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Qatar National Bank (Q.P.S.C.)

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Qatar National Bank (Q.P.S.C.)

SACP	bbb	+	Support	+3	+	Additional Factors	0

Anchor	bbb-	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	+3
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• A leading domestic banking franchise. • Strong earnings capacity. • High systemic importance in Qatar and 50% owned by the Qatari government.	• High dependence on external funding. • Risk arising from expansion abroad, especially in Turkey and Egypt. • Deteriorated operating environment.

Outlook: Stable

S&P Global Ratings' stable outlook on Qatar National Bank (Q.P.S.C.) (QNB) reflects that on Qatar and our expectation that the bank's business and financial profiles will remain resilient over the next 24 months.

Downside scenario

We could lower our ratings on QNB if its asset quality or capitalization deteriorate significantly and, at the same time, we downgrade the sovereign. For instance, and although unlikely, a very large acquisition in a high-risk country could put pressure on capitalization.

Upside scenario

We could raise the ratings if QNB strengthens its capitalization significantly while maintaining strong asset-quality indicators. We could also raise the ratings if one of the previous two triggers materializes and, simultaneously, we upgrade the sovereign.

Rationale

QNB has an unrivalled leading position in a narrow-but-wealthy domestic market and an international presence, notably in Egypt and Turkey. Although we expect the ongoing economic strain to cause some metrics to deteriorate, we still think QNB will maintain strong fundamentals.

We expect the bank's asset quality to deteriorate further in 2021, with nonperforming loans (NPLs) rising to nearly 2.5% by year-end 2021 and cost of risk remaining around 80 basis points (bps) in 2021 and 70bps in 2022. Despite this, we expect the bank's strong earnings capacity, relatively conservative dividend payout ratio, and strong shareholder support will leave its risk-adjusted capital (RAC) ratio at around 9.5%-9.7% over the next 12-24 months. QNB's International Financial Reporting Standards (IFRS) 9 Stage 2 loans are among the lowest in the Gulf Cooperation Council (GCC), pointing to the bank's conservative risk appetite and strong risk management, despite its presence in countries that we view as riskier than Qatar. However, the bank's Stage 2 loans have increased because of the less-supportive economy and pressure on some sectors. We expect NPL coverage by loan-loss provision to remain above 100% during the same period.

We see QNB's high dependence on external funding as a risk, though international deposits remained flat (excluding Turkey where they decreased in 2020 mainly on foreign currency translation losses). The longer tenor of these deposits and our expectation of strong government support in case of need are mitigating factors. We expect some volatility in these deposits over the next 12-24 months because of COVID-19-induced market instability. We see the bank's liquidity position as sufficient to help it withstand some stress. As of Dec. 31, 2020, QNB had about 10% of its debt securities in high quality liquid assets.

The bank is a government-related entity (GRE) so we believe there is a very high likelihood that it would receive timely and sufficient extraordinary support from the government of Qatar in the event of financial distress. Consequently, the long-term rating on the bank incorporates three notches of uplift from its stand-alone credit profile (SACP).

Anchor: 'bbb-', reflecting operations in Qatar and riskier countries

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA)'s economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for QNB is 'bbb-' and reflects a blended economic risk score of '6' combined with Qatar's industry risk score of '5'.

We view Qatar's high income levels and a wealthy public sector as supportive of its banking system. These factors should help moderate risks associated with the pandemic. Albeit less severe than we initially anticipated, the Qatari economy was severely affected in 2020 with an estimated GDP drop of 4.4% last year and an expected mild recovery from 2021.

We view overall leverage in the Qatari economy as high, with total credit to the economy (excluding central government) expected to reach 170% of GDP in 2020 as a result of continued rapid lending growth. Furthermore, since 2018, a substantial amount of credit has been directed to potentially riskier sectors of the economy such as real estate services, investment companies and commercial agencies. We also note that most of this growth was financed by external debt. We continue to see Qatari banks' dependence on external funding as a source of risk, given the high geopolitical risks in the region. By year-end 2020, we estimate that net external debt contributed to the refinancing of 38% of total lending. We expect this ratio will continue to increase, albeit at a slower pace than in the past. We expect the government will remain highly supportive of the banking system, as was the case during the boycott when the government and related entities injected more than $40 billion into the banking system to help cope with outflows. We also view the quality of regulation and supervision in Qatar as broadly in line with GCC peers.

