IR Call Transcript (Edited Version)
QNB Group Q4 2020 Results

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PRESENTATION

Jaap Meijer *Head of Research*

Good afternoon, everyone. Happy New Year, and thanks for joining us today. This is Jaap Meijer, Head of Research at Arqaam Capital. And on behalf of Arqaam Capital, I'm pleased to welcome you to QNB's full year 2020 earnings conference call.

With me here today from QNB Management, Ramzi Mari, the Group CFO; Noor Mohammad Al-Naimi, General Manager and Treasury; and Mark Abrahams, Assistant General Manager, Trading and Treasury.

I will now turn the call over to Mark, who will take you through the results and the macro backdrop. Mark, over to you.

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

Thank you very much, Jaap, and good afternoon, everybody on the call. Before we begin, I would like to just reiterate the earlier statement. This call is for investors and analysts only. So any media personnel please disconnect now.

I will begin by giving you an update on the actions taken by Qatar in light of COVID-19, followed by a brief overview of the macroeconomic environment in Qatar and the outlook. I will then cover QNB's annual financial results for the year ended 31st of December 2020. Finally, open the floor to Q&A.

Qatar has taken necessary precautionary measures to protect the society and economy here from the impact of the COVID-19 pandemic. The Ministry of Public Health has secured supplies of Pfizer and Moderna vaccines and commenced its inoculation campaign. Public health officials have committed to provide vaccines free of charge to all Qatar residents.

The government's QAR75 billion stimulus and support package in response to the pandemic, includes targeted measures to defer taxes and fees, defer loan payments, boost concessional financing for small and medium sized enterprises, investments in the local equity market and provide additional liquidity to the banking system. As a result of these proactive measures, Qatar's economy has weathered the storm relatively well compared to peers and commercial activity is rebounding strongly as business resumes.

Qatar's non-energy private sector economy continued to expand strongly over the second half 2020, as coronavirus related restrictions were lifted, according to the Qatar Financial Center's Purchasing Managers' Index compiled by IHS Markit. The top line PMI averaged 51.9 in Q4, signaling sustained improvement in business conditions in the non-energy private sector segment of the economy.

Qatar has clearly demonstrated its ability to combine a prudent fiscal policy with the effective delivery of a large public program of capital expenditure to execute upon the Qatar National Vision 2030 and the 2022 FIFA World Cup. This is laying the foundation for continued GDP growth over the medium and long term through both diversification and stronger private sector growth.

Moving forward, private sector growth will be 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 SMEs, as well as self-sufficiency in strategic sectors.

Tailwinds from investment in increasing hydrocarbon production will drive economic growth going forward. Six new LNG liquefaction trains are planned to increase Qatar's LNG production by 64% to 126 million tons per annum. Supporting the North Field expansion, Qatar has reserve capacity for over 100 new LNG carriers worth over $19 billion. Positive spillovers from increased hydrocarbon production will combine with diversification efforts and structural reforms to boost activity and spending in the manufacturing and services sector.

I will now move on to QNB's annual financial results for the year ended 31 December 2020. Net profit for this period was QAR12 billion or US$3.3 billion. Considering the global economic conditions, QNB Group, following its conservative approach towards building adequate reserves against potential loan losses, has opted to increase its loan loss provisions by QAR2.6 billion for this year compared to last year, which will assist in protecting the Group from any adverse experiences in the portfolio. This has impacted the reported profitability.

In addition, QNB Group has continued on its operational rationalization exercise, which has resulted in reducing the cost to income ratio from 25.9% last year to 24.3%. Operating income increased to QAR25.4 billion or US$7 billion, up by 1% compared to 2019, demonstrating QNB Group's success in maintaining growth across the range of revenue sources even in these challenging conditions.

Total assets surpassed QAR1 trillion at QAR1.025 trillion or US$281.6 billion, up by 9% from December 2019. This was driven by growth of 7% in loans and advances to reach QAR723.5 billion or US$198.8 billion. QNB Group remained successful in attracting deposits, which resulted in increased customer funding by 8% from December 2019 to reach QAR738.7 billion or US$202.9 billion. This improved the Group's loan-to-deposit ratio to 98%.

