IR Call Transcript (Edited Version)
QNB Group Q4 2023 Results

CORPORATE PARTICIPANTS

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

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

Durraiz Khan *Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation (acting on behalf of* **Ramzi Talat A. Mari** *Qatar National Bank (Q.P.S.C.) - Group Chief Financial Officer)*

CONFERENCE CALL PARTICIPANTS

Alay Patel *Barings Asset Management*

Aybek Islamov *HSBC*

Chiradeep Ghosh *Securities and Investment Company*

Danah Al Othman *NBK Capital*

Olga Veselova *Bank of America Merrill Lynch*

Rahul Bajaj *Citigroup*

Waleed Mohsin *Goldman Sachs*

Waruna Kumarage *SICO*

PRESENTATION

Rahul Bajaj *Citigroup*

Hello. Good morning. Good afternoon. This is Rahul Bajaj here from Citi Research in Dubai. It is our pleasure to host today Qatar National Bank's Fourth Quarter '23 and FY '23 Results Conference Call.

On the other side of this line, we have with us QNB's management team being represented by the CFO, Ramzi Mari. We also have Noor Mohammad Al-Naimi, SEVP Group Treasury and Financial Institutions. And also we have Mark Abrahams, EVP Group Treasury Trading. So at this point, I'll pass on the call to Mark for the opening remarks. Mark, over to you.

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

Thank you very much, Rahul and Citi, for hosting our call. A very Happy New Year to everybody who's joining us today. Before we begin it is customary to remind everybody that this earnings call is for investors and analysts only, and any media personnel should disconnect now please.

I will begin by giving an overview on the macroeconomic environment, then I will cover QNB's financial results for the year ended 31 December 2023, and finally we'll open the floor to questions-and-answers.

Global growth has slowed in 2023, though it was better than initially expected. The macroeconomic environment continues to be challenged by geopolitical tensions as well as the economic slowdown in some advanced economies and in China.

Given the significant progress in bringing inflation under control, central banks in advanced economies are expected to cut interest rates this year. However, in our view, policy rates may continue to remain high over the coming months.

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. GDP growth in the GCC is expected to remain favorable, based upon stronger hydrocarbon output.

Qatar continues to lay the foundations for GDP growth over the medium and long term through investment, diversification and stronger private sector engagement. Following the successful 2022 FIFA World Cup Qatar, the country successfully demonstrated its position as a regional and international hub for business, investments, commerce, tourism and culture.

The recently launched third National Development Strategy 2026-2030 built upon this success. The strategy aims to sustainably develop a competitive economy, amidst a rapidly changing global landscape by diversifying through priority economic sectors and creating a leading investor and business-friendly environment.

Tailwinds from investments in 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 sector.

We expect domestic activity to remain strong, with GDP growth of 2% in 2023, and 2.5% in 2024, according to median consensus estimates. As a result, the economic expansion continues in Qatar, while the banking sector is resilient and healthy, presenting significant growth, ample liquidity, high levels of capitalization, high asset quality and robust profitability.

I will now move on to QNB's financial results for the 12 months ended 31 December 2023. Key numbers are as follows. Net profit was QAR15.5 billion, or $4.26 billion, a robust growth of 8% compared to last year.

This strong revenue growth has resulted in an increase in operating income up to QAR39.1 billion or $10.7 billion, up 11%, demonstrating QNB's success in maintaining growth across the range of revenue sources.

QNB's cost-to-income ratio remains strong at 20%, which is considered one of the best ratios among large financial institutions in the EMEA region. Total assets are at QAR1.231 trillion or $338 billion, up by 4% from the same period last year.

Loans and advances reached QAR853 billion or $234 billion, up by 6%. QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 2% on December '22 to reach QAR857 billion or $235 billion.

The group's loan-to-deposit ratio remained stable at 99.5%. 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 QAR110 billion, up by 4% from December 2022. The bank's capital adequacy ratio, at 19.8%, is comfortably higher than both QCB and Basel III requirements.

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

Host - **Rahul Bajaj** *Citigroup*

We'll now move into the Q&A session. First question comes from Waleed Mohsin. Please unmute your line to ask your question, Waleed.

QUESTIONS AND ANSWERS

Q - Waleed Mohsin *Goldman Sachs*

Hi, good afternoon. Happy New Year. Thank you very much for the presentation. Three questions, please from my side. Number one, strong growth in the fourth quarter, and I wanted to understand the drivers, but perhaps also how much of this is going to be repeated into 2024.

