IR Call Transcript (Edited Version)
QNB Group Q3 2021 Results

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PRESENTATION

Operator

This meeting is being recorded.

Aybek Islamov *HSBC, Research Division - Analyst*

Third Quarter 2021 Earnings Call. We will then move on to the Q&A session. With no further delays, I'd like to hand over the call now to Mr. Mark Abrahams. Please go ahead, Mark. Thank you.

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

Thank you very much, Aybek and the HSBC team for hosting our Q3 earnings webcast today. Before we begin, we would like to highlight that this webcast is for investors and analysts only, and any media should please disconnect now. I will begin by giving an update on recent economic trends followed by a brief overview of the macroeconomic environment in Qatar, and I will cover QNB's financial results for the quarter end 30th of September 2021, and finally open up the floor to Q&A.

Qatar has taken all necessary precautionary measures to protect its population and economy from COVID-19. Under the vaccination program, over 82% of the population is now fully vaccinated and booster shots are being offered in a phased manner. The rapid recovery from the impact of the pandemic and the ramp-up of preparations for the 2022 FIFA World Cup are driving a rapid expansion of Qatar's non-energy private sector.

The Qatar Financial Centre's Purchasing Managers Index has been indicating expansion since July 2020 and has accelerated in recent months, rising to 60.6% in September of this year, signaling sustained improvement in business conditions.

In the medium term, tailwinds from investment and increasing hydrocarbon production will drive economic growth with 6 new LNG trains planned that will increase Qatar's LNG production by 64% and to 126 million tonnes per annum as part of the North Field expansion. Importantly, this expansion will make innovative use of both carbon capture and renewable energy to minimize carbon emissions and also enhance sustainability.

Positive spillovers from increased hydrocarbon production will combine with diversification efforts and structural reforms to boost economic activity and spending in the manufacturing and services sectors. Qatar is laying the foundation for continued GDP growth over the medium to long term through investment, diversification and stronger private sector growth.

I will now move on to QNB's quarterly financial results for the 9-month period ending 30th of September 2021. QNB net profit was QAR 10.3 billion, or USD 2.82 billion, up 8% compared to the same period last year. QNB Group has continued hard to work on its operational rationalization exercise, which has resulted in reducing the cost-to-income ratio from 24.2% last year to a current level of 22.5%. Operating income was QAR 20.7 billion or USD 5.7 billion, demonstrating once again QNB Group's success in maintaining growth across the range of revenue sources even in these challenging conditions.

Total assets are currently standing at QAR 1.084 trillion or USD 297.7 billion, up by 10% from September 2020. This was driven by a growth of 7% in loans and advances to reach QAR 766.2 billion or USD 210.5 billion. QNB Group remains successful in attracting deposits, which resulted in an increase in customer funding by 10% from September 2020 to reach QAR 783.8 billion or USD 215.3 billion. This helped the group's loan-to-deposit ratio remain stable at 97.8%. The group was also able to attract high-quality wholesale funding.

During 2021, QNB Group tapped its global debt markets for a debt security issuance on its EMTN program, including a $1 billion 5-year bond issued in January of this year, and also a debut bond launch on the Hong Kong Stock Exchange for $600 million, 3 years successfully placed in June 2021.

Despite several challenges and headwinds from the global pandemic, QNB Group was able to maintain the ratio of nonperforming loans to gross loans at 2.3%, and 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 these conditions.

Additionally, the coverage ratio on Stage 3 loans is at 112%. Total equity increased to QAR 101.3 billion up by 8% from September 2020. The bank's capital adequacy ratio at 18.6% was comfortably higher than both QCB and Basel III requirements. The group is very well capitalized and comfortably exceeds other regulatory liquidity and leverage ratios. Thank you very much. We will now turn to Q&A.

QUESTIONS AND ANSWERS

Q - Aybek Islamov *HSBC, Research Division - Analyst*

Thank you, Mark. So we have the first question coming from Rahul Bajaj, Citi. Any comment on guidance for 2021 or early thoughts on 2022 guidance.