We expect the full impact of the pandemic will become clearer over 2021 and 2022. We believe cost of risk will reach about 120bps in 2021 and that profitability will be squeezed in a low rate environment, but that capitalization will remain strong. We expect credit growth will moderate slightly over 2021, following a number of years of rapid expansion, and that asset quality will deteriorate but remain stronger than that of some GCC peers, with nonperforming loans (NPLs) at 3.6% by the end of 2021.

Table 1

Qatar National Bank (Q.P.S.C.)--Key Figures						
	--Year ended Dec. 31--					
(Mil. QAR)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	1,021,068	940,704	858,317	807,245	715,812	533,229
Customer loans (gross)	745,355	695,458	628,649	596,020	531,201	395,386
Adjusted common equity	63,545	59,415	52,143	53,129	46,667	53,945
Operating revenues	25,540	25,636	24,550	22,927	23,085	16,268
Noninterest expenses	6,205	6,636	6,344	6,674	7,023	3,505
Core earnings	12,159	14,535	13,954	13,212	12,482	11,409

QAR--Qatari riyal.

Business position: Leading market position in Qatar

QNB has an unrivalled leading market position in Qatar, with total assets of $281.6 billion as of Dec. 31, 2020. Its large size and government majority ownership are key advantages in financing large GRE projects. We see as rating positive that the bank's shareholders appear supportive of the international expansion strategy, as shown by the capital increase and hybrid issuances to finance acquisitions.

QNB will continue to focus on preserving its asset quality indicators rather than expanding its business, considering the weak economic outlook. We believe that the bank has historically been aggressive with regard to geographic expansion, but over the past couple of years it has slowed this down and focused more on its existing international operations, especially in Turkey and Egypt. As of Dec. 31, 2020, the bank had about 25% of its loan portfolio outside Qatar (see chart 1) with Turkey and Egypt representing 10.4% and 5.4%, respectively, and the remainder spread among the GCC countries, Europe, and other Levant, African, and Asian countries.

QNB's quality of management and its well-defined strategy has led to resilient performance over the years. Despite recent turbulence in the bank's operating environment, asset quality deterioration has remained contained.

