



## IR Call Transcript (Edited Version) QNB Group Q4 2021 Results

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### PRESENTATION

#### Operator

Good day, and welcome to the Qatar National Bank Fourth Quarter 2021 Results Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Rahul Bajaj. Please go ahead.

#### Rahul Bajaj *Citigroup*

Thank you. Good morning, good afternoon, good evening, everyone on the call. This is Rahul Bajaj from Citi Research. We welcome you all to Qatar National Bank's Fourth Quarter 2021 Results Conference Call, being jointly hosted by Citigroup, and QNB Financial Services. On the call, we have QNB management team with us who give us view on the fourth quarter performance, and also take investor and analyst questions.

QNB is led by CFO, Mr. Ramzi Mari. We also have Ms. Noor Mohamed Al Naimi, General Manager for Treasury, and Mr. Mark Abrahams, Assistant General Manager of trading information. At this moment, I will hand over the call to Mark to take it forward. Over to you, Mark.

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

Thank you very much, Rahul and the Citi team for co-hosting our Q4 2021 earnings call today. Before we begin, I would like to highlight that this call is for investors and analysts only, and any media should please disconnect now. I will begin by giving an overview on the macroeconomic environment in Qatar, then I will cover QNB's financial results for the year ended the 31st of December 2021, and then finally, open the floor to Q&A.

The ramp up of preparations for the 2022 FIFA World Cup are driving a strong growth in Qatar's non-energy private sector. Indeed, the Qatar Financial Center's Purchasing Managers Index has been indicating expansion since July 2020, and has even accelerated in recent months, averaging 62.3 in Q4 2021. Sorry, whoever's got the line opened, can they mute it please? This signal sustained improvement in business conditions. In addition, Qatar has clearly demonstrated its ability to combine a prudent fiscal policy with a large program of capital expenditure for the effective delivery of both the Qatar National Vision 2030, and the World Cup. Kicking off in November of this year, the World Cup will be the largest event ever hosted in Qatar, and will boost economic growth, particularly in transport, communication, media, hospitality, and other services sectors.

World Bank estimates that Qatar's 2022 GDP growth is expected to be over 4%, the highest in the GCC region. Qatar has taken all necessary precautionary measures to protect its population and economy from COVID-19. Qatar's vaccination program has administered more than 4.7 million doses of the mRNA vaccines, with over 86% of the population now fully vaccinated, and booster shots progressively being offered to the general population. This has helped Qatar significantly in reducing the impact of the pandemic. In the medium term, tailwinds for investment in increasing hydrocarbon production will drive economic growth, with six new LNG trains planned that will increase Qatar's LNG production by 64% to 126 million tons per annum. Importantly, the north field expansion will make innovative use of both carbon capture and renewable energy to minimize carbon emissions and 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. Over the longer term, private sector growth will be further boosted by continued structural reforms including ownership liberalization, the promotion of foreign direct investments, labor reforms, the permanent residency program, and several initiatives to support entrepreneurship as well as self-sufficiency in strategic sectors.

Qatar is therefore laying the foundation for continued GDP growth over the medium and long term through investment, diversification, and stronger private sector growth. I will now move on to QNB's annual financial results for the year ended 31st of December 2021. Key financial results are as follows, net profit of QR13.2 billion, or \$3.63 billion, up 10% compared to last year. QNB Group has continued on its operational rationalization exercise, which has resulted in reducing the cost to income ratio from 24.3% last year to 22.2%. Operating income has increased to QR28.3 billion, or \$7.8 billion, up 11%, demonstrating QNB Group's success in maintaining growth across the range of revenue sources, even in these challenging conditions.

Total assets are at QR1.093 trillion, or \$300.2 billion, up by 7% from December 2020. This was driven by a growth of 6% in loans and advances to reach QR763.7 billion, or \$209.8 billion. QNB group remained successful in attracting deposits, which resulted in an increase in customer funding by 6% from December 2020, to reach QR785.5 billion, or \$215.8 billion US dollars. This improved the group's loan to deposit ratio to 97.2%. Despite several challenges and headwinds from the global pandemic, QNB Group was able to maintain the ratio of non-performing loans to gross loans at 2.3%, a level considered to be one of the lowest amongst financial institutions in the Middle East and Africa region, reflecting the high quality of the Group's loan book, and the effective management of credit risk.