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

Now guidelines for 2021, still very close to what we have announced in June. The only change will be on profitability. Balance sheet, we still expect it to be 79% growth. Profit and loss, 1 notch higher than what we anticipated in June. We expect it now to be 8% to 10%, which is a big jump from what we originally talked about in January, which was 6% to 8%. And just clearly reflect that the momentum, in terms of profitability, it's going in the right direction.

2022, I will give you rough numbers for now because it's too early and we're still building the budget. But I believe that balance sheet will be between 6% to 8%. And the same for the profit and loss. Let's start with 6% to 8%. And hopefully, we will manage the update in the upcoming phone calls, especially in December.

Q - Aybek Islamov *HSBC, Research Division - Analyst*

So there is a follow-up question from Rahul Bajaj. QNB historically sees a jump in the cost of risk during the fourth quarter. Is it fair to assume a similar jump this year?

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

There will be an increase in the fourth quarter provisions. Overall, cost of rest for the year, we expect it to be between 78 to 82 basis points, which is very close to what we have mentioned earlier.

Q - Aybek Islamov *HSBC, Research Division - Analyst*

Thank you, Ramzi. So in the meantime, Ramzi, I'd like to go ahead and ask the question from my side. So we've seen a pretty dramatic increase in gas prices since the start of the year. Any market you look at or any export destination you take, I mean what's your read across for QNB's business? Does it ease liquidity? Does it also mean a stronger government spending or stronger loan growth? What would be your take on this?

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

Now definitely, this will decrease any shortage in the budget. And it will be very positive that to the state in terms of increasing liquidity in the system. But it doesn't need to be very positive for QNB, in particular. Because historically, when the state is liquid, that means they start repaying some of their loans. And if this continues, I will not be surprised that the government will start to repay some of the loans in QNB.

But definitely, it will be posted to the liquidity in the system. In terms of continued investing in the country, I think they have been investing heavily, and we saw this in the growth in loans to the public sector in the first 9 months of the year. Now definitely, with the increased liquidity, their dependence on banks to finance some of these projects will become less and less. At the same time, many of the projects that they have been investing heavily on, they are very close to completion, because they want to complete most of this project before 2022. So technically, so many of these projects will be finished and the amount of investment that needs to be done will be less. So I don't anticipate a major increase in public sector spending that comes from banks. What I mean that comes from banks, during the fourth quarter of 2022. But anyway, we need to wait and see how oil prices will continue at that level or not.

Q - Aybek Islamov *HSBC, Research Division - Analyst*

Thank you, Ramzi. So we have a question from Chiro Ghosh, SICO Bahrain. And the question is about risk-weighted assets, which are at highest level ever, given that the loan portfolio continues to rise. Where do you see risk-weighted assets going?

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

It depends on different factors. Where the growth is going to come? Now we just mentioned that we don't see increase major increase in loans to public sector, which means that QNB, similar to what we have done 7 or 8 years ago, we will go increase our market share in the private sector, which we have done well before. At the same time, we expect growth in private sector to be higher in the future year.

Number one, 2022 is important for the World Cup. Beyond that, I think the government now will go back to their strategy, which was 4/5 years ago, whereby more dependent on the private sector for new projects, and this involvement of the public sector in the business of the country. And they want the [nonhydrocarbon] sector to contribute to the economy. All this means that the private sector will invest more in the economy.

I expect this year, private sector growth to be around $15 billion because what we have seen in 8 months because for the first 8 months of the year, because September is not yet out, there was an increase of around 5% in the private sector and it was equal to around $10 billion. Fourth quarter will continue to be growth, and I will not be surprised if that number become $15 billion. So investment, an increase in private sector funding will mean that risk-weighted assets will continue to grow. What is important here, how we are maintaining the overall capital adequacy ratio. We will continue our payout ratio similar to what we have been doing before. Risk weighted assets will continue to grow. The most important thing is the capital adequacy ratio, we are keen to maintain a buffer of 200 basis points on the capital adequacy ratio. And this is where we believe that we would be able to maintain.

Q - Aybek Islamov *HSBC, Research Division - Analyst*

Thank you, Ramzi. So the next question is from Vikram Viswanathan, NBK Asset Management. So a follow-up on the answer you just gave us, Ramzi, in which areas do you expect this private sector investments to come from.

