IR Call Transcript (Edited Version)
QNB Group Q3 2022 Results

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PRESENTATION

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Good afternoon and good morning, everyone. On behalf of HSBC, I'd like to welcome everybody to the Qatar National Bank's Third Quarter 2022 Earnings Conference Call. With no further ado, I'd like to hand over the call to Mark Abrahams. Thank you.

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

Thank you very much, Aybek, and HSBC team hosting our call today. Before we begin, it's important to remind you that this earnings call is for investors and analysts only and any media personnel, please disconnect now.

I will begin by giving an overview of the macroeconomic environment. Then I will cover QNB's financial results for the nine months ended 30th September, 2022, and finally open the floor for Q&A. Following the recovery from the pandemic, economic activity just gained traction globally on the back of robust reopening demand. However, the global environment had taken a turn this year as excessive post pandemic policy stimulus has given way to higher inflation and monetary tightening, which more recently has resulted in a marked slowdown in global growth. Geopolitical wars in Eastern Europe have added further uncertainty and volatility to the outlook.

Supply chain constraints and geopolitical concerns had boosted energy prices and significantly propelled Qatar's fiscal and external revenues, further supporting the strong domestic macroeconomic backdrop. While the recent development signal headwinds for the global economy, it is a tailwind for commodity exporting economies, including Qatar. As a result, the economic recovery is in full force locally while the banking sector remains resilient and healthy presenting significant growth, ample liquidity, adequate levels of capitalization, high asset quality and robust profitability.

The final stage of the preparations for the 2022 FIFA World Cup are driving strong growth in Qatar's non-energy private sector. Indeed, the Qatar Financial Center's Purchasing Managers Index or PMI has been indicating strong expansion since July 2020, which reflects a significant uplift in business conditions. Kicking off in November, the 2022 FIFA World Cup will be the largest sports event on earth and the largest event ever hosted in this region. This is expected to boost economic growth across the economy. The event will further contribute and solidate Qatar's position as a regional and international hub for business, investment, commerce, tourism, and culture.

In the medium term, tailwinds from investment and increasing hydrocarbon 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 for 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 pet chem 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 service sectors. Qatar is therefore laying foundation for continued GDP growth over the medium and long-term through investments, diversification, and stronger private sector engagement.

I will now move onto QNB's financial results for the nine months ended 30th September, 2022. Key financial results were as follows. With net profit before the impact of hyperinflation at QAR12.3 billion or $3.4 billion, a robust growth of 20% compared to last year. The accounting for non-cash hyperinflation adjustment impacted the profits. Nonetheless and despite the challenging conditions, reported net profit after the impact of hyperinflation was QAR11 billion or $3 billion, strongly up 7% compared to last year.

Robust revenue growth has resulted in an increase in operating income to QAR25.6 billion or $7 billion, up 24%, demonstrating QNB Group's success in maintaining growth across the range of revenue sources despite current market volatility. As a result of higher revenue growth, QNB Group has continued to reduce the cost to income ratio downwards from 22.5% in the last year to 19.3% as of September 2022. Total assets are QAR1.135 trillion or $311.8 billion, up by 5% -- excuse me, from the same period last year. Loans and advances reached QAR763 billion or $209.6 billion. QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 1% from September 2021 to reach QAR794.4 billion or $218.2 billion. This improved the Group's loan to deposit ratio to 96.1%.

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 amongst 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 3 loans is at 121%. Total equity increased to QAR106 billion, up by 5% from September 2021. The bank's capital adequacy ratio at 19% is comfortably higher than both QCB and Basel III requirements.

Before we begin the Q&A, though we welcome all questions, in the interest of time, we would appreciate please if questions are limited to a maximum of three per participant. Any further and detailed discussion on results, you may directly reach to our Investor Relations team. Thank you very much. We will now turn to questions and answers.

