IR Call Transcript (Edited Version)
QNB Group Q2 2022 Results

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PRESENTATION

Operator

Good day and welcome to the QNB Group's Second Quarter 2022 Results Call. Today's call is being recorded. At this time, I would like to turn the conference over to Ms. Elena Sanchez. Please go ahead.

Elena Sanchez *EFG Hermes*

Thank you. Good afternoon and good morning, everyone. This is Elena Sanchez from EFG Hermes. And I would like to welcome you all to QNB Group's Q2 2022 results conference call. It is a pleasure to have with us on the call from QNB Mr. Ramzi Mari, Group's Chief Financial Officer, Ms. Noor Mohamed Al Naimi, General Manager, Treasury, and Mr. Mark Abrahams, Assistant General Manager, Trading for Treasury. The call will begin with a presentation from QNB on the economic environment of Qatar and the recent Q2 results results and then we will open the floor for Q&A. I would like to hand over the call now to Mr. Mark Abrahams. Please go ahead. Thank you.

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

Thank you very much, Elena and the EFG Hermes team for hosting the call today. Before we begin, it is very important to mention that this call is for analysts and investors only and any media should please disconnect now. I will begin by giving an overview of the macroeconomic environment in

Qatar. Then I will cover QNB's financial results for the six months ended 30th of June 2022 and finally, open the floor to questions and answers.

The ramp-up of preparations for the 2022 FIFA World Cup are driving strong growth in Qatar's non-energy private sector. Indeed, the Qatar Financial Centre's purchasing manager's index has been indicating expansion since July 2020 and has even accelerated in recent months, reaching 67.5 in June 2022. 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.

Qatar's post-pandemic economic recovery is now in full force, while the banking sector remains resilient presenting significant growth, ample liquidity, adequate levels of capitalization, high asset quality and robust profitability. In the medium term, tailwinds from investment in increasing hydrocarbon production will drive economic growth, with six new LNG trains planned. Positive spill overs from increased hydrocarbon production will combine with diversification efforts and structural reforms to boost economic activity and spending in the manufacturing and services 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, labour reforms, the permanent residency program and several initiatives to support entrepreneurship as well as self-sufficiency in strategic sectors. Qatar is therefore laying the 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 six months ended 30th June 2022. Key financial results are as follows. Net profit before the impact of hyperinflation was 7.8 billion Qatari riyals or 2.1 billion USD, very robust growth of 15% compared to the first half of last year. The accounting for a non-cash hyperinflation adjustment impacted the profits. Nonetheless and despite the challenging conditions reported, net profit after the impact of hyperinflation was 7 billion Qatari riyals or 1.9 billion USD, up 4.4% compared to the first half of last year. Robust revenue growth resulted in an increase in operating income to 16.3 billion Qatari riyals or 4.5 billion USD, up 20%, demonstrating QNB Group's success in maintaining strong growth across the range of revenue sources, despite the strong market volatility. As a result of higher revenue growth, QNB Group has continued to reduce the cost-to-income ratio downwards from 22.9% in first half of last year to currently 20.2%. Total assets are at 1.1 to 4 trillion Qatari riyals or 308.8 billion USD, up by 6% from the same period last year.

This was primarily driven by growth of 3% in loans and advances to reach 766.1 billion Qatari riyals or 210.4 billion USD. QNB Group remains successful in attracting deposits, which resulted in an increase in customer funding of 4% from June 2021 to reach 794.8 billion Qatari riyals or 218.3 billion USD. This improved the group's loan-to-deposit ratio to 96.4%. QNB Group was able to maintain the ratio of non-performing loans to gross loans at 2.4%, a level considered to be one of the lowest among financial institutions in the Middle East and Africa region, reflecting the high quality of the group's loan book and the effective management of credit risk. In addition, the coverage ratio on stage three loans is at 123%. Total equity increased to 102.6 billion Qatari riyals, up by 5% from June 2021. The bank's capital adequacy ratio at 18.9% is comfortably higher than both QCB and Basel III requirements. Just before we begin our Q&A, though, we welcome all questions and we'll address them broadly, in the interest of everyone's time, we would suggest that any detailed questions on the specific intricacies of the application of IAS 29 and hyperinflation should be taken one on one with our investor relations team. We will now turn to Q&A. Thank you.