In addition, the coverage ratio on stage three loans is at 117%. The board of directors have recommended to the General Assembly the distribution of a cash dividend of 55% of the nominal share value, QR0.55 per share. Total equity increased to QR100.1 billion, up by 3% from December 2020. The bank's capital adequacy ratio, at 19.3%, is comfortably higher than QCB, and bar three requirements. The Group is very well capitalized, and comfortably exceeds other regulatory liquidity and leverage ratios. We will now turn to questions and answers. Thank you very much.

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## Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, press star, one to ask a question. And we will take our first question from Walid from Goldman Sachs. Please go ahead, your line is open.

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## QUESTIONS AND ANSWERS

### Q - Waleed Mohsin *Goldman Sachs*

Yes, good afternoon. Thank you much for the presentation. Three questions from my side. Firstly, Mark and Ramzi, could you please talk about the international business, particularly Turkey. I mean, what trends are you seeing on the funding side, and you clearly have taken an incremental provisions, which seem to be Turkey driven? So, your thoughts on funding and asset quality would be much appreciated on the international business.

Secondly, if you look at your coverage ratio, it's one of the best in the region, and you further boosted it during the fourth quarter. So, we wanted to get a sense of, when can we see normalized levels of cost of risk for the bank, and what do you expect those normalized levels to be? And thirdly, if you could just update us on your 2022 guidance? You had provided some preliminary guidance at the third quarter results, but if you could provide an update, that would be very useful. Thank you much.

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

I think your first question on international business, and the third question on the guidelines, I think they can go hand in hand. I will start with the last question which is the guidelines. Now, based on the budget that was built, and where we see the numbers are progressing, whether it was in Doha or in international operation, the guidelines for 2022 will stand as the following, for the group as a whole balance sheet, which is asset loans, deposits, will be between 6% to 8%. For the profit and loss, it will be between 7% to 9%. Of course, these guidelines will progress quarter and quarter based on what we are seeing on the ground. For QNB Al Ahli, balance sheet will be between 12% to 14%, and profit and loss 18% to 20%. For QNB Finansbank, balance sheet will be between 21% to 24%, and profit and loss between 17% to 19%.

So in summary, we still believe the main two operation, other than Qatar, which continue to grow strongly with us. Overall growth for the Group will continue in line with what we have seen in 2021, strong but steady progress. No surprises, whether it is positive or negative. I was talking about the guidance, I need to refer to what we have seen in the fourth quarter of 2021.

Definitely, it was one of the best quarters that we have seen in the Group for a very long period of time, which clearly show the continued strong growth in the revenue stream of the Group, and this is where we need to focus. Fourth quarter standalone, we have seen operating profit growing by close to 7%. Very strong growth in net interest income. Net interest income in the fourth quarter probably was one of the best in the history of the Group, and we grew in this quarter by close to 7%.

Overall growth in revenue was 6%. So, fourth quarter 2021 gave us a very strong momentum for 2022, and that's why we are very optimistic that progress and revenue generation will continue in 2022 if the business continue at current level. And this is take us to the second question, Walid, which is the coverage ratio. If you recall what I discussed in the fourth quarter last year, when I talked about that coverage ratio and cost of risk is materially impacted by the strength of the business and revenue.

If revenue continues to be very strong, this will give us more room to be more conservative, and this is exactly what happened in the fourth

quarter. And that's why, in the fourth quarter, we were able to materially improve our coverage ratio, and if you compare December 2020 with December 2021. Coverage Ratio Group from 107% to 117%, and this is a number that we don't see probably in any other financial institution in the region.

This will continue as long we are seeing very strong growth in revenue. The Group will continue to be conservative in provisioning, and this will continue as long we see the market is not stable. The impact of Corona is still - we are still seeing it impacting businesses, whether it was in Doha, or in all other international operations where we are seeing. The number that we are seeing on NPL is much better than what we anticipated. Inflow of NPL is, again, much bigger than what we were expecting, but this doesn't mean that we should be relaxed.

We will continue to be conservative. We will continue to build on the coverage ratio. Until we see the market going back to normal, then this will give us room to be a little bit more relaxed. However, based on the revenue growth that we have seen in the fourth quarter, this will allow us to continue to be conservative, and at the same time, achieve good growth in the profit a lot, and this is exactly where we want to be. I hope I've answered your three questions?

