the next few years per annum. I just want to say and understand how do you think about margins now in Qatar, Turkey and Egypt, the teaming geographies with the rate projection that we are now talking about 6, 7, 8 kind of rate hikes this year? And how do you think that will kind of pan out on your margins, specifically in Qatar, but also in Egypt and Turkey where we are also seeing rate hikes, especially in Egypt, so that's kind of my first question?

My second question is on the kind of loan momentum that we saw in the first quarter of the year. Corporate lending growth appear to be pretty weak. I'm assuming there are a bunch of repayments happening there. Just wanted to understand how is your outlook for kind of lending growth on the corporate side and also kind of at group level, do you expect these repayments to continue for the remainder of the year? Thank you.

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

Thank you. Margins in the first quarter was much stronger than we have anticipated at the end of last year, considering the progress and interest in Turkey and Egypt and in Doha, and in many other jurisdictions where we operate. And that's why, we've seen margins increasing by 2 basis points from 247 to 249, which is a good momentum, which we are hoping to continue. We always said that an increase in fed rate by 100 basis point will have a positive impact on net interest income of around QAR500 million.

Of course, there's many factors because this is a model-based calculation. But in reality, many factors can impact the net added value of an increase. But definitely, there will be major added value from the increase in interest rates in Qatar or in most of the countries where we operate considering the structure of the balance sheet that we have built.

Based on this and based on the expectation of more than two hikes because in the budget, as I said in December, is that we budgeted for two hikes. Now we are seeing or expecting more than two hikes, actually much more than two hikes. Based on this, we expect margin to grow this year. The extent of the growth, we need to wait to fully calculate the overall impact. But I can say today, but I would not be surprised if we see margin growing by 5 to 7 basis points by end of this year, which will be very positive to the overall operating income for the group.

Loan momentum, I agree with you, it wasn't as strong as we wanted it to be. Egypt and Turkey continued to show good number. In Qatar we haven't seen the growth that we wanted. We always knew that when the state or oil prices come down, the state need to borrow and QNB benefit. When oil prices and gas prices are high, the state will become very liquid. And some of the loans they have borrowed during low oil prices will be repaid, which is natural, we know this. We expect this to continue but we have seen this about four or five years ago when oil prices were close to more than $100, QNB at that time shifted focus more to international expansion in terms of loans. And this is probably what we are going to do now. You are going to see more growth in loans coming from international market to compensate the low growth in loans in the public sector in Qatar. The private sector will continue to be growing, the momentum of growth we need to wait and see.

So in summary, the guidelines for loans that I gave at the beginning of the year, which I was talking about 6% to 8%, today I would say it's around 5% to 7%. It's lower by 1%, which is a big number at the group level. The second issue that we have to realize that the devaluation of 15% in the Egyptian pound impacted the growth of the balance sheet. So when you look at an absolute number of growth in loans, the devaluation even in Turkey or in Egypt impacted the overall growth in the balance sheet during the first quarter. But still I agree with you that the overall growth in loans, it wasn't as we anticipated at the beginning of the year. Thank you.

Q - Rahul Bajaj *Citigroup*

It's useful. Thank you.

Operator

Our next question comes from Waleed Mohsin at Goldman Sachs. Waleed, please go ahead.

Q - Waleed Mohsin *Goldman Sachs*

Yes. Thank you much. Good afternoon. Thank you for the presentation. A couple of questions from my side. The first one, if you could please talk about what impact you expect from the devaluation and I would say the rate hike as well? I mean you talked about the rate hike impact. But the impact of devaluation on the Egyptian business, both in terms of asset quality or capital and loan growth. And how should we think about the recent developments in Egypt impacting your business? Secondly on the same question, things seem to have at least from the outside normalized in Turkey, currency has been stable and there's been some de-dollarization in deposit market, but your thoughts on that front, what's happening on the ground in Turkey, both in terms of liquidity would be very useful?

And finally, Ramzi, if you could please provide an update on your guidance. I mean you talked about loan growth, but some of the other items like credit quality, et cetera, especially given that we see that you've built up NPL coverage again during the first quarter. There was a small move in Stage 2, but it seems that overall coverage had been strengthened again during the quarter. So your guidance for the year, especially on cost of risk will be very helpful. Thank you.