Operator

Thank you. If you would like to ask a telephone question, please signal by pressing star one on your telephone keypad. Please ensure your mute function is turned off to allow your signal to reach our equipment. Again, it is star one to ask a question. We will take our first question today from Amit Mamtani of Goldman Sachs. Please go ahead. Your line is open.

QUESTIONS AND ANSWERS

Q - Amit Mamtani *Goldman Sachs*

Hi. Good afternoon. Thank you for the call and the presentation. So I have two questions. Number one, it seems that the NIMs trend is driven by Turkey whereby the Turkish banks have benefited from wider lending spreads. What is your outlook here given that deposit costs have started increasing recently and spreads should tighten? And number two, close to solid core Q2 results, excluding the impact of inflation accounting, what changes are you making to your full year guidance? Thank you.

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

Now at the beginning of the year, we talked about an increase in NIMs between four to five basis points during 2022. As of June, we are three basis points higher than December. By end of the year, we expect to be between six to seven basis points from last year. We are going to achieve a better number in terms of interest. I agree with you that some of that is impacted by Turkey, but at the same time we are seeing an improvement in them at overall levels within the Group. In terms of guidelines for 2022, after the impact of hyperinflation, balance sheet will be around 3% to 5% growth. Profit and loss after hyperinflation 4 to 6%. Before hyperinflation, it will be 14% to 16%. This is the updated guidance as we stand.

Q - Amit Mamtani *Goldman Sachs*

Thank you. That's helpful.

Operator

Thank you. We will take our next question from Rahul Bajaj of Citi. Please go ahead. Your line is open.

Q - Rahul Bajaj *Citigroup*

Hey, thanks for your call and the presentation. I have two quick questions to ask you. The first one is on provisions. So if I look at the segmental disclosure, it feels like that the Qatari business provisions have come down quite materially, especially in the corporate segment during the quarter. And is it fair to assume that you have kind of now returned to some normalized level of provisioning within the Qatari business, whereas outside Qatar, especially Turkey and Egypt, it appears that provisions are higher, probably due to hyperinflationary accounting. But is kind of this thesis largely correct? That's my first question. The second question is on lending growth. So lending growth continues to remain slightly muted, both in Qatar and outside Qatar. Just want to understand, what are you thinking and seeing around pickup in lending that might come on the back of the infrastructure projects in Qatar or kind of the secondary impact of the LNG expansion? When should we expect lending growth to come on the back of these kind of catalysts? Thank you.

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

In terms of provisions, I'm looking at the details of the number in front of me. I'm not seeing a drop in provisioning within the Group, within the head office. If we look at, for example, number excluding QNB Finansbank and QNB Al Ahli, cost of risk in June was 76 basis points, which is exactly where we stood in March and marginally higher where we were in December. So the level of provisioning at the group level, excluding Turkey and Egypt, is still exactly the same. I agree with you that there was a material increase in provisioning in Turkey, which is normal because we want to take as much buffer to protect the entity for the longer term, especially which this year is a good year in terms of performance for Turkey.

In terms of lending growth, at the beginning of the year we were talking about 5% to 7% growth. Now we are talking about 3% to 5%. So definitely, we do not expect the growth to be as much as we were hoping for. This year is a World Cup year and the focus is in finalising the projects that started three, five years ago. And we are not seeing a lot of new projects other than the North Field Expansion. Now we expect this to continue until the end of the year, but this will reflect positively on the next year. We expect much better growth in loans in 2023. And our expectation is that next year we will go back to the 5% to 7% growth in loans.