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**Q - Waleed Mohsin Goldman Sachs**

Yes. That's very helpful. Just one follow up and linked to the point about the international business. The 7% to 9% guidance that you've given for profits, that's - there seems to be quite a lot of conservatism or prudence in that number. Is it the FX rate that you assuming for Turkish Lira? Is that where you are factoring in the prudence? Is it the provisions, as you said, that's where - because I mean, if you look at the momentum, as you rightly said in the last quarter, I mean, you had 6% revenue growth quarter on quarter. If I look at your year-on-year pre-provision operating profit number, fourth quarter versus this fourth quarter last year, they are almost 20% growth. So, from that perspective, the 7% to 9% looks very conservative.

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

Very good question, and this takes us to appoint, a very important point that I wanted to highlight. So, everyone need to really understand this point, especially in in the first quarter, where this point will be very clear. Last year, the average rate for the year in which we took QNB Finansbank numbers were around 0.4. The average this year, based on current exchange rate, will be around 0.21. So, technically, the contribution of Turkey to the group this year will be around 50% of what we have seen in in 2021, and more importantly, in the first quarter. The average rate we have used in the first quarter last year was around 0.55, whereas it will be 0.21 to 0.22 this quarter. So, technically, the contribution of Turkey to the bottom line in the first quarter will not be more than 40% of what we have seen last year.

And that's why this is a very important reason why we are talking about profit and loss, whereas it should be 8% to 10% if Turkey number was normal. Saying this, you - all the investors that have been following QNB for the last ten years, and my guidelines for the last 20 years, all of you know that I tend to be conservative, and we build on this number quarter on quarter, but still, 7% to 9% with the impact of Turkey is a very good growth momentum.

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**Q - Waleed Mohsin Goldman Sachs**

Got it. Thank you much. And then lastly, maybe de-risking how you're dealing with the volatility in Turkey, on the funding and - the funding side?

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

Well, again, very simply, managing the process month on month, very carefully, very conservatively. And one example of how we are managing this if you look at loan to deposit ratio, loans to deposit ratio for QNB Finansbank in December was 96.5%. For Turkish banks, this is a number that is not known. Turkish banks tend to operate between the 120% to 125%.

Now, Finansbank is less materially less than 100%, and this is how we are managing the operation and QNB Finansbank, very conservatively, very carefully, especially considering that no one knows exactly how things are going to progress, and that's why we manage even the growth in loans very carefully. We focus on short-term funding, Turkish lira funding in order to ensure that net impact on the operation is at a minimum.

And this is what we have seen in how interest in the fourth quarter in Turkey was progressing. It was one of the best quarters in the history in QNB Finansbank since we acquired them, in terms of net interest income. This is how we want to manage the operation, quarter on quarter, very carefully, based on the conditions on the ground, at the same time, build on cost of risk, build on coverage ratio.

Now, we started the year with an average - a coverage ratio of 100%. We ended the year at 122%. So, clear, conservative approach in how we are managing the operation in QNB Finansbank. Still, we were able to generate a return on equity of very, very strong, of close to 20% on Turkey. Again, it is one of the highest return on equity that we have seen for our operation in Turkey since we acquired.

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**Q - Waleed Mohsin Goldman Sachs**

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

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**Operator**

And we will now take the next question from Chiradeep Ghosh. Please go ahead, your line is open.

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**Q - Chiradeep Ghosh Securities & Investment Company BSC**

Hi, thanks for the call, and congratulations for a good set up, especially the revenue part. So, I have two questions. First is, you have been

given guidance that the net interest margin would be under pressure, but you have been fairly resilient, in my opinion. So, if you can throw some guidance of how to expect things to pan out over 2022 and onwards. Another thing is, again, related to Turkey.

So I'm just trying to understand it better. So, tactically, there are two options for you. One is to go with a USD based loans that will protect your value of the investment, but then, the probability of default by customer would be higher. While if you lend out in Turkish lira, then the probability of default is low, but there is devaluation risk for QNB. So how are you trying to tackle this strategy? That would be interesting for me to know.