The Group was also able to attract high quality wholesale funding demonstrated via QNB's highly successful inaugural and the region's largest $600 million green bond by a financial services issuer. The Group also issued a $600 million Formosa bond in January and $1 billion each in February and May of last year. Coupled with groundbreaking $3.5 billion dual tranche transaction in November, these deals clearly demonstrate global investors' confidence in QNB Group's solid fundamentals and strong financial performance.

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 2.1%, 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.

This year our total equity increased to QAR96.9 billion, up by 2% from December 2019. In line with QNB's dividend payout policy, the Board has recommended a dividend payout of QAR0.45 to the General Assembly.

The bank's capital adequacy ratio at 19.1% is comfortably higher than both the QCB and Basel III requirements. The Group is well capitalized and comfortably exceeds other regulatory liquidity and leverage ratios.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Rahul Bajaj from Citi. Your line is open. Please go ahead.

Q - Rahul Bajaj *Citigroup Inc., Research Division – VP*

Thank you so much for taking my question, and thanks for the call gentlemen. Two quick questions from my side, if I may please. First, I want to talk about the loan deferrals. Just wanted to understand, where does loan deferrals now stand in Qatar and your two key markets of Turkey and Egypt, if I recall correctly from the third quarter call, the deferred loans were less than 2% of your loan book. Any update on that? And how these loans are performing post the deferral period in case the deferrals are over that would be useful to kind of understand what we should think about provisions in 2021?

My second question is around cost. In 2020, you have been able to kind of tighten the screws on cost and get the cost down. If I recall correctly, there was a 2021 guidance of 3% cost growth that was given in one of the earlier calls. Just wanted to understand where do you see normalized kind of cost level in 2021 and going forward. And is there room to reduce cost further? Thank you.

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

This is Ramzi. I would like to thank everyone for joining our phone call today. Loan deferral at the highest point in 2020. Total amount of loans that was deferred was around 8% of the overall portfolio for the Group because that number materially dropped. As we stand today, the loan deferral balance is less than 0.5%. So technically the balance is going to zero very soon.

Now in terms of the progress and how these loans are performing after the deferral, it would be very difficult to give a clear momentum at this time because for most of these loans, the deferral was until December. Now in January, the loans will go back to normal repayment. So it will take us another three months to see exactly how these loans will progress. But in anticipation, if you have seen in the fourth quarter, we were very conservative in the NPL. We were very conservative in building provision in order to ensure that even if there were weakness, which we don't expect, we already have cover for that.

For Cost, there was a major improvement in cost to income ratio in 2020. This year, we don't expect cost to materially increase, and we're trying to cap it around the 3%, but we need to wait and see how inflation will progress in different countries, where we operate. But we strongly believe that cost to income ratio at current level of 24.3 is a strong place, where we want to be. Can we reduce cost more? There will always room to reduce cost more. However, we need to look at this very carefully based on how the business will progress because our priority is not to reduce cost. Our priority is to increase revenue. And this is how we want to manage our cost to income ratio not by cutting costs, but rather by investing in the profit center, investing in our IT platform to ensure that we grow our revenue. That is our priority.

Q - Rahul Bajaj *Citigroup Inc., Research Division – VP*

Thanks, Ramzi. Just one quick follow-up, if I may please. On your previous answer on loan deferrals, when you said that 0.5% of the loans are still under deferrals, can you give us a view, where are these loans, are these in Qatar, Egypt or Turkey?

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

The bulk of these are in Qatar, and these are SME and the number is lower than 0.5. These are mostly SME loans that were extended until June.

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

June.

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

Until June 2021. But the number is very small

Q - Rahul Bajaj *Citigroup Inc., Research Division – VP*

Got it. Thank you so much. Thank you.

Operator

Our next question is from Chiro Ghosh from SICO. Your line is now open. Please go ahead.