Q - Rahul Bajaj *Citigroup*

Thank you. If I could maybe ask one follow-up question, this one is on the hyperinflationary accounting. So just from a modeling perspective, I'm thinking about how to build my model in the future. Is it fair to assume that some sort of hyperinflationary net monetary charge like you had in the second quarter will continue in the near future till the time Turkey is out of this hyperinflationary mode? Is that a fair assumption?

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

Agreed, but the overall implication of that number will be much lower because the capacity of the Group, number one, we do not expect it to be as much as it is now because what the number is now is for six-month period and at a time when the inflation in Turkey is extremely high. So it will continue. You will continue to see it, but the magnitude of the number, we don't see it to be as you saw in June.

Q - Rahul Bajaj *Citigroup*

Understood. Thank you so much.

Operator

Thank you. We will take our next question from Sunil Jain of JP Morgan. Please go ahead.

Q - Sunil Jain *JP Morgan*

Hi, this is Sunil Jain from JP Morgan. Thanks a lot for taking my questions. I had a question on whether the hyperinflation related charges, will they have any impact on your dividend outlook? In the past few years, I believe your payout has ranged between 35% to 40%. So is it fair to assume a similar range this year and the medium term? So that is my first question. And my second question is related to your non-interest income. In Q2, we saw good strength in your fee income and also income from FX gains. So I just wanted to check, is this related to hyperinflation or is it underlying growth and what are the drivers behind this? Thank you.

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

Hyperinflation impact is a non-cash impact. And that's why from a financial perspective, we don't see it as impacting the pay-out ratio for the Group in the longer term. The recommendation that we are going to send to the board in the year end is for them to- for the board to - ignore the implications of hyperinflation and not to impact the pay-out ratio, because technically this is a non-cash impact and that why should be ignored from a dividend pay-out ratio.

For non-interest income, definitely, Turkey has an implication because of hyperinflation, but at the same time, Egypt did a one-off major profitability of FX due to the devaluation that took place on the currency because of how their position within the entity. Qatar is still doing very well in FX income and in fee income. So inflation had a share in the growth, but the other 50% of the growth is coming from the normal operation within the Group.

Q - Sunil Jain *JP Morgan*

All right. Thank you so much.

Operator

Thank you. As a reminder, if you wish to ask a telephone question, please signal by pressing star one on your telephone keypad. We will take our next question from Chiro Ghosh form SIRO. Please go ahead. Your line is open.

Q - Chiro Ghosh *SIRO*

Hi, this is Chiro Ghosh. I have two questions. First one is about the loan growth. What are loan growth in the Qatar economy? How do you see it? Is there still high demand or high oil prices actually now starting to impact increasing the repayment? That's my first one. Second one is, I don't know whether you answered it or not that the Turkey NPL ratio seemed to have been quite good. I mean, in this environment, it is very counterintuitive. You will expect NPL ratios to go up. If you can throw some light on what is the asset quality scenario in Turkey.

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

Loan growth. I think your question is focused on Qatar standalone. Now, if we look at Qatar numbers, QNB number, growth in loans in Qatar was close to zero. There was a drop of around 1% on public sector loans and there was an increase of 1% on private sector loans. So overall, the momentum is not very strong. We expected at the beginning of the year that if all the prices continue to be 70 and above, we are not going to see material increase on public sector loans. On the contrary, we might start seeing a drop in public sector loans and this is what we have seen in June and we expect this to continue until the end of the year. Overall, growth in loans in 2022, as we expected, will not be strong. And we expect it to be between the 3% and 4%, not more than that.

In terms of asset quality in Turkey, now this year, we have seen material drop in NPL numbers from 3.1 to 2.1 because, you know, when there is inflation, many people are more capable of repaying some of the loans they took a long time ago and this is what we have seen in Turkey. A lot of customers repaid their long standing loans and that's why this helped us in improving coverage ratio from 122% to 137%. Now, this is for 2022. However, for 2023, we expect there will be pressure on NPL again. And that's why we are building more and more provision at this stage in order to ensure that any implication on 2023 will be managed.