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

Okay, thank you. Net interest margin. We started the year talking about a drop of about five to seven basis points. We ended the year with a drop of only two basis points, clearly showing that we were able to manage our margin much better than we had originally anticipated. Good momentum from the team in Treasury and managing our cost of funding, managing overall liquidity for the group. International operation, whether it was in Turkey or in Egypt, again, in the fourth quarter, we were able to manage their net interest margin very, very, efficiently.

And I think all these factors materially help in maintaining our net interest margin at 247 basis points. What we think - what we are seeing for 2022? To be honest, I am optimistic about margin in 2022, because as we always said, QNB materially hurt when Fed rate is down, and we start to benefit when the Fed rate is going up. Now how much up? We need to wait and see.

However, historically, the calculation show that 100 basis points can come at around QR400 million to QR500 million of interest overall, but that number is materially impacting how we are going to continue to manage our cost of funding, and how we are going to be able to reflect then increase to our loans. Considering that most of our loans are floating, this gives us a very good indication that QNB will be able to benefit once the rates have gone up.

In the budget, we only anticipated, because we have to be conservative, only two increase during the year, and in the late part of the year. With what we are hearing today, I think there will be more than two increases, and they will be much faster than what we anticipated, which gave us, again, hope that our net interest margin for this year will be very strong.

How we are able to manage the overall growth in the - on the balance sheet, at the same time, managing devaluation? By taking the best trade off, since the devaluation started in Turkey three years ago, we try to be as far as possible from the dollar loans because the hit on NPL will be huge. So, we focused mostly on short-term Turkish lira loans

At the same time, hedging all positions that we have in order to ensure that the impact on net interest income will be as minimal as possible when changes take place. And this is how we have been able to manage this, by using the best trade off that allow us to grow the balance sheet, and at the same time, to absorb as much as possible the impact of devaluation.

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**Q - Chiradeep Ghosh** *Securities & Investment Company BSC*

Just the back-of-the-envelope calculation when I did, I found that comprehensive income hit, which you had to take, did not include a very big amount of hedging, so the hedging benefit was not that significant. Am I right?

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

No. Hedging is significant in QNB Finansbank, particularly QNB Finansbank hedge everything in their balance sheet. They hedge the currency mismatch in the balance sheet, they hedge the mismatch in interest. They hedge their FX positions, and that is why they - and if you look at the detail of their balance sheet, you will see hedge positions that they have.

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**Q - Chiradeep Ghosh** *Securities & Investment Company BSC*

Okay. It's quite good. Thank you very much for your call.

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**Operator**

And we will now take the next question from Edmond Christo with Bloomberg Intelligence. Please go ahead, your line is open.

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**Q - Edmond Christo** *Bloomberg Intelligence*

Hello, hi. This is Edmond Christo from Bloomberg Intelligence. Thanks for the call today. First question is on the staging downgraded to stage two. Can you just give some light on the - which account, which region that move the stage two from six to 6.6, and how do you expect this to evolve into next year? I believe you have been doing a lot of proactive downgrades and provisioning against it. Just some clarity on the guidance for next year on this?

And the other one on the margin, very strong margin for Q4. I sense from your conversation that you expect some normalization of margin through the first half of next year, before we get the rate hike to filter into the margins in the second half of next year. So, what's your expectation on the cost of funding? Will it still be supportive in Turkey? And what's your expectation on the cost of funding in Qatar, given the tapering that's happening and the expectation for rate hike by the second half of next year?

The last one, if possible, on the CET1. Very strong capital generation. Your CET1 move from 13.5 in Q3 into 14.2 on Q4, I'm not to be able to reconcile this in terms of - I did adjustment for dividend, and I added the profit as a cash generation, but I'm still not able to bring the number close to each other. If you can, walk me through what is the impact on the lira there, and also your capital generation, if there is any one off. Thank you.

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

Now, on the last question, I don't think I will be able to give you the details - the breakdown on the phone. I will let one of the team in financial control to send you the exact calculation of the CET1 on the fourth quarter. Now, in terms of margin and cost of funding, please understand that these two go together. We manage interest bearing liabilities and interest assets at the same time. So, you cannot take them in isolation.

What is important here is that how we are managing - to what extent our funding or our assets is floating. Clearly, the bulk of this is floating and that's why the impact of an increase on the Fed rate is material, and it is positive. With the higher the rate in movement, this will add more value to our overall margin, and that is why I anticipate this year our margin will continue to be strong, and I'm optimistic that we will hopefully be able to maintain the 247 basis points.