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

All ancillary business to oil and gas. We know that the state will heavily invest in gas project that we already announced. All ancillary projects around those projects will be private sector and already QNB already announced that they want to depend on the private sector in Qatar to be able to support this project. So this is why we will be a very important sector. At the same time in the last 2 years, private sector investment, especially on the retail sector, SME, industrial were impacted by COVID. Now beyond 2021, we believe that the private sector will go back to more and more investment. This is where we believe that most of the new investments will come from.

Q - Aybek Islamov *HSBC, Research Division - Analyst*

Thank you, Ramzi. We have the next question from Waleed Mohsin, Goldman Sachs. When do you expect cost of risk to start normalizing given the current macro backdrop, which is obviously quite good? What is your target NPL coverage? And why is Stage 3 average above 100?

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

Whoever has been following up on QNB, and Waleed is one of them, for the last maybe 7 to 10 years, he knows that QNB is a very conservative financial institution. One of the biggest fights I have every single quarter with the [observers] is our coverage ratio. We are keen to maintain our ratio above 100% because we want to be ready for any surprises. We don't want any surprises that will impact profitability materially.

Cost of risk and the extent of conservatism that we will take, highly, is dependent on how we see revenue growing. And this year, I think everyone sees the momentum in revenue is much better than what we anticipated at the beginning of the year. Net interest income, hopefully, will grow by 8%, much higher than what I mentioned at the beginning of the year. Overall, operating revenue will grow by 8%. So that means the momentum of revenue is very strong. And this gives us much more room to be conservative in terms of cost of risk.

Am I expecting cost of risk next year to be around between the 70% and 80%? Yes, if the revenue continue at the same momentum that we are seeing today. At the beginning of the year, we said the gross on profitability is 6% to 8%. Now we're saying 8% to 10%. Do I, as CFO, see it right to make it 10% to 12%? No. We will continue to grow very strongly, very steadily with no negative surprises to our investors. This is the way we have been managing the entity for a very long time, and this is where we are going to continue to do.

Q - Aybek Islamov *HSBC, Research Division - Analyst*

Thank you, Ramzi. So the next question is coming from Ayisha Zia. What is the outlook in Turkey and especially on NIM side?

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

This is one of the most difficult questions to be answered because this is highly dependent on where the regulator is going to infer it. And I think no one in the world can answer this question. Every 100 basis point drop in regulatory rates, near an increase in net interest income of around TRY 200 million for Turkey.

So they benefit when risks come down. But this is highly dependent on their balance sheet as of today. Now in 6 months' time, the balance sheet structure, of course, will change and the impact of an increase or decrease on regulatory rate becoming different. But for now, they materially benefit from a drop in the rate.

So how much is going to develop? It's very difficult to mention. However, what we have seen in the last 6 years, since we have invested in Turkey is that our team in Turkey have been able to manage our margin very efficiently. And that's why we haven't seen major fluctuation in margin even though the Turkish market is extremely complex to operate on because we do not know where the regulator is heading in terms of inference, and there are major fluctuations. Sometimes there is a drop of 400, 500 basis points. And then again, in 6 months or a year's time, we see low profit.

So for people, professional people on this organization in the banking center in Turkey, to be able to manage this is extremely complex, and our team in Turkey have been doing very good job. Until today, we are able to maintain a margin of close to 330 basis points in Turkey, which is very good.

Even though net interest income in Turkey was materially impacted in the first 6 months of the year. And I mentioned that on the phone call in June because of the increase -- the sharp increase in rates that we have seen. But now we are seeing good progress in net interest income. Fourth quarter net interest income in Turkey will be materially better than what we have seen in the first 9 months.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. So I guess, in the meantime, I wanted to ask you about the fact that, obviously, the macro backdrop is good, current count turning positive in the first quarter of this year. But despite that, we've seen some volatility in the exchange rate, Qatari riyal/U.S. dollar exchange rate, not as big as we had in 2017, of course, but there is some pickup in currency volatility. Is that a sign of some currency, foreign currency deficit in Qatar? And how would you interpret this volatility?

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

I'll give some room to Mark to handle this question, so give him a second please.