Q - Chiro Ghosh *SIRO*

I am just wondering if it’s 3% to 4% loan growth that you said. This is for Qatar or for the Group, in effect.

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

No, that's for the group as a whole. I don't think Qatar will be more than 2% to 3%.

Q - Chiro Ghosh *SIRO*

Okay. That's it for me. Thank you very much.

Operator

Thank you. We will take our next question from Rahul Soni of Avalon Global Research. Please go ahead. Your line is open.

Q - Rahul Soni *Avalon Global Research*

Yeah. Hello. Thanks for taking my question. Am I audible?

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

Go ahead.

Q - Rahul Soni *Avalon Global Research*

Yeah. So on slide number 18, where you have shown the breakup of NPL, I want to understand what December 2020, your SME and retail LP and portion of NPL has come down while the corporate portion of NPL has gone up. So why we have seen this increase in the corporate loan.

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

The quick answer is a Turkish devaluation.

Q - Rahul Soni *Avalon Global Research*

Yeah. Sorry.

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

It's mostly Turkish devaluation because most of that book is in Turkey and the devaluation in Turkey impacts the number.

Q - Rahul Soni *Avalon Global Research*

Okay. And one disparity I have observed. While your non-performing loans and provision coverage ratio for QNB Al Ahli, while the NPL is higher at 3.7%, the coverage ratio is low 103%, while the same for the QNB Finansbank, the NPL lower 2.1% while the coverage is higher at 137%. So why this disparity between the two data?

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

I think that the main reason is that we are more relaxed on NPL numbers in Egypt and we are happy with the coverage of around 103, whereas in Turkey we still believe that 2023 will have- might have some pressure on NPL and that's why we want to build much more provisioning this year for Turkey. And at the same time this year we are enjoying a significant growth and profitability in Egypt, which gives us a lot of room to build more on the coverage ratio.

Q - Rahul Soni *Avalon Global Research*

Last question, if you allow. On slide number 15, while the net interest income and operating income over June quarter 2018 to 2022 have achieved a CAGR of 8% to 9%, while at the same time net profit has remained more or less flat between $1.8 billion to $2 billion. So why the profit has not grown in line with NII and operating income?

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

Because we have been managing the overall growth and profitability through increasing our cost of risk and improving our coverage ratio. If you look at the coverage ratio in 18 and compared it with this year, I think there's an increase of around 20% on the ratio. And all this is done in order for the Group to continue and to improve the buffer that they have in terms of provisioning. Simple.

Q - Rahul Soni *Avalon Global Research*

Thank you.

Operator

Thank you. We will take our next question from Waruna Kumarage. Please go ahead. Your line is open.

Q – Waruna Kumarage *SICO*

Hello. Hi. I have two questions. The first question is to follow up on your answer to a previous question. On the Qatari loan growth in 2023, you mentioned that you expect a pickup. I want to know whether this will be associated with the North Field expansion or any other projects in Qatar. That's my first question. Secondly, on Turkey, the hyperinflation accounting, just have a small clarification. If you could tell that some of the net monetary losses were offset by the gains you could have recorded from CPI linkers in the securities. So those are my two questions.

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

The answer for the second part is, yes. On the first part, the loans, definitely North Field expansion will have a positive contribution to the overall growth in loans in 2023. At the same time, the country will go back to investment in the economy, whether it was infrastructure projects or other projects. So this year was slow because the focus was mainly in finalizing work projects. But next year, we will go back to normal operation whereby new investment in the country, whether it was related the North Field or not.

Q – Waruna Kumarage *SICO*

Okay. Thank you. Just a small follow up on the second question. On the CPI linkers, is it possible for you to at least give like a ballpark figure, how much would have been the impact of CPI linkers positive impact?

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

In order not to spend too much time on this, can you please drop us an email on this? And I will ensure that the investor relations team will respond to you immediately.

Q – Waruna Kumarage *SICO*

Okay. Thank you very much. Thank you.