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

I will start with guidance, because this -- we'll ask --we've given answers to the first and second question, Egypt and Turkey. Now in terms of overall guidance for the Group, balance sheet we expected to be 5% to 7%, whether it was asset loans or deposit. Profit and loss, it will be 7% to 9%. In terms of Egypt, no major change from what the guidelines I gave before. Asset, 12% to 14%, loans 11% to 13%, deposits 12% to 14%, profit and loss marginally higher, 18% to 20%.

Now Turkey definitely there are major change in the guidance considering the number that we have seen. In assets, we now move to 30% to 35%, loan 35% to 40%, deposit 35% to 40% and profit and loss 65% to 70%. It could be even higher than that in profit and loss. So definitely, there are positive movements on the guidance for Turkey. Egypt is close to the same. And for the group, the balance sheet guidance, very marginally lower, whereas the profit and loss still the same. Now in terms of the devaluation and the impact on loans, of course, it's still too early to mention. However, the coverage ratio on Egypt, which we always have more than 100% clearly show that we wanted to be very conservative in how we manage our business in Egypt.

Today, we stand at 110%. This is the ratio we want to keep. NPL ratio marginally grew from 3.4% to 3.5%. I expect it to grow even a little bit higher, but overall coverage ratio will continue to provide a buffer and protection for the group. We have seen good momentum in terms of business and growth in loans much better than last year. We have now a new management that clearly show a strong momentum and how they are managing the business, especially how they are managing the overall margin for the group. They are giving much more focus on retail business, which is something we wanted all the time. Margins is extremely an important factor where they focus. The way they are managing cost is also very beneficial for the group today. In the first quarter, we have seen cost to income ratio materially dropped from 28% last year to 24.5% this year.

So from the way that numbers are being developed in Egypt under the new management, we are seeing good momentum, which definitely we hope to see continuing. Growth number this year will be much better than last year. Return on equity will continue to be strong. Cost of risk will be materially higher than last year because this is the momentum that we wanted to keep in order to ensure that the coverage ratio will continue to be strong.

QNB Finansbank, definitely with the market that we are seeing, I can't say it's stable, but what I can say is that we are used to what we have seen. And management in Turkey, as I mentioned before, it is something that they have lived with for the last 20 years so they are used to it and they know how to manage it. And the way they manage the overall hedging of the balance sheet ensure that they are protecting themselves against any changes.

We are seeing -- we have seen extremely strong progress in numbers in Turkey. We have seen margin materially growing close to double and we expected this to be honest because interest of last year in the first quarter was extremely weak whereas it started to progress in the third quarter of last year. Fourth quarter was materially better. First quarter of this year was continuation of the momentum that we have seen in the fourth quarter last year, which is very good. This will continue and we expect interest in Turkey to continue to be strong this year. And we need to give credit to the team in Turkey who were able to manage the overall structure of the balance sheet, whereby they will benefit from the situation that we have today.

Again, cost to income ratio materially improved. We have seen a drop from 35% last year to 28% this year, which is again a good momentum in terms of how they are managing their overall operating income. NPL dropped from 3.1% to 2.6%. Coverage ratio materially improved from 122% to 129%. So we can summarize by saying, Turkey business this year is a very good story, a good momentum. We have seen -- the decision that we have taken as executive management last year and the way we structured the balance sheet, we are now gaining from the hedges that we have built and we hope that this will continue for the rest of the year.

Overall for the group, we have seen a much stronger growth in overall operating income. I was talking about 10% to 12% of operating income growth. Now we are seeing 16%. This is very strong. And this has pushed us to increase cost of risk. And this should not be a surprise to analysts because I always said is that if we see operating income growing stronger than we anticipate, the only way for us to be able to manage the overall growth in the profitability is by pushing our cost of risk a little bit higher. And that's why cost of risk moved from 92 to 97 bps. And the overall result is that we were able to increase our coverage ratio from 117% last year to 123% this year, which is very good. The only issue that I'm going to have in the coverage ratio is that the resistance of the external auditors on this ratio because based on the standard, your coverage ratio should not be more than 100%.