Mark, you talked about some of the projects underway. So, I want to understand how much and how will this translate into credit growth for 2024, and what's management's outlook of credit growth in 2024?

Secondly, we saw that fourth quarter provision was still relatively elevated. Sequentially, fourth quarter is always high, but it did not really come down versus fourth quarter 2022. And it seemed that part of it was due to the buildup in NPL coverage, which has gone to 130%. So again, wanted to get a sense of your outlook for 2024, and when should we expect normalization in credit losses?

And third and final question is on potential for corporate tax, which is something which we are seeing in the region. So wanted to get your thoughts on the medium- term outlook on corporate taxation in Qatar. Thank you.

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation*

Thank you so much, Waleed. This is Durraiz. So in answer to your first question, very strong growth in the fourth quarter, and this was quite broad-based.

In terms of our outlook for next year, our balance sheet growth, we are targeting at about 4% to 6% for the growth as a whole, and for the profit and loss, we are targeting 7% to 9%.

We are very positive at the start of the year that we will be able to maintain the growth, and hopefully it will be more evenly spread throughout the year, but again, as we are a corporate bank, but we are more positive at the start of the year for corporate growth.

In terms of the cost of risk that you said, the fourth quarter, it was broadly similar, but you should always keep in mind that our cost of risk has come down, compared to last year.

We were at around 111 basis points last year in 2022, and in 2023 we are at about -- declined about 9 basis points to 10 basis points with 102 basis points. And our view is that initially we expect or we would be targeting cost of risk around 90 basis points for the year 2024.

So, from cost of risk perspective, as we've always been speaking it would be more of a slow and gradual journey going back to pre -- not potentially pre-pandemic, but going back slowly each year.

In terms of corporate tax, what we know is that the government has committed that it will be meeting the OECD requirements. There were no announcements in the budget for the year 2024. An event was held in which they tried to ascertain the impact on large companies, and we have made our submissions in this regard.

Most likely, the timing we don't have certainty but we think it would be a 2025 event, but it remains to be seen. You know our income, we already disclosed what is not currently subject to income tax. What will be the impact, and if there are any concessions, that would be provided to us as a result of (inaudible).

So there is adequate disclosure, but at this time, we don't have certainty on the timing and the impact as such, if there are any concessions provided.

Q - Waleed Mohsin *Goldman Sachs*

Thank you very much, Durraiz, that's very helpful. Just maybe one follow-up. So in terms of the guidance you've given out, loan growth, you said 4% to 6%, and you said higher net income growth than that number. So, if I understand correctly, it's a combination of cost of risk coming off slightly. But in terms of margins, are you factoring in flat - flattish kind of trends on margins or do you have a different view on margins?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Our view would be that for the full year, the margin -- the NIM would decline by 3 basis points to 5 basis points. So, that's what we're factoring in at this time.

Q - Waleed Mohsin *Goldman Sachs*

But there'll be an offset from the hyperinflation charge, right, which would help the bottom line?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes. But in hyperinflation, see, we don't really look into it that much. Because as it is, it is offsetting the hyperinflation charge. The CPL indices is offsetting those.

Both, on a P&L perspective, offset each other. From an overall basis, our view is that QNB, assuming no significant changes in the interest rate outlook beyond what market is expecting, our margin would be broadly stable, and would decline by 3 basis points to 5 basis points.

Q - Waleed Mohsin *Goldman Sachs*

And you're not incorporating any changes in rates? I mean, if you could remind us of the sensitivity to rates for you, like are you positively geared? How are you positioned as of today to rates?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

No, we are incorporating two rate cuts, June and September, in our initial view. As a bank at this time, we are positively geared. We already disclosed in our financials about 1% increase in rate, full-year impact. If we don't do anything, it's going to increase the net interest income by about QAR1 billion plus.

Having said it, this is a model-driven input, and it does not take into account any action which management may take to limit the impact of it, primarily on the deposit pricing. Because once the rate cut cycle starts, and we are -- we have clarity on how it's going to affect, we can be very aggressive on the deposit pricing and make sure to limit the impact on NIM of the rate cuts.

Yes. But in hyperinflation, see, we don't really look into it that much. Because as it is, it is offsetting the hyperinflation charge. The CPL indices is offsetting those.