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

Hi, this is Chiro Ghosh from SICO. Thanks for hosting the call. I have two questions. The first one is related to this deposit mix. So what I observed that over the last eight quarters, the ratio of public sector deposit is reducing and the corporate sector deposit is increasing. So I just want to get a sense, is it a conscious strategy and how sticky are these corporate deposit or where do they stack versus the public sector deposit, why is the bank moving through this strategy? That's my first question. Second is related to the asset quality and congratulations for a very good set of result especially in this market. So I've observed that even the recoveries have been quite good in 2020, if you can throw some light on from where is this recovery is coming from? And also, I see that the asset quality in your international operations like in Turkey has also improved, Egypt has been quite stable. So if you can throw, in fact, if you can give us some ground reality of these two countries?

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

Now in terms of the mix of the deposit between public sector and private sector, we always look at the overall portfolio of our funding based on cost. Everyone target to increase their market share in public sector funding and that sometimes impact costing. QNB has a capacity to diversify their funding sources and every time we have an opportunity to be able to capture a higher market share in a lower cost base of the deposits, we tend to -- not to compete on public sector funding. Is this a strategy? It is not a strategy. It's always a part of the overall management of our balance sheet and our cost of funding.

In terms of asset quality, now, definitely there was an impact on the asset quality during 2020, and we have seen that NPL ratio moving from 1.9 to 2.1. And I still believe that this ratio might increase and that increase will probably come mostly from outside Qatar. And that's why we were extremely conservative in the way we have built that provision especially in Turkey.

Turkey was very conservative in 2020. They increased their coverage ratio from 90% to 101%. Even though, the NPL ratio did not increase, as in reality, it dropped and mainly because until today, we've not seen a major inflow of NPL in Turkey. But we're keen to be very cautious in how things will progress especially in Turkey. I think a coverage ratio above 100% in Turkey is sustainable, and we'll continue to be very conservative in Turkey.

NPL ratio for the Group might touch the 2.3 this year. But again, we need to wait to see how things will progress during the first quarter and second quarter of this year.

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

So just a continuation of the previous question. So first one, do you think that there are circumstances when your private sector deposit cost might actually be lesser than public sector, if I understood it correct, right, there can be circumstances?

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

It depends on the policy. If you talk about government agencies, sometimes, some of the funding can be higher than private sector. It depends on the maturity. It depends on the currency and different factors.

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

Okay. And about these two countries especially Turkey, you're not seeing any massive rise, but you might see, right? That's what you're trying to incline right about the Turkish? But what I can tell you, in general, it will be a conservative budget. But it will be a variable budget. So we need to look at it in quarter-by-quarter. But to the Board, it will be a conservative budget. The details will be given in next quarter phone call.

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

And still today, what we have seen in 2020, we were expecting a major jump in NPL ratio in Turkey. We have not seen this in third quarter or in fourth quarter.

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

Okay.

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

We have seen marginal increase in NPL in Egypt from 2.2 to 2.3. But nothing to worry about especially that their coverage ratio is still more than 140%.

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

I ask because in Turkey, I saw your NPL ratio has in fact come down in the last one year by 40 basis point, which is different than what we're reading in the media and your cost of risk.

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

I agree. Please always remember that the portfolio in Turkey for QNB Finans is different from other. We do not have large exposure in foreign currencies to large corporates that might hit your NPL ratio at a large percentage at one point of time. The portfolio in QNB Finans is highly diversified and in Turkish lira, which allow them to enjoy a marginally lower NPL than the market. Assets will grow by around 28% to 30%. So balance-sheet-wise, in Turkish lira, there will be very strong growth. Of course, in Qatari riyal, no, it will be negative.

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

Okay. Thank you very much. That's all from my side. Thank you.

Operator
Thank you. Our next question comes from Waleed Mohsin from Goldman Sachs. Your line is open. Please go ahead.

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

Thank you very much. Good afternoon. Thank you for the presentation. A couple of questions from my side. First, starting with Turkey. I mean, we've seen that the Turkish banks are actually guiding for or putting out pretty strong guidance for 2021 and Ramzi, you mentioned that QNB Group has been very conservative with provisions. If you look at the guidance that they are providing, they are looking at high teens to even 20% local currency growth and they are seeing a shortfall in cost of risk during 2021, the only negative factor being margin compression given relatively high rates. So just want to get your thoughts on 2021, given that you start from a very strong base in terms of where your provision sits 18 bps out of 80 bps is general provision that you book this year, your overall NPL coverage 136%. So how do you see the outlook for Turkish provisions, as well as loan growth during 2021?

