

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

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

SACP	bbb	+	Support	+3	+	Additional Factors	0
Anchor	bbb-		ALAC Support	0		Issuer Credit Rating A/Stable/A-1	
Business Position	Strong	+1	GRE Support	+3			
Capital and Earnings	Adequate	0	Group Support	0			
Risk Position	Adequate	0	Sovereign Support	0			
Funding	Average	0					
Liquidity	Adequate						

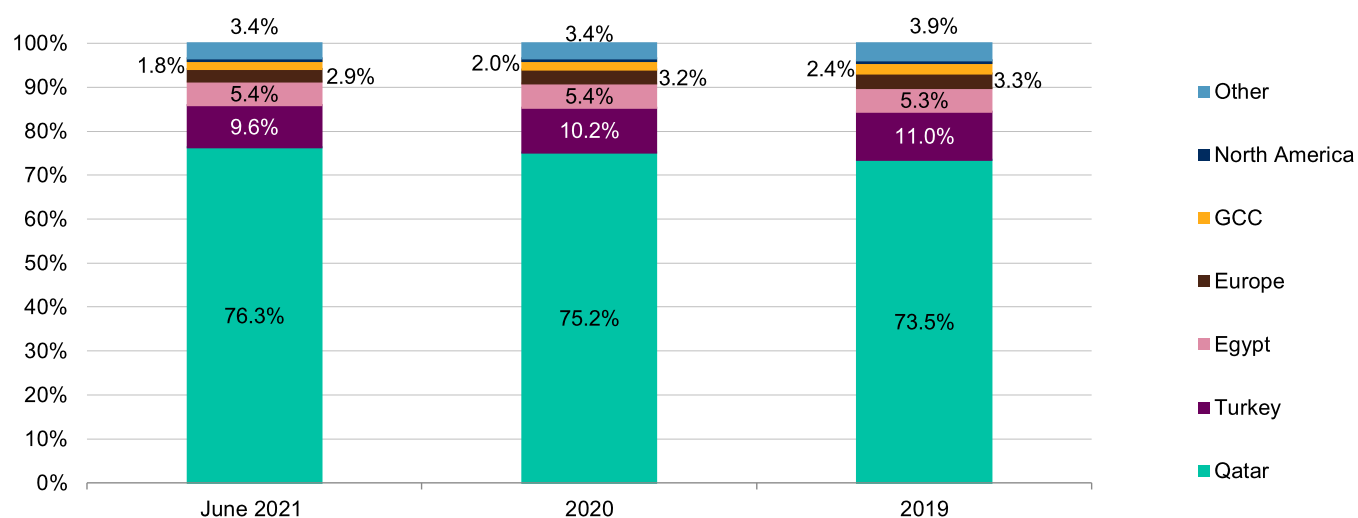
Credit Highlights

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

QNB is a government-related entity (GRE) with a leading position in its wealthy domestic market. QNB has an unrivalled leading position in its narrow-but-wealthy domestic market and an international presence, notably in Egypt and Turkey. Although we expect the pandemic-related strain to cause some metrics to deteriorate, we still think QNB will maintain strong fundamentals. The bank is a 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).

Chart 1

Qatar National Bank (Q.P.S.C.)--Loan Portfolio Split By Geography As Of June 2021



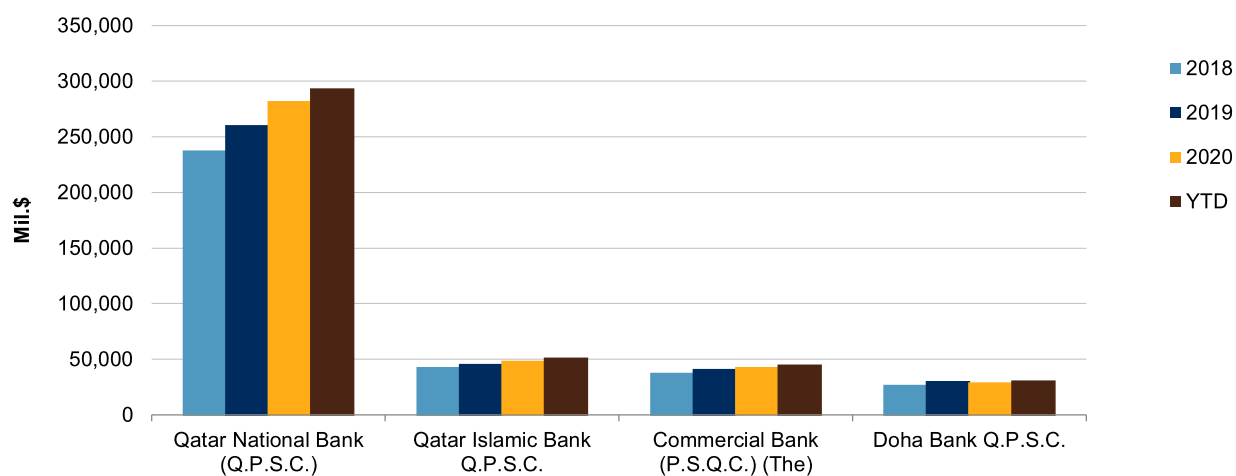
GCC--Gulf Cooperation Council. Source: S&P Global Ratings.