However, at this very high ratio clearly show that there is not -- something not correct. You are being too conservative and you are building a provision on nothing, which they will not accept. This will push me gradually to increase NPL ratio because this is the only way for me to manage the coverage ratio is by pushing NPL ratio higher. NPL ratio in the first quarter stood at 2.3%, the same as 2021. I think this will marginally start to grow in order for us to be able to manage the overall coverage ratio. We're not surprised if we see it at 2.5% by end of this year.

Waleed, I think this is the summary of the three questions together.

Q - Waleed Mohsin *Goldman Sachs*

No, that's perfect. Very clear, Ramzi. Just one thing should -- if the NPL ratio moves up as you stand today, you would expect it to -- Turkey to be the driver or Egypt to be the driver?

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

Turkey will not be the driver for NPL this year. I think the bulk of that driver would be -- Egypt will never be able to contribute the number that I need to manage the coverage ratio. I think it would be the bulk will be from Doha and partially from Egypt, but not from Turkey.

Q - Waleed Mohsin *Goldman Sachs*

Well, Ramzi, this is very helpful. Thank you so much, as always.

Operator

The next question comes from Edmond Christou of Bloomberg Intelligence Research. Edmond, please go ahead.

Q - Edmond Christou *Bloomberg Intelligence*

Hi. Thanks for the call today. Just a follow-up on the cost of risk. If I hear correctly, you said the cost of risk will be materially higher than last year. And I do understand the concept of building a buffer on Stage 3 and the limitation from editor. But I'm a bit surprised that 2.5%, it's the level you are targeting by the end of the year, which I thought it will give you more room to build more buffer. And the NPL in Qatar, this is mainly driven by specific sector where you see there is proactive downgrade for you and how much it takes in terms of time for this NPL to go back to Stage 2 and Stage 3? What is the progress there?

The second question I do have is on Turkey. So when you talk about the loan growth of 35% to 40%, if I'm correct. Is this organic growth? Or its conversion of dollar and to lira loans? Just want to understand how much of that is organic and non-organic.

And the last question is on the cost of funding. When I look at the dollar spread for that, it's around 100 basis point. It hasn't picked up regardless of the tapering or hawkish fed and interest rate rises expectation. I think the oil prices probably has helped in this. So do you expect more assurance on that this year? And how do you see the energy prices and the excess of liquidity within the government helping the cost of funding and local market in Qatar? And what's your expectation on the cost of funding in Turkey? Thank you. Sorry, for asking a few questions.

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

To be honest, you asked same questions, some of them is economy, some of them is financial, some of them is liquidity and I will be honest with you that I got lost. I prefer that you ask two or three question whereby I can focus on them. In terms of the overall issuance that we expect, I will let Mark answer this.

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

Certainly, Ramzi. Can you hear me, Edmond?

Q - Edmond Christou *Bloomberg Intelligence*

Yes, I can hear you.

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

Okay. Yes, in terms of issuance, we've got a relatively light refinancing profile this year. In light of the volatility of the markets and in line with what I've said to you before, we are a very opportunistic issuer. We always have been, we always will be. We don't have a requirement to do X amount per quarter. So we never have done and that's not the way we run our wholesale funding. So we have a very, very strong, healthy dollar liquidity buffer. That's even increased for reasons that you said obviously because of the current situation, the elevated hydrocarbon pricing, we are finding more significant revenue coming into at a sovereign level. Obviously, that is filtering down to the banking system, QNB is a major part of that.

So from a dollar liquidity point-of-view, we're particularly comfortable at the moment, and we remain very opportunistic indeed in terms of where we would issue in the future. If we see a window, we can move very quickly. But at the same time, if we feel that spreads are widening out that overall cost more expensive that is not a market that's good for issuance, you will not see QNB in the market.

So I think to summarize, very healthy liquidity position in riyals and in dollars as well as the revenues from the State of Qatar. We're also seem to be a preferred safe heaven, if you like, funds on a global basis, so we're being very selective indeed, taking high-quality, longer-term money, selectively very, very fair pricing. And then the last part of the issuance piece I think again is that we also run as well as coming to the market in the public space, we're in active banking in private placements too, and that's a major piece of what we do. And because of that being very proactive for QNB that also further decreases the need for us to go to the market, okay?