Operator

Thank you. We will take our next question from [inaudible] Capital Management. Please go ahead.

Q – Bassam Slim *Aventicum Capital Management*

Sorry. My questions have been answered. Thank you.

Operator

Thank you. As a reminder, if you wish to ask a telephone question, please signal by pressing star one on your keypad. We will take our next question from Anastasios of Al Faisal. Please go ahead.

Q – Anastasios Dalgiannakis *Al Faisal*

Thank you for squeezing my question in. Basically, I wanted to ask about Egypt. Now, the ten-year CDS for Egypt has moved to deep distress territory, 1,200 basis points, far in excess even from Turkey. But you mentioned that you are quite happy with the coverage, NPL coverage ratio. Could you give us a little bit your own outlook and the macroeconomic outlook for Egypt? Thank you very much.

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

You know, to be honest, the focus on QNB in Egypt is a local operation. CDS is an implication of how the international market look at Egypt. But for us, you know, we deal with corporates, we deal with SMEs. So CDS not really directly related to that business. When I mentioned that we are more relaxed on the book on Egypt, this comes from the companies that we have seen that we have for the last the last eight or nine years of operation in Egypt. We know Egypt market very well. We know with whom we have been dealing. Our market share still is 6% to 7%. We are focusing more on tier one customers because we are the leader on the private sector on that market. A coverage ratio of 103 is materially better than most of the coverage ratios in the Egyptian market. That doesn't mean that we are going to continue at that level. If we feel at any time that there is pressure on NPL in Egypt, definitely we will go back. At some point in time, we were close to 125% in Egypt. You know, this is a continuous process, but today we are much more relaxed in the book of Egypt than we are in Turkey and this is reflected in the coverage ratio in each country.

Q – Anastasios Dalgiannakis *Al Faisal*

Thank you.

Operator

Thank you. We will take our next question from Mohammed Musa from Hassana. Please go ahead. Your line is open.

Q – Mohammed Musa *Hassana*

Yeah. Hi. Thank you for the opportunity. You mentioned that you've been managing your PNL through, you know, providing more to the reserves. I'm wondering, where you see, you know, a level of coverage where you think it's reasonable to stop building excess provisions? Is there a specific kind of two, three-year target?

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

I would tell you, Mohammed, this is a very interesting question. I've been the CFO for QNB for around 20 years. And for all that period, we have been building more and more provisions. And unfortunately, every four or five years we are under material challenge that sometimes impact that buffer. So we go back to taking more and more in order to prepare ourselves for the next challenge.

In the last three years, with the Corona, definitely there were major challenges, not to QNB, but to the whole banking sector around the world. And this impacted the buffer that we had before. And that's why we are going back to building now on the buffer. Will this stop? I don't think this is a matter for one year or two years. This is a continuous process. But I agree with you know, you are going to see the number at 150%. I don't think you will see it at 150%, but the issue here is that if you look at the coverage ratio for stage two loan, at QNB, it's 7.5%.

I know that many people will say that 7.5% coverage ratio at stage two loans is very good, but still this shows you that there is still a lot of room to take that ratio up. Of course, this ratio will never be 15% and not a bank in the world will have 15% coverage with a stage two loans, but again, there is still always a room for QNB to be conservative. And the other issue- I always said to the investors is that what should be expected from QNB is for us to grow at the same level as the peer group in the region or higher. We don't want to grow at 20% or 15% when the peer group is growing at 5% and 7%, because this will put a major challenge on QNB to be able to maintain that momentum of growth. We want to grow same to the peer and higher than the peer, marginally higher than the peer. This is the target that we have.

Q – Mohammed Musa *Hassana*

Great. This is particularly important for us because we've been seeing very strong revenue growth, but that revenue growth has been partially eaten away by more and more reserving. So it’s the reason why I asked. Thank you for answering my question.