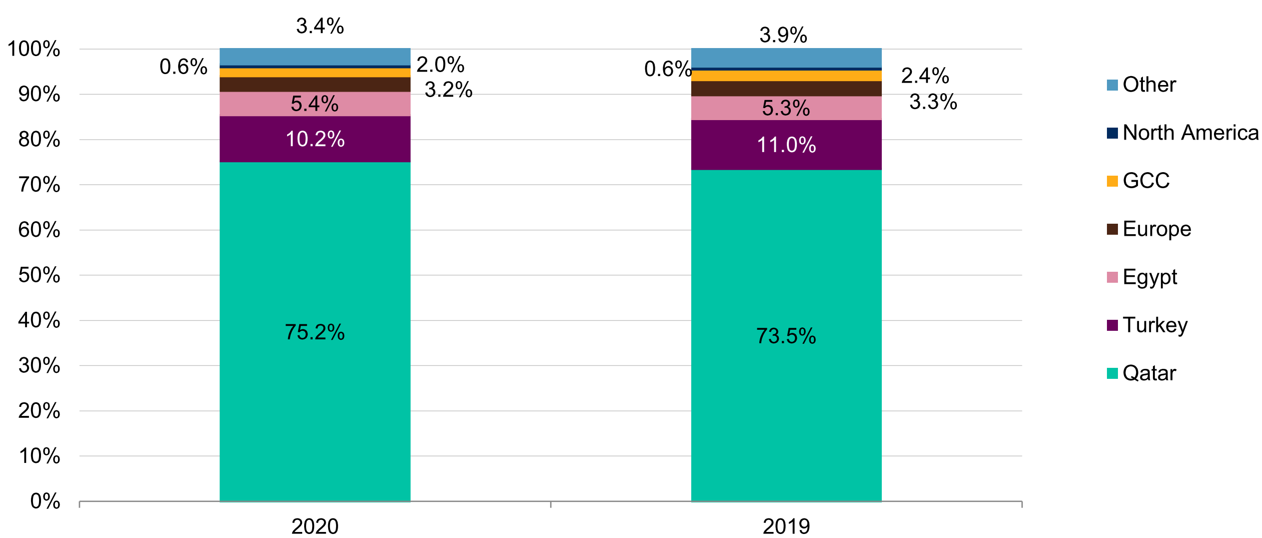
Table 2

Qatar National Bank (Q.P.S.C.)--Business Position

	--Year ended Dec. 31--					
(%)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	25,540.0	25,636.3	24,549.9	22,927.3	23,084.7	16,268.4
Commercial banking/total revenues from business line	48.5	41.1	40.4	40.2	39.1	54.2
Retail banking/total revenues from business line	45.8	53.6	55.2	55.4	56.7	40.3
Commercial & retail banking/total revenues from business line	94.3	94.8	95.7	95.6	95.9	94.5
Asset management/total revenues from business line	5.4	5.0	3.9	4.0	3.8	5.3
Other revenues/total revenues from business line	0.3	0.3	0.4	0.3	0.3	0.2
Return on average common equity	16.1	20.4	20.4	20.5	20.4	19.1

Chart 1

Qatar National Bank (Q.P.S.C.)--Loan Portfolio Split By Geography



GCC--Gulf Cooperation Council. Source: S&P Global Ratings.

Capital and earnings: Adequate and expected to remain so

QNB has a comfortable capital base supported by strong earnings capacity and relatively conservative dividend payouts, which should absorb potential shocks. We expect the bank's RAC ratio before adjustments will increase to 9.5%-9.7% in 2022, compared with 9.3% as of Dec. 31, 2020. QNB's regulatory total capital ratio was 19.1% at the same date.

Under our base-case scenario, we assume the following:

- We expect high single digit growth in 2021-2022, primarily from ongoing project developments that were initiated ahead of the 2022 FIFA World Cup;

- Margins should continue to come down as some the lending book is re-priced because of lower interest rates;
- We expect costs to grow by around 3%, though stronger revenue generation should offset higher costs and leave the cost-to-income ratio at around 24%;
- Cost of risk should remain at 80bps in 2021 and come down to 70bps in 2022, given the economic uncertainty and the slump in the real estate market; and
- Higher NPL recognition in 2021, mainly from the bank's Turkish and Egyptian exposures. We expect NPLs to climb to about 2.5% of total loans by 2021.

Our forecast excludes the materialization of any concentration risk. At year-end 2020, about 20% of QNB's total adjusted capital (TAC) was made of hybrid instruments. We assess the bank's underlying earnings capacity as good, as indicated by an average earnings buffer of 100bps over the next two years. A positive earnings buffer indicates that a bank generates sufficient earnings to cover normalized losses (namely S&P Global Ratings' view of losses we would expect on average throughout a typical credit cycle).

Table 3

Qatar National Bank (Q.P.S.C.)--Capital And Earnings

	--Year ended Dec. 31--					
(%)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	18.1	18.0	18.1	16.5	15.9	16.3
S&P Global Ratings' RAC ratio before diversification	9.3	9.3	9.7	9.9	9.5	N/A
S&P Global Ratings' RAC ratio after diversification	9.4	9.7	10.1	10.1	8.6	N/A
Adjusted common equity/total adjusted capital	76.1	75.2	75.2	84.2	82.4	100.0
Double leverage	32.1	32.4	34.2	39.4	40.9	33.4
Net interest income/operating revenues	82.2	78.8	77.5	78.0	77.5	78.3
Fee income/operating revenues	11.8	14.5	14.8	15.9	15.0	13.8
Market-sensitive income/operating revenues	5.3	4.7	5.3	5.2	5.4	5.6
Noninterest expenses/operating revenues	24.3	25.9	25.8	29.1	30.4	21.5
Preprovision operating income/average assets	2.0	2.1	2.2	2.1	2.6	2.5
Core earnings/average managed assets	1.2	1.6	1.7	1.7	2.0	2.2