Q - Edmond Christou *Bloomberg Intelligence*

Okay. Thank you. Very helpful.

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

Going back to the question, Edmond. Turkey, very quickly. This is organic growth. The question about the cost of risk and the growth in cost of risk and how we're going to manage Stage 3, Stage 2, Stage 1? Now for me to push NPL ratio to 3%, I need to have the best trade-off between managing the NPL ratio, managing the coverage ratio, managing the cost of risk and not showing weakness in the overall portfolio of QNB. If I push the ratio from 2.3% to 3%, many people will look at this, even though it can be adjusted as weakness in the book, which will put me under pressure. So at that point, I need to overall manage that growth in NPL in a way to ensure that I manage the coverage ratio without giving a wrong idea to some people that there is weakness in the book itself.

So some of the loans will move from Stage 2 to Stage 3 even though they don't need to because I need to manage the ratio. But at the same time, I need to be careful about to what extent I use that tool to manage the coverage ratio. Number two, when these loans that are Stage 3 can move back to the Stage 2 or Stage 1, it really depends account-by- account, based on the condition that we are going to have. But definitely, we are going to see some of these move directly. What -- the way we need to manage this is that is to continue to push for a stronger operating income. We're still optimistic that this year will be a very strong year in terms of operating income, which will give us even much more room to increase some of the provisions that we need to take. So we need to look at this on a quarter-by-quarter basis based on how we are seeing the progress and the operating income. And based on this, we will manage the cost of risk and the overall NPL ratio. Hopefully I was able to answer the question that you.

Q - Edmond Christou *Bloomberg Intelligence*

Yes. Very helpful. Thank you. So I think I am correct to assume that Stage 3 is likely to pick up and you will build a buffer on that as well. You will be strengthening it as a Stage 3 pick-up, now it's around 6.7%.

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

It will pick up, but it will always depend on how I'm going to see the coverage ratio progressing.

Q - Edmond Christou *Bloomberg Intelligence*

Okay, sounds good. Thank you. Really appreciate it. Thank you.

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

Thank you.

Operator

The next question comes from Aybek Islamov at *HSBC, Aybek*, please go ahead.

Q - Aybek Islamov *HSBC*

Yes. Good afternoon, good morning, everyone. Thank you for taking my question. I wanted to ask you about Egypt. So it looks like your subsidiary in Egypt, they had to revise down their dividends. I believe it's upon the recommendation of the Central Bank. Can you please elaborate on the Central Bank action? I think your subsidiary will not be the only one to receive that recommendations from the Central Bank in Egypt. Secondly, on the loan growth, while the start of the year a bit week, but when do you expect the loan growth to recover? Is it second quarter? Where do you see the pipeline today excluding repayments? That's my second question. Yes, that's it. Thank you.

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

Aybek, I will start with the second question, which is loan. It is extremely difficult for us to project the progress in loans quarter-on-quarter because it's highly impacted by the action by the state. If oil prices continue to be strong, we will see more drop in the overall exposure to the government, which will impact the overall growth in loans in the group. As I mentioned, you are going to see more growth coming from overseas operation, our branches in Singapore, London, Paris, Kuwait, Oman, of course. But this growth will never be able to compensate any material drop that takes place from the state.

So for me to give you a number now, I might be wrong in the longer term, because it's highly dependent on action taken by a party that we cannot control. But the momentum that we are seeing today in loan is not as we have expected when we built the budget. And that's why the guidance came down from 6% to 8% to 5% to 7%.

In terms of Central Bank action and any comment on this. To be honest, I'm not used to comment on actions or recommendation by Central Bank. The drop in dividends that took place in Egypt was based on different factors. It's not only the Central Bank of Egypt who will tell us do this or don't do that. At the end, the most priority is what is the best for the business this is how the decision was taken. Capital adequacy ratio in Egypt today stands at 22.5 last year it was 22.8. Considering the momentum of growth in loans that we are seeing, we really need a stronger capital in Egypt because to allow us to continue to grow more than 12% to 14% in loans year-on-year. So whether this the same decision will be done for other banks, I really don't know and it can't be anticipated on that.