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

So I think on this one, since the beginning of the year, when the blockade came to an end, there's obviously been some very natural rebalancing that's taken place over the past few months as our international counterpart has really been gradually unwinding their positions that built up over the previous 2 to 3 years. This is very clearly evident. If you look at the exchange rate pricing over the last few months in particular, there's been significant recent convergence back towards the onshore rate. So I think there's never going to be a case of, "There's as an agreement in January, everything goes back to normal."

Evidently, over the last few months has been an unwind, things are balancing, things are regularizing. But it will take more time. So the volatility is clearly decreasing and there is a convergence down towards the onshore rate. From a QNB perspective, this really has a minimal impact upon us because the volumes, as we all know, are very, very low indeed, they're negligible in the offshore market as opposed to onshore transactions. And for us, the major driver of the FX business for QNB is onshore volume turnover.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mark. So we have a question from Talal Samhouri, Aventicum Capital. And the question is about any plans for expansion inorganically.

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

This is always on the table. But is there anything that we are talking now? Nothing, to be honest. There's nothing on the table today, one we are studying. Nothing is significant. We will always have small things. But until today, we don't have anything significant.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. Next question is from Rahul Bajaj at Citi. So you have done really a good work on costs during the last couple of years. Is 23% cost-income ratio your near-term target? Or do you expect cost-income ratios to reduce further?

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

In the budget structure, one of the toughest things that financial control department face is managing costs within the group. This is becoming extremely difficult thing to do. We expect to close December 2021 at an exchange rate of less than 22.5%, which is materially lower than the 24.3%, which we announced in December '20, which was much better than what -- where we were in '19, where we were 25%.

However, I know is that we cannot continue at that level, especially with the extent of investment and CapEx we are doing, especially in our digital platform. So a ratio of 22.4% or 22.5% is not sustainable. However, we will ensure that we will continue to be around the 23%, 23.5%, nothing more than that. And I think we are able to do that because we have been doing extremely good job in making our subsidiaries and head office more and more efficient, more dependent on digital platforms, investing mostly on profitable projects. We will continue managing cost very efficiently in order to ensure that cost-to-income ratio continued to be at that level.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. So next question comes from Edmond Christou, Bloomberg Intelligence. Now clearly, the asset quality has held very well and there's a buildup in the buffer on Stage 3 loans. Now how do you see Stage 2 and Stage 3 loans progressing into next year? And what is your assessment of domestic private sector as they repay back dues?

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

So we'll talk about what our anticipation to impair. We closed September at 2.3%. And at the beginning of the year, I said I will not be surprised if our NPL ratio reach 2.5%, because we see the NPL ratio going up. As you know, for the last 5 or 6 years, the Central Bank of Egypt was extremely supportive to banks in terms of many perspectives. One of them is to support some industries, some for example, the tourism industry. However, in QNB ALAHLI, we said no, we take a very conservative approach. We will build a very strong coverage ratio so that when these initiatives finish, we will be ready and that our coverage ratio reached 145% at some level.

Now we are seeing, as we expected, LTL ratio in Egypt picking up because we are moving some of the accounts which we knew we'll move NPL before to an NPL. We still believe the, today, in Egypt, NPL ratio is 3.7%. I think the ratio will go up. And I will not be surprised if we see around the 4% to 4.5%. We will maintain our coverage ratio close to the 100%. This will impact the group coverage ratio. And that's why I will not be surprised if the ratio moved to 2.5% at a gradual pace.

Coverage ratio, again, we'll continue to be conservative. Coverage ratio will continue to be more than 100%, and this is how we are going to manage this. Today, Stage 2 at 6%, close to what the indication that I gave at the beginning of the year. I think December, first half of next year, if we become between the 7% to 7.5% Stage 2, again, this will be a reasonable assumption. In terms of coverage at Stage 2, we still have very good debt coverage of around 7%. Also, we want to maintain that ratio to be around that number. Again, this does not mean that we are seeing weakness on the portfolio. As I mentioned, when we talk about cost of risk, as long we see strong revenue momentum in the group, QNB will continue to be conservative. We don't want to grow 15% 1 year and the following year drop by 4%, 5%. This is not the way QNB manages debt profitability. We will continue to be conservative in terms of how we manage our costs, how we will be very aggressive in growing our revenue stream, especially not only interest, but also other income. Overall, with the growth of net revenue, we will be conservative in terms of cost of risk.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. So there's a follow-up question from Edmond Christou of Bloomberg Intelligence. So how should we think of the inflation risk impact on the bank, either domestically as Qatar as an importer for goods and in a global context, namely Turkey and Egypt exposure? Now additionally, given your reliance on dollar funding, how do you see cost of funding progressing into the first half of next year?