QUESTIONS AND ANSWERS

Q - Rahul Bajaj *Citi Group– Research Analyst*

Yeah. So, thanks for taking my question - questions. I have three questions basically. The first one is on government repayments that we've seen through this year. And just wanted to understand how is the management team thinking about the kind of flow of these repayments in the fourth quarter and into 2023? Should we expect these repayments to continue into the New Year? Or you think these would subside? And kind of linked to this question is how confident is the bank management team around lending momentum picking up post-FIFA? Is that something that you are pretty confident about? So, that's my first question.

My second question is would be around 2023 again. So, any expectations or kind of early guidance you could provide on how you see 2023 shaping up, that would be very useful. Especially if I think about the margin trajectory, which has been quite interesting in 2022, how should we think about the 2023 margin trajectory? Also in the international business, especially Turkey, where margins have inflated quite a bit in 2022, should we expect a normalization or you think this kind of run rate will continue? That was my second question.

My third and final question is on dividends. How should we think about the dividend payouts in 2022-23 onwards in view of this hyperinflation accounting? So, will the management team recommend dividend post-hyperinflation adjusted profits or will they - since this is a non-cash item, will they kind of adjust it out and then recommend the usual 40% -- around 40% payout? So, that would be my question. Thank you.

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

First question, government repayment. It will highly depended - depend on oil prices. If oil prices continue to be at current level, we expect continuation on repayment of public sector loans, especially MOF. In terms of lending momentum, definitely 2023 will be better than 2022. We expected from the beginning of the year and we have been dealing with investors, but we think this year will be mostly focusing on finalizing the project that started in last three to five years and this is now happening. And 2023, we will see a new momentum of renewal loans coming to the system. So we are optimistic and we have been in extensive discussion when we were talking about the budget for 2023 in order for us to define the momentum that we expect in 2023, which I will mention when we talk about 2023 guidelines.

Now I will talk about the dividend, then I will go back to the guidelines. Dividends payout is highly dependent on the management - on the Board decision. It's very difficult for us to predict what's going to happen. But what I can say is that hyperinflation will not impact dividend. Those hyperinflation is around cash item, which should not impact dividend. Payout ratio will continue to be between the 35%, maximum 45% of profitability excluding hyperinflation. So nothing will change in terms of dividends or the payout ratio.

In terms of the guidelines and these are preliminary guidelines because we have not yet finalized the budget for next year, but in terms of balance sheet, I expect assets to be 5% to 7%, loans to be 4% to 6%, and deposits to be 5% to 7%, profitability 6% to 8%. Again these are preliminary numbers and are not yet finalized, but the rough leasing of the guideline that we can give today for 2023 in the phone call on December number, I will give more updated numbers.

Q - Chiradeep Ghosh *Securities & Investment Company BSC, Research Division - VP of Research*

Yes. This is Chira Ghosh from SICO Bahrain. I have three quick questions. The first one is we are hearing there has been a major currency devaluation that is happening in Egypt. So as of now, your asset quality has remained quite robust. So if you can throw some light on what could be the potential impact because of this? That's my first one.

Second one is, in the past you've said that the petrochemical project, despite heavy internal spending that's happening in Qatar, QNB won't be a big participant in this because the yields there is relatively low. If you can throw some light. Has it changed or what could be our loan growth sectors, which will be contributing to our loan growth?

And third one is, I can see that, as you've said again in the past that the provisioning you want to build up on your Tier 1 and Tier 2 in a favorable year. I want to know how much more can you build on your Tier 2 because it's already much better than most of your peers? So, these are my three questions.

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

Okay. Devaluation in Egypt, we went through this five years ago. Currently, the book is much better structured than what we have previously. As you know in Egypt, the bulk of funding and deposits are in Egyptian pound, so the impact is different than Turkey if part of the portfolio that is in foreign currency. So in Egypt even the valuation considering both side of the balance sheet in Egyptian pound, so the impact is materially less. However, in terms of NPL, definitely it's something that we need to be careful about. We always work hard to keep coverage ratio in Egypt more than 100% and this is where we stand now. It's something we will continue to focus on in order to ensure no surprises in the operation in Egypt.