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

I fully understand where you are coming from because, for example, this year we are seeing a growth in operating income of 20% and suddenly when we look at the net profit, it is 5% or even 4%. And that was the case for many years now. We are doing this in order to ensure to the investor that there will never be a negative surprise to the investor. Regardless of what happened to the market, we will ensure that QNB continues to grow strongly and steadily better than the peer group in the region. And this is what we expect our investor to expect from us as an executive team.

Q – Mohammed Musa *Hassana*

Thank you.

Operator

Thank you. We will take our next question from Aybek Islamov of HSBC. Please go ahead.

Q – Aybek Islamov *HSBC*

Yeah. Thank you for taking my question. I wanted to ask you about the funding strategy, in particular in Qatar domestic operations, core domestic. What is your focus right now? Is it again more on domestic deposit collection or more international? If you can elaborate on this, it'll be great. Thank you.

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

Mark here with you now. We maintain a very balanced strategy both internationally and locally. Obviously, with the very high hydrocarbon prices at the moment with the revenue in the local market, there are more opportunities for QNB at the moment and the other local banks to lock in, I think, longer term, both local currency and foreign currency funding in the domestic market. So I think that's probably more of an immediate focus for us at the moment. But obviously, for a bank of our size and our footprint globally as well, we have very, very diverse funding sources in that regard. As always, we've been working very hard to extend the tenor of our funding. That's what rather well for us over the last couple of years. So now where we have a period of high increases in interest rates, I think we're, to a degree, less impacted by the increase in funding than some of our peer group in that regard. But no, it's very much a balanced view domestically and overseas. But I think at the moment though, there are evident opportunities growing in the local market.

Q – Aybek Islamov *HSBC*

Thank you. And what's your mix of customer deposits in your core operation outside of Turkey?

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

I don't I don't have the numbers to hand. Again, I think that's probably one. If you can just shoot an email over to the Investor Relations team, they can give you a breakdown of those numbers.

Q – Aybek Islamov *HSBC*

Thank you.

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

Thank you.

Operator

Thank you. We will take our next question from Sunil Jain of JP Morgan. Please go ahead.

Q – Sunil Jain *JP Morgan*

I just had one final question on your segmental break down where the net interest income, the NII in your Qatari segment has reduced while that in your international segment that showed a strong growth then in the second quarter. So can you just throw some light on the NIM trends which you are seeing in Qatar and also in the international segment? Thank you.

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

I briefly covered this when I said that we are seeing know steady momentum in terms of margin ahead of it, an improvement mostly in Turkey. We are not seeing major drop in NIMs in head office. Actually, I can say we are still around the same ratio and we expect this ratio to improve in the next two quarters because there is usually a lag because we always told investors that an increase in Fed rate positively impact net interest margin at the group level as a whole and in Qatar in particular. However, we always need to realize that there is usually a lag of 3 to 6 month period until we see that benefit materialize. And that's why we expect the increase in Fed rate that we have seen in the last six months to start improving margin for the group mostly in the last quarter of the year.

Q – Sunil Jain *JP Morgan*

Thank you. That's clear. Thank you.

Operator

Thank you. We will take our next question from Nikhil Phutane. Please go ahead.

Q – Nikhil Phutane *Unknown*

Yeah. Hi. Just a follow-up question on your Egypt operations. You did mention that to a certain extent, you're comfortable with the provision coverage ratios. Just one quick on LDR. I mean, your LDR is quite low as against your other operations. So do we foresee that going forward, that ratio could improve? Thank you.

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

We have LDR of around 60% in Egypt. This is the norm in the market. I don't think this ratio will- this ratio will continue between the 60% and 65%, not more than that.

Q – Nikhil Phutane *Unknown*

Okay. Thank you

Operator

Thank you. We will take our last question today from Edmund Christou of Bloomberg. Please go ahead.

Q - Edmond Christou *Bloomberg Intelligence*

Hello. Good afternoon. Edmond Christou from Bloomberg Intelligence. Just want to follow up on the asset quality metrics here. I think there had been a talk earlier in the year that the central bank is supervising or reassessing the stage two exposure for the banks in Qatar. I just want to hear from you if you do expect the share of stage two to pick up in the year, I think it's around 6.8 now. If we talk probably about seven before, I don't know if you expect it to be even beyond seven for the end of the year. And how this stacked up with the coverage issues? So you are at 123% coverage ratio on stage three.