And then, secondly on Egypt, in terms of, we've seen some gradual normalization in interest rates in Egypt. What do you think, where are we in terms of the capital expenditure, loan growth cycle in Egypt especially given kind of the second wave of COVID-19. So your thoughts on the operating outlook for Egypt and Turkey would be very helpful both in terms of growth and asset quality?

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

In terms of guidance for Turkey and Egypt, I think this is the first time, where I'm going to say that we expect growth in Turkey this year to be higher than that of Egypt. The guidance for 2021 for Finansbank in balance sheet, it will be between 15% to 17%, profit and loss 12% to 14%. QNB ALAHLI balance sheet between 9% to 11% and profit and loss between 10% to 12%.

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

Got it. Thank you, Ramzi.

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

Sort of the guided lines.

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

And just a question on funding –

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

Yes. Go ahead, Waleed.

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

Yes. I was just going to ask on funding in Turkey. After the normalization in rates, with increase in rates from 10.5% to 17%, what trends are you seeing, I mean, our deposit rates priced close to this rate. Are you seeing any pressure on local currency? Is there an improvement in dollarization in Turkey or are you still seeing the same pressures, as they were pre the increase in rates?

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

No, definitely, the pressure is much lower on the on the Turkish lira currencies. But there will be a major pressure in the next three months on the margin in Turkey, for all in banks in Turkey because there will always be a gap between three months to six months between repricing of loans and repricing of deposits. And that's why we expect the first quarter to be very challenging for Turkish banks in terms of margin, but that will gradually start to improve and we should go back to normal by the fourth quarter.

So as for the major challenge that we'll see in Turkey this year is in the net interest income in the first quarter, but one of the reason why banks weren't able to manage their margin last year is due to the restrictions that the Central Bank put in on hedging. Usually Turkish bank is very efficient in how they hedge their net interest margin. But by putting some limitation on the capacity of bank to do that, this is why they were hit in the fourth quarter and they will be hit in the first quarter of this year on net interest income. But now Ministry of Finance and Central Bank reduced the limitation on hedging, which will allow banks to go back to be able to manage their interest margin much more efficiently.

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

Got it. Thank you very much, Ramzi. That's very helpful.

Operator

Our next question is from Aybek Islamov from HSBC. Your line is open. Please go ahead.

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

Yeah. Thank you. Thank you for the call. So a couple of questions from me please. The first one, I think relates to your Group NII and good performance. I think in 2020, you were able to cut your funding cost quite substantially, and your NII growth, you registered 4%. What's your outlook for 2021, your ability to manage funding cost lower versus the interest income that you earned that will be quite useful to hear from you.

And the second one is your provisioning policy. So it's been quite conservative already in 2020, I'm looking at your loan loss reserve to loan ratio is all-time high compared to your multi-year history, and you just mentioned that you still expect NPL ratios to grow, but mostly outside of Qatar, right. So what do you think would be the pressure on the cost of risk. Do you need to maintain the same level of cost of risk, as you did in 2020 or do you think there is room for cost of risk to decline, right. And last year, I presume your cost of risk was predominantly driven by the collective provision expenses. So some color on this will be very useful?

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

Okay. Margin dropped last year by around 8 basis points and this is very close to the number or the guidance that we gave at the beginning of the year. There are several factors that impact margin, not 1, and not even 10, and that's why it is extremely difficult for any CFO to give guidance on how margin will move within a 12 month period.

It will be very difficult for the Group to continue to reduce cost of funding. I think it will gradually start to go after first half of 2021. But what I would say is, we were successful last year in growing our net interest income. And we were always successful even if we're able to manage our margin in a way to ensure that we see constant growth on net interest income for the Group. To make this short, I would say that margin will continue to be under pressure in 2021 and I still believe that there will be a drop of around 4 basis point to 5 basis point. And this will continue, the more the balance sheet for the Group grow, the more pressure we're going to see on margin.