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

Inflation in Qatar had always been managed very carefully, and we don't see a major pickup in inflation. I think you see, it's between 1% to 2.5%. Next year, I don't know, to be honest. An updated number was is the expectation, but I don't think it would be that much bigger than 2% to 2.5%. But I don't have the exact number.

Of course, inflation in Turkey, very high. We talk about 18% to 20%. Egypt also, it's higher than what we are seeing in Qatar. This will impact cost. And that's why I mentioned that the toughest item in the discussion for gross in cost in the budget next year was cost. But we will continue to manage this very carefully.

Now the impact of an increased inferred rates? Now 100 before the group, as a whole, 100 basis increase in Fed rate reflect a positive increase in net interest income of close to QAR 500 million. So the group, as a whole, materially benefit when Fed rate goes up. Because this is a reflection of the overall balance sheet of the group. So we will benefit from the 6 months figure. Beyond the 6-month period, it really depends on how we are going to manage our balance sheet. But an increase in fed rate is positive to the group.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. So the next question is from Mohamed Adel, Al Faisal Investments. Now the question is about the regional performance. Now Turkey grew 7% and Egypt was almost flat. And however, international net profit declined around 17% year-on-year. So I guess the question is what's behind this weaker performance in international net profit?

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

Because COVID, it didn't have reflection of the book. COVID materially impacted Egypt, Turkey and other operations much more than Qatar. Qatar is the bulk of the book, a big chunk of the book is corporate sector, large corporate, which is technically they have the depth to be able to absorb the impact of COVID-19, whereas other jurisdictions, such as Egypt and Turkey doesn't. And that's why because of the impact on provisions, we have seen Egypt flat.

At the same time, we haven't seen the growth in the economy as we wanted it. And that's why we saw gross new loans between the 6% to 8%, which is much lower than what we wanted it during the year. But next year, we believe the growth, in the overall economy, will be much stronger. We're budgeting a growth in loan of 11% to 13% versus 6% to 8%, advantage of the CFO.

The anticipation for next year for Egypt is much better. Balance sheet-wise, we are anticipating a growth of 11% to 13%; profitability, 13% to 15%. So hopefully, next year, the momentum for adding will be much, much better.

Finance Bank, they grew 7% in U.S. in Qatar riyal or U.S. dollar terms. In Turkish lira terms, the growth is materially higher. It was 29%. This year, we expect the growth in the balance sheet in Turkey between the 20% to 22%. Profit and loss close to 20%. So the growth in Turkey is materially higher. We're seeing much better growth in fee income. Net interest income beyond June is the numbers are much better very strong control of cost, and that's why numbers for Turkey is very positive. Even 2022, we still anticipate growth in the balance sheet between the 15% to 17% and profitability, high double digit. So again, it's a good momentum in Turkey in terms of profitability next year.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. So we have 2 questions from Talal Samhouri, Aventicum Capital. The first one is about foreign currency, well, net FX assets. So we are seeing a continued decline in banking sector net FX assets. What is the reason for that? And would that have any effect on QNB? That's the first question.

The second question is about dividend payout ratio. It's been around 43% to 60%, but last year was at the lower end due to COVID-19, as we know. Now would the payout ratio to go back to normal this year or compensate for last year's decline?

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

I've been in the balance for 25 years, QNB's payout ratio has never ever been even 50%, not 60%. I think there's a miscalculation in the number that you quoted. A coverage ratio for QNB always range between that 30% to the 40%, and last year was lower than that, I mean in the low end of that parameter. However, we will continue to at that level, between the 30% and the 40%.