We do understand that the limitation on the accounting standard, so if we don't see a downgrade into stage three, should we expect this to beef up the stage two, which is around 7.5? I think a few years ago you were guiding around 9% for stage two coverage that will make you comfortable in the long term. Just if you will give some guidance on this. The second one, I just want to understand on the inflation adjustment, so the consensus is around 70% inflation in Turkey. Up to June, we are on 40%. So we have another 30% to go. If this is your assumption, are you able to give any nominal value in terms of the charges or you just confirm the assumption so we can calculate it ourselves? Thank you.

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

For the first question, the ratio of stage two is 6.8, as you mentioned. At this stage, I still believe that we are going to be around 7%, not more than that. We could marginally exceed the 7%, but not materially. The coverage ratio is, as you mentioned, 7.5%. I think we are going to continue between - I don't see us reaching 9% at this stage, but 8%, it's a number that might we might reach by end of the year. Not more than that. On the detail of implication of hyperinflation, Edmond, again, please drop us an email and I will send you all the details via our investor relations team.

Q - Edmond Christou *Bloomberg Intelligence*

Perfect. Thank you. Just follow up on the first one. So if I understand it correctly, we should see improvement gradually in the cost of risk in the second half. Correct?

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

I will be very honest with you. It really depends on how the engine is running. If we are going to continue to see a growth in revenue, as we have seen until June, of close to 25%, cost of risk cannot drop. Cost of risk will continue to be at that level because in order for us to manage the overall growth and profitability. One thing that we need to be very clear about is that there is a lot of question focusing on why our cost of risk is high, but none of you is appreciating the impact that we are having in terms of being able to grow our operating income by 25% and being able to grow overall revenue for the Group by 20%.

What I always mentioned, QNB will not grow by 17%, 18% when the overall average in the market in the GCC is growing by 7% to 8% because this is very risky for QNB. In QNB, the executive team in QNB, their average life in QNB is more than 20 years. We do not look at profitability of one year or two years and then we run. This is where we are and this is where we are going to end up our career. We look at the overall growth for the Group as the longer term. We want to give our investor steady, strong growth year after year. We do not want major fluctuation in profitability. As long we are successful in growing our revenue by about 15% to 20% and we are successful in decreasing our cost-to-income ratio, as we have seen from close to 30% to 20%, these are major achievement that we need to be given a lot of credit for. We have been doing a very good job. However, we are not going to show a major pickup in profitability for one to two years and then pay the price at a later stage.

We will continue to manage that growth. We will continue to push our revenue to continue to grow. We are going to continue to manage our cost-to-income ratio, but at the same time, overall profitability growth will be managed in order to ensure that we have protection in case anything happens in the longer term. This is the methodology. This is a strategy we have been running on for the last 15 years and this will continue. QNB represents more than 50% of the banking sector in Qatar. And that's why it is extremely important for QNB not to show any negative surprises, because negative surprises for QNB that means this will reflect negatively on the banking system in Qatar. And that's why we need always to be extremely conservative, build on the reserves that we have, and ensure that we don't give our investor any bad news. We know that this is expected from us and this is we work in order to ensure that this happen. Thank you, guys.

Q - Edmond Christou *Bloomberg Intelligence*

This is very clear. Thank you. Appreciated.

Operator

Thank you. I will now turn the conference back to Ms. Elena Sanchez for any additional or closing remarks.

Elena Sanchez *EFG Hermes*

I would like to thank Ramzi and Mark for their time today and for all the answers. Thank you, everyone, for joining the call. Have a good day.

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

Thank you, everyone and see you in [inaudible] for the third quarter.

Operator

This will conclude today's conference call. Thank you all for your participation. You may now disconnect.