Both, on a P&L perspective, offset each other. From an overall basis, our view is that QNB, assuming no significant changes in the interest rate outlook beyond what market is expecting, our margin would be broadly stable, and would decline by 3 basis points to 5 basis points.

Q - Waleed Mohsin *Goldman Sachs*

Got it. And if you could finally confirm that the 3 basis points to 5 basis points that you're modeling or guiding the market for, this is mainly driven by Qatar, or it is a combination?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

It's for group, and principally, Qatar represents more than 60% to 70% of its costs coming from Qatar.

Q - Waleed Mohsin *Goldman Sachs*

Got it. Thank you so much, Durraiz. Very helpful.

Host - **Rahul Bajaj** *Citigroup*

Next question comes from Chiro Ghosh. Please unmute your line, and ask your question.

Q - Chiradeep Ghosh *Securities and Investment Company*

Hi, this is Chiro Ghosh from SICO Bahrain, two very quick questions. The first one is when I'm looking at our interest expense component, other interest expense, there is a category like that, which has significantly gone up. If you can throw some light what exactly it is, that is one.

And secondly, if you can give us your view both on your Egyptian operation and Turkey operation going forward to 2024, how are you seeing the loan growth, how are you seeing the margin and asset quality? Those are my two questions.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

In terms of interest expense, what is in others is not the primary instruments; we have mostly derivatives on certain of our borrowings. So, that's what is reflected over there, and they are very -- more sensitive to changes in the market interest rates, compared to other instruments like the deposits that we do. So that's why you see a change, but it's part of our, when we look at it, the offset of it would be somewhere in the interest lines as well. So this is why you see more volatility in that line.

In terms of Egypt and Turkey, the guidelines for Egypt and Turkey are, we are expecting a local currency loan growth of 9% to 11% in Egypt, deposit growth of 12% to 14%, and a profitability growth of 13% to 15%. And in Turkey, our loan growth is expected in local currency 35% to 40%, similar deposit growth 35% to 40%, and profit and loss growth of 15% to 20%.

Q - Chiradeep Ghosh *Securities and Investment Company*

And asset quality-wise? A view on this too?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

From an asset-quality -- yes. From an asset-quality-wise, in terms of QNB ALAHLI, we expect that their NPL would be currently at around 5.4%. We expect slight reduction with 5.1% to 5.2% for the next year. In terms of cost of risk, they are around 200 basis points. They would be around 150 basis points to 180 basis points next year as well, in our view.

In terms of Turkey, in Turkey we have for two years, past two years, we have been building a lot of coverage in both Stage 2 as well as Stage 3 because the NPLs were very, very low compared to what was the historical mark.

So, even though there are very different outlooks on how the NPLs are going to perform, because the nominal rates have increased significantly, we still expect our cost of risk would be more or less in line with what we have been or potentially lower, than what it has been in the past few years. We would expect -- so in 2023, the cost of risk was around 280 basis points. We expect it would be around from 150 basis points to 225 basis points for the year 2024.

Q - Chiradeep Ghosh *Securities and Investment Company*

So, it's lower, basically, right?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes, because of a lot of buildup that has already happened in the past two years.

Q - Chiradeep Ghosh *Securities and Investment Company*

And just one, -- can you just please repeat in the last question, which you have said that for 1 percentage rise in interest rate, your profits will go up by QAR1 billion, right? If I heard you correctly, right?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes.

Q - Chiradeep Ghosh *Securities and Investment Company*

Yes. Okay. That's all from my side. Okay --

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes, this is disclosed in our financials, yes.

Q - Chiradeep Ghosh *Securities and Investment Company*

Okay, okay. Thank you. That's all from my side.

Host - **Rahul Bajaj** *Citigroup*

Next question comes from Aybek Islamov.

Q - Aybek Islamov *HSBC*

Yes. Thank you for the conference call. I wanted to understand the qualitative drivers of your growth in 2024. Do you see it mostly driven by your multinational business, where you do dealings with Qatari multinationals? Or do you expect it to be mostly domestically driven, Qatar domestic? That's one.

And I think the add-on to that question is, what are your thoughts about the high exposure to commercial real estate by other Qatari banks? Do you see it as a headwind for growth for the sector overall? And do you see it as something which strengthens your position, to generate loan growth in 2024? So that's one question.