Loans deposit ratio will continue to be at a modest rate, not more than 60% again in order to ensure that no major impact of any devaluation on the operations that we have in Egypt. North Field participation. Again it's really dependent on the pricing. Historically, we participated in this project, but not in a very large amount, but considering that the pricing of these loans were very, very low and to us we prefer to focus on ancillary projects around North Field expansion. These projects can provide to us a better margin. As you know, all banks in the world compete to participate in these projects and that's why historically pricing is very, very low.

To us, considering liquidity we prefer to focus on other projects surrounding this project. And from what we have seen in the early stages -- in the previous expansion of gas production, we were able to capture very good business from the project that surrounded the expansion of gas production in Qatar. We expect the same this time. Provisions, Stage 2 now coverage is 11%. We moved from 7.5% -- from 6.5% in December to 11.1 in September. We understand that we are higher than most peer group, but our capacity to continue to grow Stage 3 provision is extremely limited. And that's why we will continue to focus on ensuring that we have enough coverage in the Stage 1 and Stage 2.

Cost of risk in September of 104, do I expect it to be close to that number in December? Yes. We still keen to ensure we have enough coverage to protect the entity. We fully understand all the challenges that the banking industry around the world is facing. We want to generate good growth in profitability for our investors. In the meantime, we want to be very cautious about the challenges that we have and to ensure that we have enough buffer in our provisions to protect the entity.

Q - Waleed Malik Mohsin *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Yes. Thank you so much. Good afternoon. Three questions from my side as well. And apologies if I've missed some of your comments on these. So first on the margin this particular quarter. It's interesting that the net interest income actually expanded in your domestic business and the domestic business did well on that front. So if you could please comment on what's driving that? It was a pretty good quarter in terms of domestic net interest margin. And then linked to this in Turkey or the international business, we've not really seen much expansion despite that - the environment in Turkey in particular has made quite favorable. So if you could comment on the trends in the local and international business would be very helpful.

Secondly, you commented on the loan growth expectations for next year. I was wondering if there is a scenario where repayments exacerbate and then there is somewhat of a delay in new projects. Do you anticipate it could - there is a possible scenario where loan growth domestically could be negative driven by repayments next year? And my third and final question is your expectations for monitory policy in Turkey, I know it's a very difficult topic.

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

There is no way anyone can project this. It's extremely difficult and complex situation. And that's why we go back to your question on Turkey expansion. Again with all the changes in the regulation, especially, it would limit the growth in the business. And if you want to grow, that means you need to invest in sovereign bonds. In QNB, in the first six months of the year, we materially saw excellent growth in loans and deposits. In the second half of the year, especially in the third quarter, we felt that it is enough for us in terms of expansion. We still enjoyed very strong number for the nine-month period. We're talking about loans growth of 80%, funding more than 100%. So there is still growth, but definitely the second half will not be as strong as the first half. And of course it's all dependent on the regulation.

Now margins. We always said that when Fed rate goes up, based on the structure of the balance sheet, local business will benefit. And that's why we have seen good momentum in terms of margin, gross of 10 basis points until September, which we have not projected at the beginning of the year, but we're talking about five to seven basis point. 10 basis point is strong. The question is that this -- will this continue? Definitely maintaining that level of margin will be a major challenge for the entity. We are keen to keep it around the 250 basis points, but there are multiple factors that will impact that margin and that's why I only can say that we will do our best to keep it around the 250 basis points and let's see what's going to happen.

Government repayment can't impact our overall growth next year. Of course, if all the prices continue to be strong, that's means the stake is very liquid. Their investment in infrastructure projects, the bulk of it is already completed before the World Cup. So, they will keen to repay some of their loans. How aggressive they are going to be? No one knows. But having a negative growth number in loans will be doubtful because we are optimistic that normal growth from the private sector and some government agencies in 2023 will be much better than what we have seen in 2022, but let's wait and hope for the best.

Q – Aaron Armstrong

Hi, thanks very much for taking the question. Firstly on loan growth. Could you talk about government repayments, please? And how significant they have been? And perhaps if you could give an indication for how fast the loan book would have grown if there were no government repayments during the quarter?