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Qatar National Bank (Q.P.S.C.)--Risk-Adjusted Capital Framework Data

(Mil. QAR)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	224,816.9	32,081.4	14.3	84,610.5	37.6
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	86,043.7	20,470.2	23.8	47,729.6	55.5
Corporate	636,958.4	271,741.9	42.7	474,319.6	74.5
Retail	91,426.3	70,112.6	76.7	139,933.8	153.1
Of which mortgage	1,885.9	1,101.7	58.4	1,140.3	60.5

Table 4

Qatar National Bank (Q.P.S.C.)--Risk-Adjusted Capital Framework Data (cont.)					
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	40,477.9	23,246.1	57.4	78,330.5	193.5
Total credit risk	1,079,723.1	417,652.2	38.7	824,924.0	76.4
Credit valuation adjustment					
Total credit valuation adjustment	--	9,969.0	--	0.0	--
Market Risk					
Equity in the banking book	1,543.7	9,575.5	620.3	13,837.1	896.4
Trading book market risk	--	5,265.2	--	15,795.7	--
Total market risk	--	14,840.7	--	29,632.9	--
Operational risk					
Total operational risk	--	43,095.7	--	48,330.3	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	495,306.6	--	902,887.2	100.0
Total diversification/ concentration adjustments	--	--	--	(17,442.1)	(1.9)
RWA after diversification	--	495,306.6	--	885,445.1	98.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		89,650.5	18.1	83,544.8	9.3
Capital ratio after adjustments‡		89,650.5	18.1	83,544.8	9.4

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counterparty. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. QAR--Qatari rial. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Risk position: We expect asset quality to deteriorate

We view the bank's risk appetite as conservative and its risk management and culture as strong. Traditionally, lending to government entities in Qatar has been an important part of QNB's business model, resulting in significant concentration of the bank's loan portfolio (see chart 2), with the top 20 funded exposures representing about 35% of total loans at year-end 2020. Some of these are GREs and large corporates in Qatar, which somewhat mitigates risk.

We expect ongoing economic pressures to cause some metrics to deteriorate. In Egypt and Turkey, particularly, we expect to see some transitioning to stage 3 loans after the pick-up in stage 2 loans in 2020. So far the impact has been marginal at the group level, the amount of Stage 2 loans increased to 5.8% of total loans in 2020, compared with 5.0% in 2019. The bank's ratio of NPLs to gross loans stood at 2.1% at Dec. 31, 2020, while its loan loss coverage was 136% (factoring in IFRS9 Stage 1 and Stage 2 provisions). We expect NPL coverage by provisions to remain above 100%.

We expect higher NPL recognition in 2021 once forbearance is fully lifted and in line with management's strategy to book additional provisioning. It should climb to about 2.5% of total loans and stage 2 should increase to 7.0% in 2021.

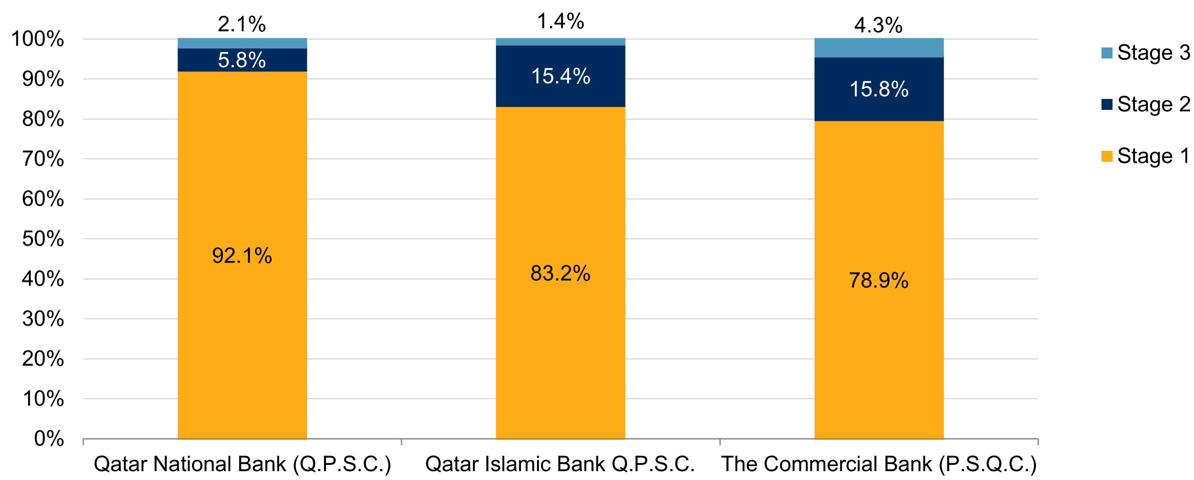
Our expectation of a deterioration in the bank's asset quality indicators is somewhat counterbalanced by the high state footprint in the economy. We also note the government's strong interventionist stance and implicit support provided to some sectors of the economy.