I think second question is around your book value growth. Yes, there's a lot of focus on earnings growth. But I think the main headwind for your book value growth has been FX losses from Turkey. We haven't seen much of the FX losses from Egypt as yet. But yes, there are all signs that Egyptian pound is kind of overvalued. What are your thoughts on the currencies? What kind of currency impact do you factor in into your capital ratios in 2024? Thank you.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes, Aybek. In terms of 2024 growth outlook, the drivers is going to be both domestic businesses which are focused only in Qatar, as well as businesses which have operations both in South -- inside and outside Qatar. It is because we bank with everyone, so for us it's wherever growth opportunities that are there, we are going to work on these growth opportunities.

In terms of commercial real estate, we are not looking for increasing exposure in this particular segment, as long as it is driven by very strong collateral and cash repayments, we will -- if there are strong credit candidates who come, of course, we will look into it.

In terms of book value growth, yes, you're right that the FX translation losses impact the book value growth. Nonetheless, year-on-year, despite all of this, and despite of course, repeated dividends that we have paid, our equity has continued to grow.

And of course, it's a risk which is inherent in investing and emerging markets that there are going to be certain devaluation process. And we always ensure that our capital adequacy ratios are much higher than the minimum requirements, just to ensure that -- or absorb these kinds of losses if they suddenly hit us.

So, for us, yes, there is a lot of market -- different views as to where exactly is the Egyptian pound going to head post IMF agreement which they are going to do. But I mean, at this point in time, we cannot say that this percentage will impact this much. We have more than adequate coverage or buffer available in our capital adequacy ratio to absorb such impacts. And this is not the first time; many times in the past, we have absorbed such impacts.

Q - Aybek Islamov *HSBC*

May I just add one question to that? How do you think about your minimum ForEx Tier 1 ratio in view of your foreign currency exposures in Turkey and Egypt? What's your comfortable ForEx Tier 1, if you can describe that? Thank you.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

See, from a CET1, again, we have -- the reserve -- the buffers are built up not from AT1 or other area, but actually from CET1. So, we are -- minimum requirement is 11%, whereas we are at 14.8%. So, we are -- we have -- and that similar level of buffer that you see is the total CAR as well.

So, if you look at Slide 23 of our presentation, we tell at all levels what are the minimum requirements, and we have buffers against it at all levels, starting from the CET.

Q - Aybek Islamov *HSBC*

Thank you.

Host - **Rahul Bajaj** *Citigroup*

Next question comes from Olga Veselova.

Q - Olga Veselova *Bank of America Merrill Lynch*

Thank you for taking my question. My first question is about your lending, provided to Saudi borrowers. Could you please quantify for us what share of your loan portfolio is now provided to Saudi? And where can this be in the next several years - two, three years?

My second question is about potential impact from LNG projects on your loan growth. And I know it might take some time, but how do you internally estimate this potential impact, over the next 12, 24 months?

And my last question is a follow-up question to the previous one about the taxation. Thank you for sharing some clarity to that. Can you give us your estimate of effective tax rates next year for the group? Thank you.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

One, first, lending to Saudi Arabian borrowers at this point in time, I don't have the number in front of me, but it's not meaningful at all. It's a very relatively much smaller number, potentially in the single billions. However, we have plans for the franchise to grow rapidly over the coming years. We want our Saudi business to be one of the largest businesses outside our key subsidiaries in Turkey and Egypt in the five years' time.

In terms of LNG growth, as we always state, that it's not LNG projects per se, which will drive growth for us. It is the associated development and any other projects where we can lend to local contractors, where we can lend to -- or any other expansion being taken by energy companies, where we need local currency borrowing of they are working with a local contractor. And this is where we actually build our base case of increase in loans by 4% to 6%, that some of it would come from these projects.

On the third project, which is taxation. From a taxation perspective for the year, as we said in the start of the year, for the year 2024, there is no change. The tax -- so effective tax rate is going to be similar to what has been for us for the year 2023.

Nonetheless, 2025, as we get more clarity, the effective tax rate, assuming Qatar imposes the tax from 2025 as committed, will be higher.

See, from a CET1, again, we have -- the reserve -- the buffers are built up not from AT1 or other area, but actually from CET1. So, we are -- minimum requirement is 11%, whereas we are at 14.8%. So, we are -- we have -- and that similar level of buffer that you see is the total CAR as well.