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

Overall repayment for the government were around for the nine months, they were about QAR6 billion. But you need to compare that what we have seen last year in the same period where there were growth in government loans. And this is impacting the comparison between this year and last year. Now most of that repayment took place in the last quarter of this year. And the same -- we expect the same to happen in December.

So, in December I would not be surprised if the overall drop in government loan is between the QAR10 billion to QAR15 billion. So, in overall numbers considering that weekly gross - sorry the weak growth in the private sector business. So, definitely we do not expect the loan to strongly grown during the year. We are very close to see that we are going to -- we are going to see close to zero growth in loans in 2022.

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

Thank you, Ramzi. We have the next question from the line of Edmund Christo. Please go ahead, Edmund.

Q – Edmond Christo *Bloomberg Intelligence*

Hi, thanks for the presentation. Just to follow-up, so if I heard correctly, so we expect no growth this year. So, we should not expect any strong momentum in the Q4.

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

In loans.

Q – Edmond Christo *Bloomberg Intelligence*

In loans. Okay, perfect. Okay. So, the expectation for 2023, if I hear correctly, is 4% to 6%. Is this pricing and repayment into the first half of this year -- of next year, sorry?

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

The 4% to 6% is based on that projected number for December

Q – Edmond Christo *Bloomberg Intelligence*

Okay. I see. Okay, clear. The second question I do have it's on the hyperinflation. It's around QAR551 million. It's higher than what I expected based on the CPI reading since June to September. Are you able to give some clarity what's included in the QAR551 million of adjustment?

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

This is too much detail for the phone call, Edmond. Please drop an e-mail and we will answer you directly.

Q – Edmond Christo *Bloomberg Intelligence*

Okay. Perfect. The last one is on the staging. We usually give some kind of how the Stage 2, Stage 3 will evolve over the year. Are you able to give any clarity into next year or still early?

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

It's too early because I'm still working on the book. We have seen an increase in Stage 2 during 2022. It was started especially in Stage 2. In December, we were QAR43 billion. In September, we were QAR56 billion. So that's QAR47 billion to QAR56 billion, so we talk about QAR9 billion increase during the nine months. I expect another QAR1.5 billion to QAR2 billion to be in the fourth quarter. Are we going to see the same number next year? I doubt.

As I mentioned before, staging is highly dependent on how much cost of risk we want for the entity, which is again driven by the strength in our operating income. We expect this year - the end of the year with an operating income growth of close to 26% after being very conservative and after a projected 105 basis point in cost of risk. Now next year, if we continue to see these numbers and of course it's very doubtful to see again another 26% growth in operating profit, again we're going to see a cost of risk which is close to 100 basis point because again we need to try to manage the overall growth in the bottom line in order not to pay the price at the later stage in three to five years.

So for us to be able to have a 100 basis points cost of risk, that mean that I have to move some loans from Stage 1 to Stage 2 to allow me to build and increase the provision against Stage 2. This is the momentum of how we're managing this. I don't think next year we are going to have the luxury to be as conservative as this year, but let's wait and see exactly what's going to happen.

Q – Edmond Christo *Bloomberg Intelligence*

Okay. And the view that from Stage 2 to Stage 3 is possible to see migration into next year because you have a bit more Stage 2 coverage there? Correct?

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

From Stage 2 to Stage 3.

Q – Edmond Christo *Bloomberg Intelligence*

Yes. Because you have very good coverage now on Stage 2 and Stage 3 is very high as well for accounting purposes.

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

True. This will happen, but it will be gradual. Please also note that this year in Turkey, we have seen a major drop in non-performing loans because when you have very high inflation, especially on Turkish lira loans, most customers will be able to repay their loans. Now next year, if inflation goes back to normal, we expect we are going to see a material increase there. That's why we were cautious this year. And we strongly focused on increasing coverage ratio in Turkey. We took coverage ratio for Stage 3 around 120%, which is the highest in the country. More importantly, we increased Stage 2 coverage from 15.8% to 23%. Now it's something - a number that I wish everyone to recognize. Today in Turkey, coverage ratio in Stage 2 is 23%. This is a number that is non-existent in Turkey. Again - and this is built because we expect next year in terms of NPL there will be an increase in Turkey once inflation goes back to normal and that's why we want to be prepared from now for anything that might happen.