The first question, the FX position, just give me a second please, because the asset position, definitely there is a fluctuation. It really depends on how we are lending, specifically to that to the public sector. We are keen to keep a very close neutral FX position. This fluctuation usually are temporary. And in terms of overall impact on QNB with the hedges that we do, the implication of these reference position is extremely low. I hope that I answered the question.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Well, yes, I think the question was about decline in the banking sector net FX assets, and what's the reason for that?

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

It's mainly how we are mining the overall balance sheet of the group and how we manage it from a P&L perspective.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mr. Ramzi. Now next question is from Mujib Moosa from Commercial Bank. Well, impact of continued Turkish lira depreciation in the third quarter and the fourth quarter on NPLs and asset quality of Finance Bank.

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

I mean, I gave the growth percentage that we expect in Turkish Lira. In Qatari riyal, the growth will be much lower. We expect it to be between the 4% to 6%. So even Qatari riyal, we expect the growth, but definitely, it would be much lower and profitability will be higher. We still expect it to be in the 7% to 8%. The valuation has an impact on the overall growth, but we are trying to manage overall growth in the entity in order to ensure that there will continue to be growth even in Qatari riyal.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mr. Ramzi. So there is a repeat question on cost growth, which was well-controlled. So if income would grow at around 6% to 8%, can cost to income ratio drop to 20% in the medium term?

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

No, 20% cannot be. Okay, my the budget that we have for 2022, which is still not final, anticipate an exchange ratio close to 22.5%.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Okay. Thank you, Mr. Ramzi. I think in the meantime, I'll just ask about your subsidiary in Egypt. And in Egypt, there's quite a bit of growth, which is driven by some public sector projects in the country. Now the question is, so where does QNB Egypt sit in terms of its ability to gain market share in this state-led project finance.

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

Egypt historically was one of the most active private sector banks in the economy of Egypt, especially in terms of loans to the SME sector with the corporate sector, even the public sector. And that's why the loan to deposit ratio is close to 64%, higher than many other banks in Egypt. We want Egypt to continue to participate in this project, and we are keen to participate in public sector projects. And you are going to see more participation from QNB in that sector in 2022.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mr. Ramzi. So the next question is coming from Bloomberg Intelligence, Edmond Christou. Given the expected growth in the credit and private sector in the near term, how do you plan to integrate ESG metrics into operating framework as regional players have been issuing green debt and ESG-linked loans.

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

Let me -- just let me refer that to the ESG expert.

A - Carlin Naidoo ***Qatar National Bank (Q.P.S.C.) - Sustainability Manager, Strategy & Business Development***

Yes, certainly. We on the ESG side, from a framework perspective, we have recently updated our green, social and sustainability bond framework. We've received a framework alignment opinion from the likes of S&P on that. Furthermore to this, we are actively looking at opportunities within our books to identify potential green assets to support any further growth of this -- within this space..

On the green bond itself recently and as per the ICMA requirements, we have published an impact report, which was done with a second-party provider as well as conducted an assurance of our allocation reporting as per the ICMA guidelines. Over and above this, we have also published an environmental and social risk management policy framework.

Through this framework now we are looking at how we can -- how we scan our projects, any originated projects from a corporate banking perspective until we screen out any projects which are excluded basically on our exclusion criteria, which we have developed as well as certain other factors such as the types of industries and the products that customers are using. Certainly, we are doing a lot of work to integrate this within our financing framework and how we kind of grow the green assets within our portfolio as well as how we manage the risks that we've identified.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you. So there's another question, ESG-related. So please stay on the line. And the question is on that -- well, the question is from Valentina Stoykova, Barclays Investment Bank. And the question is on debt issuance plans and the ESG initiatives that you're currently working on. Well, in particular, do you plan to commit to net zero targets, Scope 3 emissions reporting or any other social or corporate governance initiatives that you can share with us? And how are these are linked with your issuance plans for this and next year?

A - Carlin Naidoo ***Qatar National Bank (Q.P.S.C.) - Sustainability Manager, Strategy & Business Development***

I think on the issuance side, I'll actually allow Mark to answer that because that's really dependent on market conditions. On net zero, we have seen a lot of announcements coming out. And honestly, these are very positive commitments and pledges that we're seeing. I think anything that aligns to Paris Climate Accord is extremely positive news.