We consider the quality of QNB's investment portfolio to be good because it remains dominated by Qatari and other sovereign bonds. Moreover, this portfolio is held primarily for liquidity management purposes, rather than for trading. The bank has a marginal portfolio of equities and mutual funds that constituted 1.7% of its TAC at Dec. 31, 2020.

The open foreign currency position used to be a source of risk for QNB. However, the bank closed this position in 2019 when it converted some of its exposures to GREs to foreign currencies. As of Dec. 31, 2020, the bank had an open position of QAR2 billion in other currencies (mainly euros) barely exceeding 2% of TAC.

Chart 2

Qatari Banks: Loan Portfolio Distribution By IFRS 9 Stages In December 2020



IFRS--International Financial Reporting Standards. Source: S&P Global Ratings.

Table 5

Qatar National Bank (Q.P.S.C.)--Risk Position

	--Year ended Dec. 31--					
(%)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	7.2	10.6	5.5	12.2	34.4	14.6
Total managed assets/adjusted common equity (x)	16.1	15.9	16.5	15.3	15.4	10.0
New loan loss provisions/average customer loans	0.8	0.5	0.5	0.4	0.6	0.2
Net charge-offs/average customer loans	(0.1)	0.3	0.0	(0.1)	0.1	(0.2)
Gross nonperforming assets/customer loans + other real estate owned	2.1	1.9	1.9	1.8	1.8	1.4
Loan loss reserves/gross nonperforming assets	136.4	130.7	132.5	111.9	113.9	127.3

Funding and liquidity: High reliance on external funding is a source of risk

QNB's deposit base has been broadly stable through 2020; the bank's stable funding ratio reached 110% at Dec. 31, 2020 (see chart 3). Compared to regional peers, QNB has a diversified funding base but relies heavily on external sources. This makes QNB vulnerable to any adverse development in the region, which could result in outflows of funds.

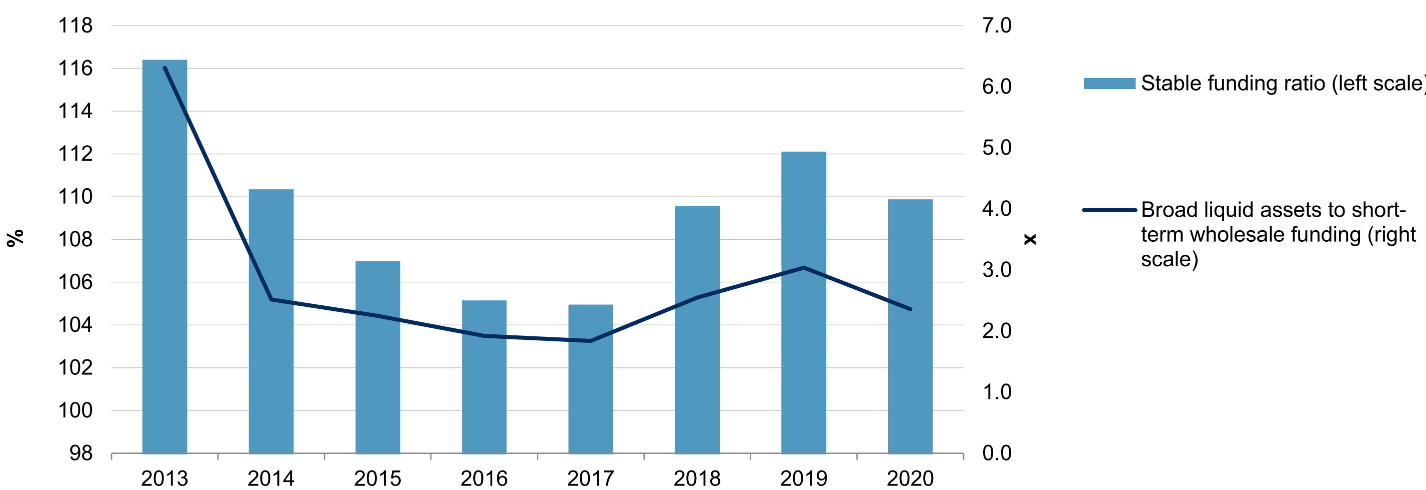
We expect the bank's funding and liquidity metrics to remain in line with the sector. Its significant reliance on external funding is somewhat mitigated by the longer (than 12 months) tenors of these sources and strong government support if needed, like when the government and GREs injected liquidity into the bank and other GREs during the boycott. However, the market volatility induced by COVID-19 will likely result in some outflows of external funding.