On the staging, if I want to be conservative on stage two, I need to move from account to stage two to allow us to take more provisions, otherwise Central Bank and external auditors will not allow this to happen. But some of the movement into staging, from stage one to stage two, and even to stage three is, again, to be conservative. But again at the same time, we are seeing some accounts, especially at the side who show delay in some payments, and that's why we need to do some staging.

What is my expectation in 2022? Again, it highly depends on how strong our revenue will be. If revenue continues to be very strong, and cost of risk will be around - between the 75 to 85 basis point that will mostly need to be done, otherwise, I will not be able to achieve that 75 to 85 basis points of the cost difference. What is the percentage of stage two to the overall book? Will it continue to be around the six? I think it will be more than six. I think it could be 7.5%, but again, all these are a reflection of how strong the revenue momentum would continue to be, how will the business - will cope quicker to life beyond COVID, but let's wait and see how the progress will be quarter on quarter.

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**Q - Edmond Christo Bloomberg Intelligence**

Okay. This is very helpful. On the margin for 1H, do you see lower margin on Turkey, or we still expect low cost of funding to be supported? In Turkey, the low cost of funding in Turkey. Do you expect it to be supportive for one 1H margin the first half of this year?

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

From what we have seen in the last quarter, I think first quarter will be - continue to be strong. Second quarter, we need to wait and see how the progress will be in the first quarter. But first quarter margin will continue to be very strong in Turkey.

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**Q - Edmond Christo Bloomberg Intelligence**

Okay, very helpful. Thank you very much.

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**Operator**

And as a reminder, to ask a question, press star one. We will now take the next question from Aybek Islamov with HSBC. Please go ahead, your line is open.

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**Q - Aybek Islamov HSBC**

Yes, thank you. So, yeah, three questions, if I may. So, the first one is, I was curious, in a scenario that ten-year US yields rise materially, and they started to rise from end of last year, how do you think that will - may impact your cost of funding, your wholesale funding costs? So, if US yield curve also steepens, how will that impact your position? That's my first question.

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

Sorry, just for me to understand this question, I think we're talking about the Fed rate movement and how it would impact - how it will impact margins?

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**Q - Aybek Islamov HSBC**

So, Fed rate is a short-term rate, so we're thinking about fed rates as short-term three-month rates, but these are long term interest rates, like ten-year interest rates, you know, US Treasury yields, ten-year yields I'm talking about.

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

The impact of this is very, very small, because most of our loans is maximum three - six months metrics in terms of repricing. So, what is important to us is number one, three months, and second, six months. More than that, it's not that important.

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**Q - Aybek Islamov HSBC**

But on the funding side, is there any sort of type of funding, maybe CDs, or long-term wholesale notes which are sensitive to five years, seven years?

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

We are - no, we don't have those. What we have is mostly what is important here in terms of materiality. You will have some of this, but these are very, very small. But again, we talk about a balance sheet now of USD 300 billion. So, all this, let's talk about 15 billion to 20 billion, so 50% of them are fixed. So, technically, even though there will be a major benefit, but the overall materiality is not that - the bulk 90% of the funding is three months, maximum six months in terms of position.

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**Q - Aybek Islamov HSBC**

Yeah, that's very clear. Thank you. I'll move to the second question. So, you mentioned several times that revenue growth will continue to be strong in 2022, which is great. In terms of - you said that it was set aside some of your revenue for provision reserves, almost expenses. What about operating costs? Do you see any areas where you feel like you need to increase your OpEx? Any sort of CapEx plans on the



operating cost side?

And the last question, I just want to know your view on the return on equity outlook. Do you feel that in a scenario of rising interest rates, and very good provision coverage, can you improve your return on equity 100 basis points, 200 basis points? We can take a two- or three-year view here.

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

Thank you. The second question about operating costs, cost to income ratio year over year materially improved 22.2 from 24. So, there were major drop, about 200 basis points in efficiency ratio. Very strong performance, materially helped by international cooperation during the year, and how we managed our cost in Doha. Is this sustainable? I think I remember last time when we talked about this, I said 23 is more sustainable than 22.2.