On net zero, again, I -- from a state perspective, the State of Qatar has recently issued their updated and second national determined contribution. This is a very positive development for the states. And we, as QNB, will actively support them as they try to achieve the targets that they've outlined within this. Mark, I think you can answer.

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

Sure, yes. Hello again, Mark here. On the issuance side, whether we do another green bond or we do our regular market issuance, as always with QNB, we don't have a formal issuance program. So whatever we do choose to do is opportunistic. With regards to the green space in particular, that will be based upon investor demand appetite. And as always, with QNB, the pricing as well. So we have made specific requirements or fixed plans, if you like, to issue in this space. But it's a very important part as we grow from our inaugural bond last year. And we'll continue to look on an opportunistic basis.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mark. I'll move on to our next question from Andrew Brudenell, Ashmore Investment Management. And the question is about asset growth. So asset growth of 6%, 8% in the future looks low, given the macro outlook overall. The North Field expansion in Qatar and the management's comments of accelerating private investment in Qatar. What would we need to see for growth to be north of 8%?

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

I don't think 6% to 8% is low because we need to consider also the size of QNB. Today, QNB, by end of the year, will be $1.1 trillion. So when we say 8%, this is not a small number. At the same time, please note that historically, QNB was not materially involved in financing oil and gas projects.

Because these projects tend to be financed at a very low rate because there's huge competition. And QNB usually doesn't participate because we want a margin of 175 to 225 basis points, and this project definitely will be at that ever. It would be even much, much lower than that. And that's why I doubt that QNB will be materially active in financing considering the competition that this project will see.

However, QNB was always active in financing all ancillary projects around this project. Definitely, we always had a market share of more than 60% to 70% of that sector, and we will continue to do that. So a 6% to 8% indication at this time is not small. We will aim to be higher. This year, I started by talking about 6% to 8%, and now we talk about 7% to 9%, so it is higher. Let's do the same for 2022. Let's see how the progress is going to be. And definitely QNB will maintain the market share in total, which is around 50% to 52%. This definitely will not be impacted.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi. I'll move on to the next question from [Nikhil Puthran]. So it seems write-off of Stage 3 loans has been on an increasing trend. Can we see continuity in this going forward?

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

The bulk of the write-offs that you are seeing happen from Turkey. Turkey, they have a system, whereby once you have a 100% provision against some loans, there are specialized companies that come and buy these loans from you. And usually, the purchase price is between 15% to 25% of the value, so it's a good business to both parties. And most of these write-offs is reflected this one. QNB, Doha, is unfortunately not active on the write-off even and this put us in a very difficult position when we compare QNB with a peer, because the peer group in the region is very active in write-offs. QNB Doha is not, because the Central Bank historically was extremely hesitant to approve any write-off even for loans, which have 100% provision. All exhaustion have taken place in terms of write-off, legal action, foreclosures, but they're very hesitant to approve write-off. And that's why this put us, sometimes, in an unfair comparison with the peer group industries you see.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mr. Ramzi. I'll go on to the next question from Maya Bou Kheir, Schroders. Now the question is about the medium-term return on equity for the group. Where do you see your medium-term ROE? And what would be the key driver of the change from the 15% level?

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

The momentum that will be 2 factors. Number one, how much the operation you're going to maintain? If it's going to go up to 45% or we're going to make it akin to between 35% to 40%. It's a very important factor. And the growth in the profitability. If you assume a growth in profitability that will continue between, let's say, the 7% to 10% for the next 3 years with a 40% payout ratio, I think the ratio will continue to be between 15.5% to 16.5%, which is a very good ratio considering the size of QNB.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mr. Ramzi. Well, we appear to have no further questions at this time in the queue. I think on this note, I would like to thank everyone for their participation in today's conference call. And I would like to thank the entire management team of Qatar National Bank for their insights.

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

Thank you. Thank you for everyone and hope to see you in early January.

Q - Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Mr. Ramzi. This ends our conference call today. Thanks, everyone.