Management will continue to focus on diversifying its funding base and, as such, we do not expect inflows from GCC funding to return to pre-boycott levels. In 2020, deposits grew by 8% mainly fuelled by corporate and retail depositors offsetting the drop in GRE deposits. At Dec. 31, 2020, over 80% of the bank's funding came from customer deposits.

International customer deposits stood at 41% at year-end 2020 down from 46% in 2019. The drop is primarily underpinned by the depreciation of the Turkish lira.

Chart 3

Qatar National Bank (Q.P.S.C.)--Stable Funding Ratio And Broad Liquid Assets To Short-Term Wholesale Funding, 2013-2020

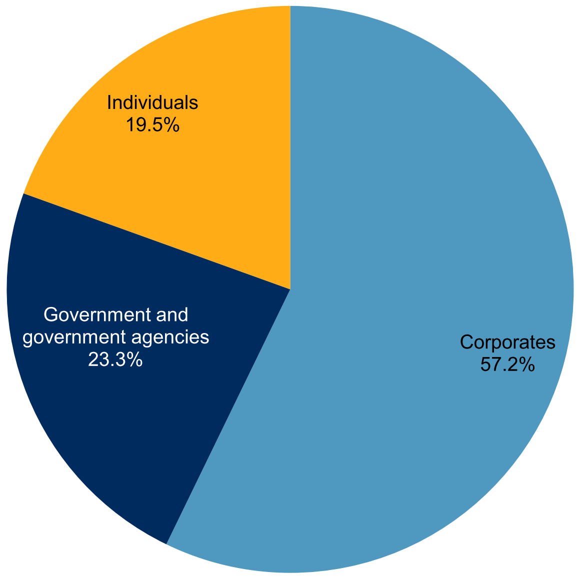


Source: S&P Global Ratings.

QNB's broad liquid assets to short-term wholesale funding liabilities stood at 2.4x at end-2020, down from 3.0x in 2019, as a result of an increase in short-term wholesale funding. The bank maintained 14% of its assets in the form of cash and short-term exposures to banks. The bank has QAR11 billion of wholesale funding coming to maturity in 2021. QNB's lines of defense, in case there is significant disruption of the capital market, includes using its liquid assets or accessing Qatar Central Bank refinancing.

Chart 4

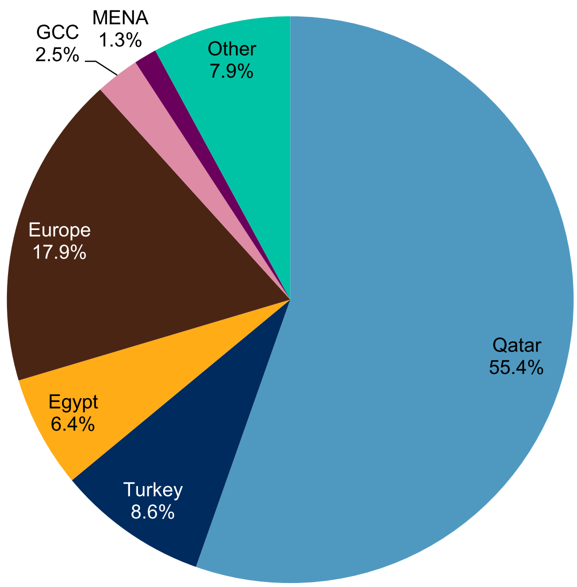
Qatar National Bank (Q.P.S.C.)--Deposits Split By Counterparty



Source: S&P Global Ratings.