Q - Aybek Islamov *HSBC*

Very helpful. Thank you, Ramzi.

Operator

The next question comes from Naresh Bilandani from JPMorgan. Naresh, please go ahead**.**

Q - Naresh N. Bilandani *JPMorgan Chase & Co*

Yes. Thank you. Hi, Mr.Ramzi. It's Naresh Bilandani from JPMorgan. Three questions, please. One is, if you could please comment on the improvement in the delivery that we have seen in income from associates, since we don't have a detail from the associate investments in the first quarter and the good delivery we've seen that will be helpful. If you can please throw some light there. That's the first question.

Second is just to follow up on the question that Aybek posed on the loan growth. I mean going into the later part of the year into Q4 should we anticipate any temporary pick up in the loan growth given the event that the FIFA event that we are going to see in the country? Or will it just be more economic momentum, but not necessarily translating into growth? Even if temporarily, I'm just trying to understand how should we think of the later part of the year from a balance sheet perspective.

And the third is -- third question is, if you could please throw some light on the point where you mention that you would look to increase the NPL/Stage 3 ratio? How does this one go about doing that? I know in some of the systems, there's a regulatory requirement that if loan stays in Stage 2 for a certain period of time, even if it is performing, it has to be moved to Stage 3. But just keen to understand this point better from you. Thank you.

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

Okay. I'll start with associates. Income from associates come mainly from three parties HBTF in Jordan, ETI and CBI. The three if you look at their individual number, they showed materially strong growth in profitability 2021 versus 2020, and this of course would reflect in terms of the numbers. 2020, all of them were highly impacted by the coronavirus. '21 was much better for them, and we have seen good progress. Some of them even show double the number of profitability that they have shown in 2020.

And then of World Cup, do you expect loan growth in fourth quarter to be higher? Not really, because any project or any investment that the country need to do for the World Cup, it had to finish maximum by the second quarter of this year. And that's why I don't see a pickup in the fourth quarter loans, just because of the World Cup, because I don't see the relationship between the World Cup and loans. And all projects related to the World Cup or any borrowing related to the World Cup would have been done much earlier than the fourth quarter.

NPL. For you to classify a loan on NPL, there are maybe 10 or 12 criteria defined by Central Bank regulation, which show to tell when you need to move a loan from Stage 1 to Stage 2, Stage 2 to Stage 3. It's not only the days of past dues, so you are -- you have a lot of room for you to move loans and to justify the movement of some loans to Stage 2 -- from Stage 2 to Stage 3. The regulator usually don't argue with you when you are conservative. They will strongly argue with you if you want to move a loan from Stage 3 to Stage 2, because you need to clearly show that the loan is stronger. However, for you to be conservative and move some loans from Stage 2 to Stage 3 because you have a reason, it's not need to be only past dues. They can give you more room because every single central bank in the world like any banks regulated by them to be conservative.

Q - Naresh N. Bilandani *JPMorgan Chase & Co*

Okay, Mr.Ramzi. Thank you.

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

Thank you, Naresh.

Operator

The next question comes from Leah Al Haig from Bloomberg. Leah, please go ahead.

Q –Leah Al Haig *Bloomberg*

Hello. Thank you for taking my question. I just have a question concerning the foreign currency translation reserve, there's a QAR2.5 billion addition to that. I was just wondering how much of it comes from Egypt and how much of it comes from Turkey? And also just my second question is a follow-up from before. So how much are your budgeting for the private sector loan growth for this year? Thank you.

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

The translation reserve, 2/3 is coming from Egypt, 1/3 is coming from Turkey. Private sector, as far as the record, I don't have the number in front of me. But I remember it was around 6% to 8%.

Q – Analyst

Okay. Perfect. Thank you.

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

Thank you.

Operator

We have no further questions at this time, so I'll hand it back to management team for any further remarks.

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

I want to thank everyone who participated on the phone. Good numbers in the first quarter. We are optimistic for the second quarter and for the rest of the year. And hopefully that we will meet again with good numbers in the second quarter. Please enjoy the rest of the day and see you in three months' time. Thank you.

Operator

This concludes the QNB Group First Quarter 2022 Financial Results Conference Call. Thank you for joining. You may now disconnect your lines.