We will continue to manage very carefully our costs, and this is what QNB has done historically. It is extremely important for the Group to maintain a very efficient operation, because this allows us to be very flexible when any hit comes. And we saw this happening in 2008. We saw this happening in 2017 when they were shocked - there was a big shock to the system, whether it was international or local.

Having a very strong efficiency ratio, and very low efficiency ratio allow us to absorb these shocks and continue to well perform within the Group. And this is - that's why it's extremely important. Now, is there - to what extent we will continue to invest in Turkey? We were always very active in investing, especially in our IT infrastructure in the Group. This will continue, whether it was in Turkey, in Egypt, or in Doha

But again, this investment will focus on profit generation projects, and projects that will allow us to manage our growth in costs. Now, going to ROE, during 2021, we were very successful in growing our ROE from 15.2 to 16.4, so 120 basis points, which is very good. And this is a reflection of the growth in revenue, and how we are managing our payout ratio. We could have grown even higher if we wanted to move to a payout ratio of 50%. We want to continue to have a payout ratio around 40%. As long as we continue to grow the operation around what we have done during 2021, we are going to see our return on equity growing between the 75 to 100 basis point.

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**Q - Aybek Islamov** *HSBC*

Yeah, thank you, Mr. Ramzi. Very helpful. Thank you.

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**Operator**

We will now take the next question from Naresh Bilandani with J.P. Morgan. Please go ahead, your line is open.

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**Q - Naresh N. Bilandani** *JPMorgan Chase & Co, Research Division - Research Analyst*

Thank you very much. Hello Mr. Ramzi, it's Naresh from J.P. Morgan. Just a few questions from my side, please. One is - sorry, coming back on the interest rates, I'm keen to understand, in your numbers, what kind of policy assumptions are you building in from a rates perspective in Egypt, and if you are expecting any policy changes in Turkey that could offer an upside or a downside risk to your current expectations? Policy assumptions that you're building in your - so just to put it in other words, what quantity of rate hikes are you expecting in Egypt? And if you are building in at this stage, any potential rate hikes in Turkey over the course of 22, or these assumptions are based on the current policy situation as is? That's the first question. And my second question is on growth in Qatar. Over the course of 2022 and 2023, could you kindly provide some insight to what extent will the growth be driven by the gas infrastructure expansion until 2025 and 2027, as you've highlighted consistently over the calls, or based on incoming tourism and the activity around the World Cup, that would be super helpful?

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

Now, in terms of the first question, and what our assumption about interest rates in Turkey and Egypt, in Turkey, it is close to impossible for you to build a one-year budget. We run this on a quarter-by-quarter base on the conditions on the ground. And that's why we don't tend to be long-term in how we are expecting the changes on rates. The budget was built on the conditions that were available during fourth quarter of last year.

Quarter on quarter, we continue to update these parameters, and the budget will be impacted by these changes. In Egypt, no major changes to where we stood in the fourth quarter in terms of expectation. We do not expect major changes on interest rates from where we were in the fourth quarter. So, Egypt is more stable in terms of our expectations, whereas Turkey, definitely we have to run this quarter on quarter. Now, in terms of infrastructure projects.

Now, if we take an update from what we published just recently on where investment would take place in Qatar beyond 2022, I will give you the most important projects where we see more and more investment. We talk about necessity and there are expectations of close to \$37 billion, more investment there. We have the airport close to \$18 billion further investment, and this is a project until 2025.

We have in the expressways, additional \$13 billion of investment, again, completion is 2025. We have local roads and drainage additional \$18 billion of investment, and this is until 2026, whereas for the other, close to \$40 billion of additional investment, and this again, will continue until 2026. So, overall projects that we talk about, which is non-oriented with the low field is close to USD 164 billion, and this will range from the year 2022 until 2026.

But again, major investment in infrastructure projects across the board, which was expressways, ports, the airport, the rail. If we add the project that will come ancillary to the north field, we talk about more than \$200 billion of additional investment for the next four to five years. This will give us a lot of room for growth, because this is where we have participated very strongly in the last four to five years. Naresh, did this answer your question?

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

That's very helpful, though - Mr. Ramzi, thank you. I was more curious to understand, for the year 2022, will the growth be driven more on the hydrocarbon and other infrastructure investments, or will the growth driven more by the World Cup related activity? I think that's - that was the question that I was much more curious to get insight on.