I mentioned just five minutes ago that Turkey in the first quarter and maybe second quarter will be materially under pressure. We might see a drop of around 25% in net interest income in Turkey standalone compared with Turkey standalone last year. So this would impact the Group margin for the year. But overall, we still believe that we'll be able to continue to grow our net interest income between the 3% and 5%, and this is what we're targeting for.

In terms of provisions, cost of risk 2020 were 80 basis point. It was around 5 basis point higher than the guidance that I gave because we felt that the fourth quarter, it will be a good opportunity for the Group to be very conservative and that's what we have done.

How do we see cost of risk progressing for the Group? I don't see cost of risk for QNB dropping from 80 basis point to back to 45 basis point that we have seen in 2016, 2017, 2018 or even 2019. I think the drop will be gradual. I doubt this year, cost of risk will be 80 basis point. But I would not be surprised that it will be between 65 basis points and 75 basis points.

And I think if we're able to end up with around 70 basis points, this will be very good. We need to understand that the impact of COVID-19 would not end in the third quarter this year. We still see the pressure on some of the corporate in moving their business back to normal. This will take time. And that's why we prefer to be conservative in managing our cost of risk.

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

Helpful. Thank you. Thank you, Ramzi.

Operator

Our next question is from Naresh Bilandani from JPMorgan. Naresh, your line is open. Please go ahead.

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

Thank you very much. Yes, hi. It's Naresh Bilandani from JPMorgan. Thank you for your time, Mr. Ramzi. Sorry, I joined a few minutes late, so apologies if you have already answered this question. But could you please highlight the reason for strength in your investments book in the fourth quarter because I see the investments were largely all booked in the Qatari segment, was this the reason for the strength in the fourth quarter NII in the Qatari segment or is there any other dynamic that I'm missing. I appreciate the guidance that you've provided, but just for better understanding, would you please be able to throw some light on how should we see the margin and the loan book was in Qatar only specifically for 2021 that would be super appreciated? Thanks a lot.

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

The growth investment in the third quarter and fourth quarter of 2020 is a reflection of the needs of the customer. Many private sector customers or even government agencies want to fortify how they fund their operation. And they believe doing that through issuing local bonds will be a good opportunity for them to be able to have more flexibility in how they are funding their business.

Historically, we were not very active in that business. But we believe now that this is important. We were comparing the percentage of investment for QNB overall the balance sheet for the Peer Group, and we're materially lower than the Peer Group. And that's why in this year and in the future, you'll see more involvement in QNB on some of the issues, whether it was local, international, in terms of investment. And this is natural progress for QNB's balance sheet to put us in line with how the Peer Group managing their overall business and at the same time, managing the overall margin for the Group.

In terms of guidelines for QNB Group, as a whole, I'll give, because I did not give Group as a whole, and then I'll talk about Qatar. The Group as a whole the balance sheet will be 6% to 8% and profit and loss will be 4% to 6%. And that's why Qatar standalone in terms of loans, it will be between 5% and 7%, the overall balance sheet 5% to 7% and profit and loss will be between 2% to 3%.

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

Understood, Mr. Ramzi. So now this is what I'm thinking, if you think of the loan growth, I think you said that it will be somewhere in the range of around 5% to 7%. My understanding is that the public sector loan growth, if I take a look at the system data that has been running at a significantly faster pace, even if I assume and think for a moment that lending and investments book in tandem, and don't try to differentiate, I mean, growth could come on either portions of the balance sheet, a mid-single digit number considering the fact that we're going to see a strong hydrocarbon pipeline – growth pipeline in Qatar that still seems relatively on the lower end of what I was initially starting to expect. Do you believe that there is a scope for an upside risk to this growth guidance, as we move further into the year or you believe that 5% to 7% of growth guidance that you've given for Qatar, if I understand right, that is looking very realistic at this stage?

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

Okay. If we look at the guidance that I gave last year, I've said, margin will drop by around 7 basis points to 8 basis point and that did happen. I mentioned that we'll continue to be able to be very conservative in provisioning, but be able to improve our operational income, and to an extent, I was right, because we grew our operation income by 1%.