Q – Aaron Armstrong

Two follow-up questions from me please. Firstly on the net interest margin side, could you talk about the different moving parts, please? So you mentioned kind of maintaining around the 250 basis points level, could you talk about the impact of rising interest rates and the benefits, so that creates the NIM versus what the headwinds are that has led you to give a kind of steady 250 bps or to keep it around 250 bps is that kind of base case?

And then secondly, could you talk a bit more about the cost of risk that you mentioned being conservative and kind of managing that cost of risk especially can say through the cycle. Could you talk about how you get to the right numbers or why should it be 105 this year? Is there a certain kind of provision coverage that you have in mind, a certain number in terms of the provisions that you want to have on the balance sheet? Just kind of what you're working to and what kind you're solving for that lead you to these kind of 100, 105 cost of risk numbers?

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

Being able to project your net interest margin under current conditions in Turkey, Egypt or in the Fed countries where we operate. And considering what's taking place in interest rates around the world, it's probably one of the most complex issue that any CFO has these days. There are several factors that impact margins. And when you operate in several countries, some will be - an increase in Fed rate will be positive and in other countries it will be negative.

And that's why projecting exactly what's going to happen is extremely complex, but we've always told investors that an increase in Fed rate will improve margins for the Group, especially for local operation and our operations in the GCC because how the book is structured. And we always said that 100 basis points increase, they can generate more than QAR500 million additional interest income. But, of course, that's in the first increases. That doesn't mean that if 200% increase over a year that means the QAR500 million will become QAR1 billion and if there is 150 basis points increase, that QAR1 billion will be QAR1.5 billion. Of course not. Because after the first increases, other factors start to kick in that at the end will impact overall because there will always be a lag between the pricing of your asset and liabilities and there were always be challenges in many cases of increasing your rates on all your loans in the same momentum that we are seeing Fed rate going up without impacting the capacity of this customer to repay the loan in the longer-term. And that's why you try to manage that increase especially if it was a quick in a way to ensure that the customer will be able to absorb that increase.

And that's why when you take all these factors in consideration because you need to work loan-by-loan, deposits by deposit based on the maturity of the deposit, when it's going to mature, whether you need it, what's it going to be, what - how long you need these deposits for, all these factors make it extremely complex for me to tell you next year we are going to have 250 or 260 basis points. But what I said and what we are - we aim to is to manage our margin in a way that we don't drop below the 260 basis points. It is materially changing and very difficult and just put a lot of load on the treasury for them to be able to manage cost of funding, get rid of some of the cost to deposit, to ensure that this lessens the maturity of fund - funding sources. Please note that when rates go up, the bulk of the customers preferred short-term funding. In order to take advantage of the increasing rates, again this puts pressure on treasury to manage the overall funding profile events that's on margin.

Cost of risk. Now we said cost of risk will be close to 100 basis points. Next year in the budget, I'm not budgeting 100 basis point because definitely I'm not budgeting an increase on operating income of 25%. But what I tried to explain to investors that cost of risk for the Group is highly dependent on the engine. If the engine of revenue is strong and we have the luxury to be conservative, we will. We don't want to issue a growth in profitability of 15% next year and the year after a growth of 5%, and then 20%, and the next year minus 5%. This is not QNB. QNB I always said is a very boring story. You are going to see a growth in profitability year-on-year inshallah, of course. And that growth will be managed very carefully between the 6% to the 8%. This is the growth you're going to be. In good year, you are going to see 9% and perfectly you are going to see 10%. That's it. This is the way QNB is structured. We are a very conservative financial institution. At the same time, we do not like to give bad surprises to our investors. It's a very stable operation, steady, very well structured, very conservative. Coverage ratio will continue to be more than 100%, now it's 120%. This is where we wanted it to be. This is how we are structured and this is how we are going to continue to operate.