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

Those World Cup activities, direct World Cup activity was never an important added value to the operation. Most of the added value we got from the World Cup was the indirect one, the rails, the highways, the infrastructural projects, which is indirectly related to the World Cup, but they are not directly related. So, we never participated in stadium, we never participated in very small participation in anything direct to the World Cup, because the state doesn't need us to finance these projects. Whereas we benefited from the indirect projects, and this is what will continue in 2022, all indirect projects, especially the expressways, the highways, the phases that was supposed to finish in the port, we will benefit from these projects during the year.

And this will be the new contributor to the growth in loans during the year, more than the direct North Field. Because as I mentioned before, QNB participation directly in North Field Expansion is very, very small, because these projects tend to be very efficiently priced until we don't participate in these deals because some of these will be less than 60 to 70 basis point margin. We tend to stay away from this project, because they do not add value to our margin. But as we materially benefit from all projects surrounding this project, which is indirect to this project, and this is exactly what we have done during the previous expansion of gas production in Qatar.

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

Thank you. That's a very clear point. My final question literally is related to Egypt. Could you also please spare two minutes and just throw some light on what will be the growth strategy in Egypt? If you could please provide some key guidance on how the balance sheet will be, the 12% to 14% guidance that you have kindly provided? To what extent will this be driven by credit versus the investment book? And if there's been credit, what sectors are you planning to sort of like, or target to grow further?

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

In the last few years, we focused much more than other bank in Egypt, especially the private banks, in growing the credit, and that was on the account of the investment book, and that's why we have seen loan to deposit ratio improved -growing from around the 55% to, at some point of time, 72%. We have seen in December that ratio dropped to 61%. In December 2020, loan to deposit ratio was 72%. It dropped to 61%. There was marginal shift in the strategy.

We want - we continue - we want to continue to focus on credit, but at the same time, investment is becoming very, very important for the Group to maintain strong growth and profitability. We have changed management, and the changes that took place in management clearly show the direction we are heading in the future in Egypt. We have a new team. We want to focus on retail business.

We want to focus on low funding, especially on the savings and current deposits. We will give more emphasis to the retail business. We will continue to expand our branch operation. We will give much more focus to digital expansion of additional channels to grow the business, and this is where most of the growth is going to come in Egypt. Hopefully, this will answer your question, Naresh.

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

Indeed. This was very clear. Thank you very much.

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**Operator**

And we will now take the next question. Please go ahead, your line is open.

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**Q - Waruna Kumarage Securities & Investment Company BSC**

Hi. Good afternoon. Thank you very much. I have a couple of quick questions. The first one related to the capital adequacy of Finansbank. I've seen from the slides that the value of the equity has fallen from quarter to quarter. So, if I look at CAR ratio, currently, are you comfortable with the level that you are in? And my second question is on the impact of foreign currency translation provisions. I think that's one reason why you had to provide a lot in the fourth quarter to counter the effect of foreign currency translation. Is this coming from - I'm sure it's coming from Turkey, but so - if that is coming from Turkey, going forward, how significant is this foreign currency translation impact is going to have on provision going forward?

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

Now, we started the year in Turkey with 13.8. We ended the year with 15.8. So, technically, their capital adequacy ratio materially improved during the year. And one of those - the reason of this is definitely the size of the balance sheet, because the devaluation reduce the size of the balance sheet. That equity is in Turkish lira, so it's not impacted by devaluation, and that's why they benefit.

We still believe that the entity can continue to grow between the 20% and 22% that we talked about, and that's why we do not see any pressure on capital adequacy ratio for the Group. Now, to what extent it contributes to the overall cost of risk within the fourth quarter. Of course, it is a factor.

Turkey, in the fourth quarter, was extremely conservative to the extent of provisions that they have taken, and one of the reasons for that is they were materially enjoyed very strong the growth in net interest income during that period of time, and that allows them to build more on provisioning. If we look at the cost of risk on the fourth quarter, it moved from 126 basis points in September to 184 basis points in December.

So, there was a major movement during the fourth quarter and third quarter. And as I mentioned, again, we adopt in Turkey exactly what we are doing at the Group level. If as long you are seeing very strong opportunistic growth in revenue, because of how overall the system rate is going, this gives us a good opportunity to be very conservative in building more and more through provision, and that's why we have seen a big jump in the coverage ratio during the fourth quarter.