I also mentioned that we're going to be able to improve materially our cost to income ratio and we were very successful in that regard. I mentioned that we're going to be extremely conservative and build more on cost of risking and coverage ratio, and we were able to increase from 100 to 107. The one that I missed last year is the overall growth in the balance sheet because I was talking always about 6% to 8% and the actual growth was higher than that percentage.

I tend to be conservative in the guidance that I give in the balance sheet because considering the structure of the overall balance sheet of QNB, which is mainly corporate is highly dependent on different factor that can push the growth materially higher than the guidance that I give or lower than the guidance that I give. And that's why, I prefer to be conservative.

If things in terms of COVID-19 improve by the end of June, I think the growth in the balance sheet will be materially higher than what I gave, but let's wait and see.

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

Okay.

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

6% to 8% for now, Naresh, and then, we'll build on this quarter-on-quarter.

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

Understood, Mr. Ramzi. Thank you very much. That was quite clear. Thanks.

Operator

We currently have one more question on the line. (Operator Instructions) Our next question is from SICO. Your line is open.
Please go ahead.

Q - Unidentified Analyst

Hi, this is Suzan from SICO. I just have a quick question on the NPLs, which sector were the main contributor to the increase in corporate NPL in 2020, and for this year, you mentioned that you expect NPL to go from 2.1% to 2.3%. So from where would you say it will come from? Thanks.

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

It's different from one country to another. Some of the growth will come from Qatar and will be mostly from medium sized corporate. There will be an increase in Egypt, again, it will be mostly retail/small corporate. And of course, Turkey, it would be mostly SME.

Q - Unidentified Analyst

Okay. And for the increase in 2020, which sectors contributed?

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

I think it would be a continuation of the same momentum.

Operator

I'm going to go to the next question. Our next question is from Aybek Islamov from HSBC with a follow-up question.

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

Yes. Thank you. Just a follow-up question from me. Speaking of the GCC landscape, where the relationships between Qatar and the rest what you see are normalizing. What are your thoughts about the impact on the industries, say, airlines, capital markets, the capital flows and the GCC capital flows in particular. That would be very helpful to hear from you? Thank you.

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

I think this is a very important progress that took place early this year, and it will have a very positive impact on the region and in QNB in particular considering that we operate in most countries in the GCC. Some of the most important issue here is the sentiment. I don't think that you're going to see direct large impact on QNB considering the size, but definitely there will be a much positive impact that will be gradually progressing.

The most important impact will be in our operation in Saudi Arabia. We had our branch open. It was ready to go, then things went bad and that's why the branch will have dormant for 3.5 years. The potential for QNB in Saudi Arabia considering the relationship that we have with many customer allow us to be extremely optimistic about the long-term future for that branch. Immediately once things are out, we start we went back to building on the capability that we're going to have for the branch in terms of fitting the IT infrastructure, improving the team.

And I think we're beyond June of this year, we're going to see very good momentum. There will be different industries that will be directly impacted mostly, of course, the aviation, tourism, hospitality. But again, the impact will not be immediate. It will be gradual. And hopefully by end of this year, we're going to start to see a much more positive impact on the overall operation for QNB and for the banking sector in the GCC.

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

Thank you. And in terms of the capital flows in the future, and for example, pre-GCC crisis, I think GCC branch positives with the compare financial institutions. Do you expect this to change rapidly or do you think this will also be a gradual condition?

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

It will be gradual. Today at QNB, we've seen how we managed our balance sheet in the last three years. We've seen how we were able to reduce loan to deposit ratio last year from 99.219% to 98%. So we are not in a hurry to attract new funding from the GCC. We need to be selective. It's extremely important that the money is that within our parameters in terms of cost of funding. And once we were able to meet that, but we'll, of course, we'll be able to look at some of the opportunities, but we're not in a hurry to generate funding from the GCC for now.

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

Understood. Thank you, Ramzi. Appreciate it. Thank you.

Operator

We have no further questions. So back over to our speakers.

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

Okay. Thank you very much for your time today. We are available if you need us for anything at all. But I think that's everything from the QNB team today. Any further questions, please do ask. Thank you very much. Yeah, we would like to close out.

Operator

Ladies and gentlemen, this concludes today's call. You may now disconnect your lines.