So, if you look at Slide 23 of our presentation, we tell at all levels what are the minimum requirements, and we have buffers against it at all levels, starting from the CET.

Q - Olga Veselova *Bank of America Merrill Lynch*

Do you have a sense by how much higher?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

We disclosed the amount, which is currently not subject to income tax in our income tax note in our financials. The minimum requirement is 15% from an OECD. Nonetheless, we also understand a lot of countries are trying to give certain concessions to companies that are impacted by it. So at this time, we don't have any more clarity as to what exactly will be the final tax rate.

Q - Olga Veselova *Bank of America Merrill Lynch*

Yes. Understandable. Thank you. And on my previous question on LNG, you mentioned that part of your full-year guidance for this year is coming from LNG- related projects, contractors, subcontractors. How do you see this number going forward? I understand this year, this is not a big impact, but beyond this year, can it double?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

At this time, I would stick to next year guidance, which is 4% to 6%, and as you know, numbers come in first quarter and fourth quarter, we'll be able to build on that, based on how much we actually -

---

Q - Olga Veselova *Bank of America Merrill Lynch*

Yes. Okay, thank you so much. Thank you.

Operator

There are no further questions at this time. I'll hand back to Rahul Bajaj.

Q - Rahul Bajaj *Citigroup*

Thank you. Durraiz. While we wait for the questions, maybe couple of questions from my side. The first one is on the fourth quarter lending growth and very solid loan growth in -- for the group in the fourth quarter. Just wanted to understand to what extent the fourth quarter growth included one-offs which could potentially kind of reverse in the first quarter. Because we saw, I remember, something similar in the previous year, when fourth quarter growth was very strong, but in the first quarter, we saw some repayments or some kind of -- on that fourth quarter growth. So, any comment on that would be useful.

And my second and final question is on this National Development Strategy that you mentioned, 2026-2030. If you could kindly share some numbers around it, if you have any, in terms of the amount of spending or an amount in terms of project awards that are expected on the back of this strategy, that would be very useful.

Thank you.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

In terms of fourth quarter growth, it was principally in Qatar, it was quite broad- based. And what you're talking about, what happened in the previous years was that the next year, the repayment by the government were much, much stronger than the growth. So, that is what led to sequential decline in loans in the Q1.

Again, it is -- this time the loan growth is very broad-based, and we expect that it would be continuing. At least when we're targeting the full-year numbers, we'll end up at 4% to 6% balance sheet growth at the end of the year.

Again, repayments are not something in our control, we -- and repayments though haven't impacted us in the past two quarters, but it is not in our control but whether they will impact us in future or not. But our view is that we will be, even if the certain repayments are included, we will be able to meet the balance sheet growth target of 4% to 6%.

On your second question, on the National Development Strategy, the Third National Development Strategy which has been given, headline numbers are -- there are more numbers as such on how much expenditure is going to be incurred. There are certain targets, which the government has said that we are going to meet those targets.

Headline numbers, if I recall from the top of my mind, would be, they are targeting approximately over a period of seven years, $100 billion of inward investment FDI. They are targeting certain other improvement in rankings. The strategy itself is available on Planning and Statistics Authority's website. And we will put out in the Economics section of our website, we'll put out a summary on that strategy as well.

Q - Rahul Bajaj *Citigroup*

Super useful. Thank you, Durraiz. Just taking a look at if there are any further questions on the line.

Operator

Yes, we do have a few more questions, the next one is from Karuna -- Waruna Kumarage, please unmute your line and ask your question.

Q - Waruna Kumarage *SICO*

Hello. Could you hear me okay?

Operator

Yes, we can

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes.

Q - Waruna Kumarage *SICO*

Yes. I have a couple of questions. First one related to expenses, if you can give an kind of outlook for next year, given that the past two years, the OpEx has been growing, I mean, to various reasons, partly because of the inflation in, I think, in Turkey as well has been playing a part. But how do you see that, I mean, if you look at the run rate right now, do you expect the expenses to be even higher considering that Turkey inflation is still very high? That's my first question.

And secondly, on the non-funded income side, the fee income side, the one element which is very volatile -- this is Forex gains, foreign currency related gains, which is kind of relatively mild in the fourth quarter. So, how do you see this going forward in the next - like first half or first quarter next year? Thank you.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

See, in terms of expenses, we operate in two geographies currently which are facing very high inflation rates and that is something that is -- that will drive up the absolute number of expenses. But we always, always highlight that our cost-to-income ratio, despite operating in these very too-high, almost hyperinflationary geographies, is still the best in the Middle East and Africa region, among all large parts.