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**Q - Speaker**

Okay. Thank you very much.

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**Operator**

And we will now take the next question. Please go ahead, your line is open.

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**Q - Waruna Kumarage Securities & Investment Company BSC**

Hi, sir. On your Egypt operations, you have mentioned in the presentation right now that change of management has brought a very good, low funding business through retail. But just to further highlight, earlier continued with increasing your corporate exposure, total stage loans that your corporate has increased. Is the management confident that these loans will not create further impairment in future?

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

Now, when you grow your credit, this definitely will reflect on your stage two and stage three. And we were very active in the last five years in growing our credit in Egypt. And it's natural after - with the impact of COVID, that we have seen an increase in stage two, stage three. At the same time, there was a major push by the regulator on supporting SMEs in Egypt. And you know that most banks were expected to grow to around 20%. This, naturally, in the first couple of years, will reflect on your stage one stage two.

However, what differentiates us from others is to what extent you want to be conservative. The strong growth, or the strong revenue stream that we have seen, similar to what we have seen before, allow us to be very, very conservative. Now let's wait and see whether other banks in Egypt will be as conservative as we will. It is a rule of thumb, once you start to invest more and more on the SME, especially in the first phases, you will see growth in your stage two, and similarly stage three.

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**Q - Waruna Kumarage Securities & Investment Company BSC**

Okay. So, you are comfortable with your current provision ratio for stage three loans, or you could be seeing much more higher from 76% going up?

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

I think in Egypt, the first six months of this year, you will continue to see continued growth in provisioning, but beyond the first half, the level of provisioning will stabilize.

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**Q - Waruna Kumarage Securities & Investment Company BSC**

Okay. Thank you sir.

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**Operator**

And we will now take the next question from Valentina Stoykova with Barclays. Please go ahead, your line is open.

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**Q - Valentina Stoykova Barclays Bank**

Yes, hi. Thank you very much for the presentation. My first question is on QNB Finansbanj. So, can you please update us on the primary subsidiary status of the entity, given the volatility in Turkey, and more importantly, if we see assets falling below the 10% threshold of the globe this year, will that automatically mean that QNB Finansbank will lose its principal subsidiary status? And then my next question is on your issuing plans for the year, both on seniors and the sub debt. Thanks a lot.

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

What was the second question, please?

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**Q - Valentina Stoykova Barclays Bank**

The second question is on your issuing plans.

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

I will let the team handle these question. Durraiz the first question, and Mark, can I hand to you the second question?

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

Yes. Valentina, for the principal subsidiary, as we would say, we refer to the prospectus, which says that this determination is done at the start of the year based on audited accounts. And as we understand, this determination will continue for the year. Of course, we don't know what will be the position of the currency during the year. So, we will get back to exactly what is the current percentages, and at least for now QNB Finansbank, it continues to be a principal subsidiary. But as we always say, you have to refer to legal advice, because it is specifically mentioned in the Prospectus. Mark will take over the second question.

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

Hi there. On the issuing side, on subject, I don't think there's any plans to issue QNB this year. On the senior side, I mean, our stance



remains the same as it's always been. We're very opportunistic, so we have no formal funding program per say, under the program. We have relatively light maturities during 2022, so the plan will be just to monitor the market closely, remain opportunistic both in dollars and other currencies.

That's in the public space for large deals, but then also do understand that we remain very active indeed on private placements throughout the year, and obviously, depending on how that goes, that can mitigate our requirement to go to the market for a public deal in the way that last year was a very light year for QNB as well. So, primarily opportunistic. No formal plans, but I think you can expect to see us in the senior space at some point in the coming months.

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**Q - Valentina Stoykova** *Barclays Bank*

Thank you, that's very clear. Thanks.

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**Operator**

And there are no further questions at this time, so I would like to turn the conference back to our host for any additional or closing remarks.

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**A - Rahul Bajaj** *Citigroup*

Mark?

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

Nothing further from my side. Thank you very much, everybody, for your interest, and please stay safe, and we'll speak to you again next quarter. Thank you very much for your time.

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

Thank you, everyone, and have a good day.

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**Operator**

That's it for today's call. Thank you for your participation. You may now disconnect.

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