Q – Salson Ali

Just a quick question from my side. We saw a corporate interest income was quite strong in this quarter. Would appreciate if you could shed some light on that.

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

Okay. Again, this is a reflection of the increase in Fed rate and success of treasury and the business units to manage cost of funding and our ability to charge the customer with some of the increases that we have seen in Fed rate. If you have seen that the QCB did not follow the Fed rate, there was - and everything will increase, there was a gap of around 25 basis points. And we followed the QCB. And this is what we -- this is the momentum that we want to keep.

We still believe that interest income next year in local operation will continue to be strong. But to what extent we will be able to continue to charge the customer with the full increases, it's something that we need to - without impacting NPL ratio on the longer term, it's something that we need to be careful about. And that's why we take all these parameters into consideration when we increase rates on corporate business.

Q – Salson Ali

Okay. If you don't mind me asking another question. In addition to your strong core business, periodically you have gone for an organic growth. Do you have any such plan especially considering that the capital adequacy ratio is not substantially higher than the regulated levels as in the past?

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

As of today, we are not looking at anything specific which is material that will materially impact our capital adequacy ratio.

Q – Samuel Jane *JP Morgan*

Thanks a lot for taking my questions. I just had one question on costs. So in the first nine months, cost control has been very solid and cost to income ratio has dropped below 20%. How should we think about cost efficiency next year? I'm guessing there would be some slowdown in revenue growth, so what kind of cost-to-income ratio we should be looking at next year 2023?

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

I will tell you how - based on the model that I have for, for the budgets. Next year, I expect the efficiency ratio to be between 20.5% and the 21.5%. So there will be an increase. But whether we are going to reach the 22%, I doubt that next year. So we aim to continue to be around the 21.5% and less.

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

Thank you, Samuel. But we have one question from the participants, which is in the Q&A room. I'll ask to Ramzi. So the question is about what influence the increase in the Stage 2 coverage this quarter relative to the previous quarter? That's the first part of the question. The second part of the question is about your expectations about hyperinflation and monthly losses in the coming quarters?

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

Stage 2 very - increase this quarter was extremely simple, of course, answer. The auditor that did not allow me to increase our coverage ratio for Stage 3 above the 120%. And based on the discussions that we had in Zoom, we had to move to focusing more on the Stage 2. Next, even next quarter, I don't think our coverage ratio on Stage 3 will continue to be 120%. I need - the auditors will not allow this. I think - I hope I will be able to convince them. I will keep it around 115%. If that happens, that means that I need to move and focus more on Stage 1 and Stage 2, that is the simple answer. Expectation on hyperinflation who can - it's impossible for anyone to project what is going to happen. But if you take - what happened in the third quarter are the best for the fourth quarter, you are going to be - you should be close.

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

Thank you, Ramzi. So, we have another question, which came in from a participant. That's Valentina Stoykova. I'll read out the question to you. There are two parts in the question. The first part is about your liquidity position. What is it like as well as what are your issuance plans for the next year? The second part of the question is about the regulatory changes on the treatment of non-resident deposits, which impacted liquidity coverage ratio and NSFR calculations. Can you talk us through these ratios, LCRs and NSFRs? Where are they at the moment? And how do they look versus the thresholds in the third quarter of 2022? And there is a follow-up from Valentina as well. Can you also comment on your issuance plans for this year and perhaps 2023? Shall we expect any green senior Eurobonds from QNB similar to what we saw at some of the UEP as recently?

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

I will answer only LCR and NSFR and then I will leave Mark to answer the second half of the question. LCR, based on the new regulation, the 106, so we are continuing to be more than 100%. NSFR, the changes that the QCB did materially impacted negatively impacted the ratio. Today we stand at close to 96%. As we know today that the ratio is currently not Basel based, QCB was extremely conservative in the new ratio and it materially penalized banks on non-resident funding. For the last six months, since the regulation came out, we have been working hard to improve QNB ratio, but it will take time. It's one of the something that we are not going to be able to reaching 100% in a month's time, but hopefully by December, we should be close to the 100%. But again, this is not Basel based ratio. If we run the ratio based on Basel requirement, we are going to be more than 100%. This is QCB ratio and we fully understand where the QCB is coming from. They want to manage overall number of the funding. And it's something that we are working on in order to ensure that we meet QCB regulation. I will leave it to Mark to answer that first half of the question.