If as long as we are going to get revenue growth faster than the AI growth and expenses, we should be fine from an expense side, that we'll ensure that we are investing in the businesses, and we are meeting all their requirements. Inflation in Turkey is expected to come down because of very, very tight monitoring - monetary policy, which they are currently pursuing. And as inflation comes down, it is going to positively benefit us in terms of expense growth.

In terms of your second question on ForEx gains, ForEx gains principally come from our Turkish franchise, based on volatility in the value of Turkish lira against other currencies.

In the quarters, where there is significant volatility, we will have these Forex gains. And in the quarter there is no volatility, these numbers will be much lower. So, the driver of that is volatility in the respective Egyptian and Turkish currencies. If we don't have any volatility like we had in the first quarter, the number is going to be more of BAU, customer flow FX that we get primarily from our Qatar and other businesses.

Q - Waruna Kumarage *SICO*

Right. Thank you, Durraiz. In terms of the cost-to-income ratio for the Qatari operation, how much was it for 2023?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

We don't disclose it separately. It is -- we disclose the group number and we disclose the parent number as well, which is part of our financials as already disclosed. At the far end of our financials, we have the parent company financial statements.

Q - Waruna Kumarage *SICO*

All right. Okay. Thank you.

Operator

Okay, we'll move on to the next question from Danah Al Othman.

Q – Danah Al Othman *NBK Capital*

Hello. Can you hear me?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes.

Q – Danah Al Othman *NBK Capital*

Okay, great. So basically, on the retail loan growth, we saw significant retail loan growth in 2023 versus 2022. Anything specific that drove that?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Are you talking about the -

Q – Danah Al Othman *NBK Capital*

Personal loans, yes.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Retail segment -- in the Qatar business, from a segment note or somewhere else?

Q – Danah Al Othman *NBK Capital*

From the segment note. Note -- let me open the note. Note 10B.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

No, that note 10B is not a segment. That retail loan growth, that personal loan includes the asset and wealth management business as well. In terms of our segment business, the lending in that business is effectively the same at around QAR9.9 billion versus QAR10 billion. However, in the asset and wealth management business, there was significant loan growth. It increased by almost QAR10 billion in Qatar operations.

Q – Danah Al Othman *NBK Capital*

What drove that growth? Market movement or was there like an increase in --

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Market share. (inaudible).

Q – Danah Al Othman *NBK Capital*

And the other question is basically, how should we look at the hyperinflation charge going into 2024?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Turkey is a G20 economy, and we have no way to estimate what is going to be the inflation number in Turkey in 2024. What we have done is we know that the hyperinflation charge is there, and we know it's going to stay with us for some time.

That's why we have a portfolio of CPI-linked securities that offset that hyperinflation charge in the net interest income line on a pay-tax basis. That basically skips volatility or removes volatility from our bottom-line earnings. That has helped us in both of these years, and we expect it will continue to help us in future years as well. Again, asking me to predict Turkey hyperinflation is something which we cannot.

Q – Danah Al Othman *NBK Capital*

Okay, that’s clear.

Operator

Thank you. Okay. We have another question from Olga Veselova.

Q - Olga Veselova *Bank of America Merrill Lynch*

Thank you. Thank you for taking my follow-up questions. There was a question about minimum CET1 ratio, and thank you for sharing that it's 11%. Well, clearly you have some internal level, which is not regulatory minimum, but which you as a group feel is your internal reasonable level. Would you be comfortable to share that internal minimum?

And my second question is, again about Turkey and Egypt. If you don't mind, could you please repeat your guidance for the cost of risk for this year? And can I also ask your thoughts, your view, on a normalized level of net interest margin for your franchises in Turkey and Egypt? Thank you.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

In terms of our minimum buffer that we keep above the minimum regulatory requirements, which is between 100 basis points to 150 basis points to 200 basis points, depending on the type of the business that we operate in and the geography.

In terms of the normalized cost of risk for the next year, we expect the Egyptian franchise will be around 150 basis points to 200 basis points. And the Turkish franchise would be again similar about 150 basis points to 200 basis points in terms of the cost of risk.