Chart 5

Qatar National Bank (Q.P.S.C.)--Deposits Split By Country
2020



GCC--Gulf Cooperation Council. Source: S&P Global Ratings.

Table 6

Qatar National Bank (Q.P.S.C.)--Funding And Liquidity						
	--Year ended Dec. 31--					
(%)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	82.3	83.3	83.2	83.2	81.6	85.4
Customer loans (net)/customer deposits	98.0	99.2	99.3	99.8	102.7	98.3
Long-term funding ratio	91.3	93.3	92.2	89.7	90.1	92.1
Stable funding ratio	109.8	112.1	109.5	104.9	105.1	106.9
Short-term wholesale funding/funding base	9.6	7.5	8.7	11.4	10.9	8.8
Broad liquid assets/short-term wholesale funding (x)	2.4	3.0	2.6	1.8	1.9	2.3
Net broad liquid assets/short-term customer deposits	25.9	27.5	23.8	15.0	13.4	13.6
Short-term wholesale funding/total wholesale funding	48.1	39.0	44.9	62.7	54.5	60.3
Narrow liquid assets/3-month wholesale funding (x)	5.0	4.0	4.1	2.4	2.4	2.9

Support: A GRE with a very high likelihood of extraordinary government support

We view QNB as a GRE with a very high likelihood of receiving timely and sufficient extraordinary support from the government of Qatar in the event of financial distress. This is underpinned by our view of QNB's:

- Very strong link to the government of Qatar, which is QNB's controlling shareholder and has a record of providing extraordinary support to the bank. The government, through the Qatar Investment Authority, owns 50% of the bank; and
- Very important role for the government of Qatar. The bank has a privileged relationship with the government and maintains key account relationships with many Qatari government departments and GREs.

Therefore, the long-term rating on QNB includes three notches of support above our assessment of the bank's SACP.

When the boycott on Qatar was put in place in 2017, the government and its related entities injected up to $42.5 billion of liquidity in the system to help it cope with the external funding outflows.

Environmental, social, and governance

We see ESG credit factors for QNB as broadly in line with industry and country peers. The bank benefits from good governance and disclosure practices compared with local and regional companies. Even if Qatar's political institutions are still developing, we believe it has not been detrimental to the bank's strategic choices or sound business development.

QNB has not experienced any incidents related to noncompliance with laws and regulations, and has not been subject to legal or regulatory fines or settlements. The bank has been expanding rapidly in countries with weaker governance standards than those of Qatar, which necessitates a strong framework to control a variety of risks. Despite being the flagship bank of a major gas exporting country, we estimate the direct lending of QNB to sectors exposed to energy transition risk at about 10% of the bank's total lending at year-end 2020--the indirect exposure (via the overall dependence of the Qatari economy on hydrocarbons) is higher. Still, most corporate clients are generally less exposed to stringent environmental regulations and norms than in Europe or the U.S. Therefore, the emergence of credit risks from the carbon-intensive part of the portfolio is likely to be manageable in the medium term.

We view bank regulation in Qatar as probably less focused on consumer protection than in Europe or the U.S., meaning more limited exposure to mis-selling penalties and other retail conduct risks.

Related Criteria

- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	**6**	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	**bbb-**	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of March 25, 2021)*

Qatar National Bank (Q.P.S.C.)	
Issuer Credit Rating	A/Stable/A-1
Issuer Credit Ratings History	
10-Dec-2018	A/Stable/A-1
11-Sep-2017	A/Negative/A-1
08-Jun-2017	A/Watch Neg/A-1
06-Mar-2017	A+/Negative/A-1
Sovereign Rating	
Qatar	AA-/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.