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

Hi, there. So regarding our base liquidity remains very robust, the reason for that is a combination of the very, very diversified foundation we've laid over the last few years. And secondarily, obviously we are benefactors of the very significant revenue that's coming in through the elevated energy pricing at the moment in terms of State of Qatar as well for QNB. So in terms of kind of base liquidity position, very strong indeed. That has an impact again upon the second part of the question regarding the issuance, QNB has always been an opportunistic issuer. We've never been a bank that has laid out a formal funding program under the ATM program. That hasn't changed. And the reality is that over the last few months and even today, it is a very, very volatile market. And whilst as you correctly point out some of our regional peers have come to the market in the green format recently, they have paid significant new issue premium for that.

And as Ramzi alluded to earlier in the call, we are very, very focused indeed on being as efficient as possible indeed and managing our cost from there. So with regards to issuance this year and into next year, it's possible we could do something at the back end of this year, but unlikely it really depends on the market and then the available windows in that regard. And the same goes really for next year. I do think things will normalize to a degree next year. I do think it's likely that you will see QNB comes to the market in some format next year and most definitely due to having a strong established ESG framework in place, a green option would be viable potentially for us next year as well. Thank you.

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

Thank you, Mark. We'll pause for a moment to see if there are any questions. I think in the meantime, while we're waiting, I'd like to again raise a question about the asset policy, obviously a lot of attention here from the investors. Looking at your write-offs Ramzi, I mean, they tend to be quite low in the last five years. Now given that you base your provision coverage so well, are you expecting to sort of accelerate some of your write-offs in the medium term? Where do you see the write-offs that are coming?

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

This is one item that's materially penalize QNB against the peer group. If you compare our write-off versus those of the peer group in the region, everyone would realize that our write-offs is extremely small comparing to other peer group. And this is - this helps our NPL ratio. We have been - and the reason for that is that the Central Bank is extremely conservative and very hesitant to allow any write-offs. But we have been in continuous discussions with the Central Bank to allow us to start writing off some of the provisions that is fully covered. And we are very hopeful that this discussion will allow us to move forward with writing-off some of the loans, especially the old ones, which is 100% - which is 100% covered for. This will not impact our ability to continue to follow the customer for repayment and to take all legal actions needed against this customer, but it will allow us to free some of the NPL ratio so that we can move forward with proper classification of our loans among the three stages. So, again hopefully - how much I expect write-offs to take place, it is extremely difficult to project because we don't know how the Central Bank will decide on this matter.

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

Thank you, Ramzi. And one another follow-up question from me. We definitely had some regulatory changes in Qatar, right, while favoring domestic deposits over non-resident deposits is one of them. In terms of the regulatory landscape, what are the sort of important changes should we be aware of?

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

In the last year under the new management in the Central Bank, we have seen several changes in regulation. And there were a lot of focus on the funding profile of banking sector, more focus on local funding. And that's where we have seen a major shift in the funding profile for banks that are in QNB alone. We have seen a 20% drop in non-resident fundings and 18% increase in fundings - on resident funding. So major shift and more focused on resident funding and decrease on non-resident funding. I'm not aware of any new regulations that will come very soon that I can talk about at this stage.

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

Thank you, Ramzi. So it appears we don't have any other questions at this stage. So I guess I'd like to thank the Qatar National Bank management team and all the investors who dialed in for their participation. And I'm going to hand over the call back to Ramzi and Mark for any closing remarks.

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

I want to thank everyone that participated in the phone call. This year was a very good year in terms of maintaining very strong momentum in operating income. We still believe there is still a lot of capacity for the Group to grow operating income next year. And hopefully, we will continue to generate good number for our investors. Thank you everyone for joining us.

Aybek Islamov *HSBC, Research Division – Analyst*

Thank you, Ramzi.

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

Thank you. Have a good day. Bye.