Normalized net interest margin in these economies, again interest rates, particularly Turkey are extremely high, compared to historical norms and may not remain that high for long. So we are expecting that the NIM would decline slightly next year.

They are at around 7.77% and we expect next year they would be close to the 6% level, in Turkey. In terms of Egypt, we see that there is a lot of competition, particularly from the state banks, which impacts our NIMs, Our view would be that next year the NIM is going to be around

6% to 6.2% range, versus 6.23% that we have currently reported.

Q - Olga Veselova *Bank of America Merrill Lynch*

That's great. Thank you very much.

Operator

Okay. Next question comes from Alay Patel.

Q - Alay Patel *Barings Asset Management*

Hi. Thanks for the call. Can you hear me?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes.

Q - Alay Patel *Barings Asset Management*

Hi, Durraiz. Just a couple of quick questions, please. The fee and commission income growth has been exceptionally strong in the second half. 22% and 24% respectively for Q3, Q4. Can we have the source of this growth? I didn't pick it up at the Q3 numbers, how much of this is sustainable. I know that how much it might be linked to Enpara or the Turkish business. If you can comment on this line item, please.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

In the fee and commission income, from an year-on-year basis, the principal growth is coming from our Turkish operations. Almost, last part of the growth is derived by them. And I think the reason was that they, of course, volatility impacts FX, plus as well as the fees as well.

In terms of the outlook, our view is that you should rather take a normalized level for the full year, to get a more better, clear view as to how the income is going to take, because it includes periods of volatility as well as the normalized periods, which in that case, you'll be better able to project the fee income growth going forward.

Q - Alay Patel *Barings Asset Management*

But just to understand this a bit more clearly, would you say that that growth has hyperinflationary components within it, just like you have with the OpEx growth, or is there also some structural things such as the big growth in Enpara credit cards, some more structural stuff, or it's pretty much the same as what's impacting OpEx?.

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

No, it would be both, because we are working very hard on the Enpara thing, on our digital banking, because obviously that helps as well, plus it's impacted by hyperinflationary components.

Q - Alay Patel *Barings Asset Management*

Okay, and the second question is Enpara, so it's kind of linked. So it's 10% of loans for finance banks, but over 90% of the profits, if I understand this properly. Can you just comment on how well Enpara is doing?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

No, Enpara, we have a separate page for it. See, just to clarify, in Enpara, the profits were what -- and we have put out a statement as well. It's about 21% of QNB Finansbank's profits on a like-for-like basis. So, the profits from Enpara, since it's a division, were given on a pre-tax basis, which impacted, and we tried to put out this clarification now. They represent, from a profitability perspective, almost a fifth, and from a lending perspective, almost a tenth of the balance sheet of QNB Finansbank.

Q - Alay Patel *Barings Asset Management*

Okay. So that $202 million at Q3 stage is, did you say that was pre-tax?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes.

Q - Alay Patel *Barings Asset Management*

Okay, so $202 million is pre-tax, but the $280 million for Finansbank is, what, post-tax and post-hyperinflationary? You grouped hyperinflationary in the Finansbank, but not impacting Enpara, is that right?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

Yes, so that's why we have put it out in the 21%. If you check it in the Slide 14 of investor relations, that they represent on a like-for-like basis, 21% of QNB Finansbank profits.

Q - Alay Patel *Barings Asset Management*

Okay. And just the final question was just on M&A. I think, is it the same status quo as it was at the Q3 stage where you, I think, said, or Ramzi said that the focus was Southeast Asia, but nothing was on the table for now? Is there any change to this M&A commentary

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

No change.

Q - Alay Patel *Barings Asset Management*

No change?

A - Durraiz Khan Qatar National Bank (Q.P.S.C.) – Senior Vice President, Group Financial Consolidation

No change.

Q - Alay Patel *Barings Asset Management*

Okay. Okay. Thanks a lot.

Operator

Okay. There are no further questions at this time. I'll hand back to Rahul Bajaj.

Host - **Rahul Bajaj** *Citigroup*

Thanks. If there are no further questions, maybe I'll hand the back -- hand back the call to Mark for the closing statement, if any. Mark, would you?

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

Thank you very much indeed to everyone for your attendance today. And we appreciate your interest in QNB. We wish you all a very good 2024, and we'll speak to you again in three months' time. Thank you.