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Chart 2

QNB Dominates Local market

Total assets



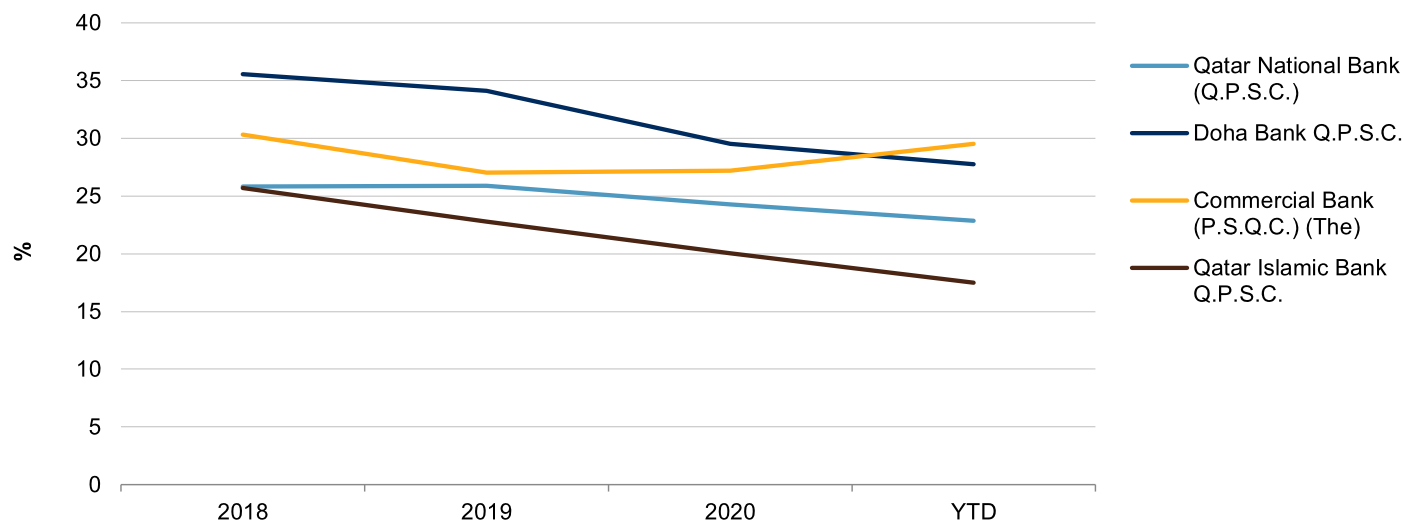
Source: Company filings.

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Chart 3

Strong Operating Efficiency Despite Wider Geographic Presence

Cost-to-income ratio



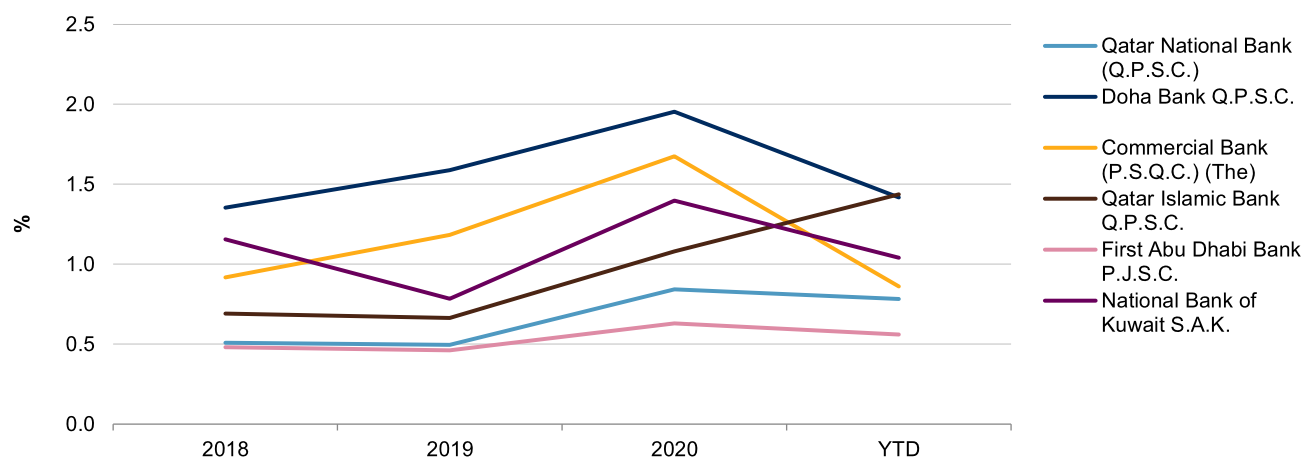
Source: S&P Global Ratings.

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Marginal deterioration in asset quality while capital remains comfortable. We expect the bank's asset quality to deteriorate further in 2021 as the full impact of the pandemic works its way through the Qatari economy. We estimate nonperforming loans (NPLs) rising to nearly 2.5% by year-end 2021 and that the cost of risk will remain around 80 basis points (bps) in 2021 before dropping to 70bps in 2022. Stage 2 and 3 loans as a percentage of total loans stood at 6.2% and 2.3% in June 2021, up from 5.8% and 2.1% in December 2020. The forbearance measures were extended until June 2021. 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 leading position in Qatar, its conservative risk appetite and strong risk management, despite its presence in countries that we view as riskier than Qatar.

Chart 4**Relatively Low Credit Charges Despite Weaker Economic Conditions**

New loan loss provisions/average customer loans

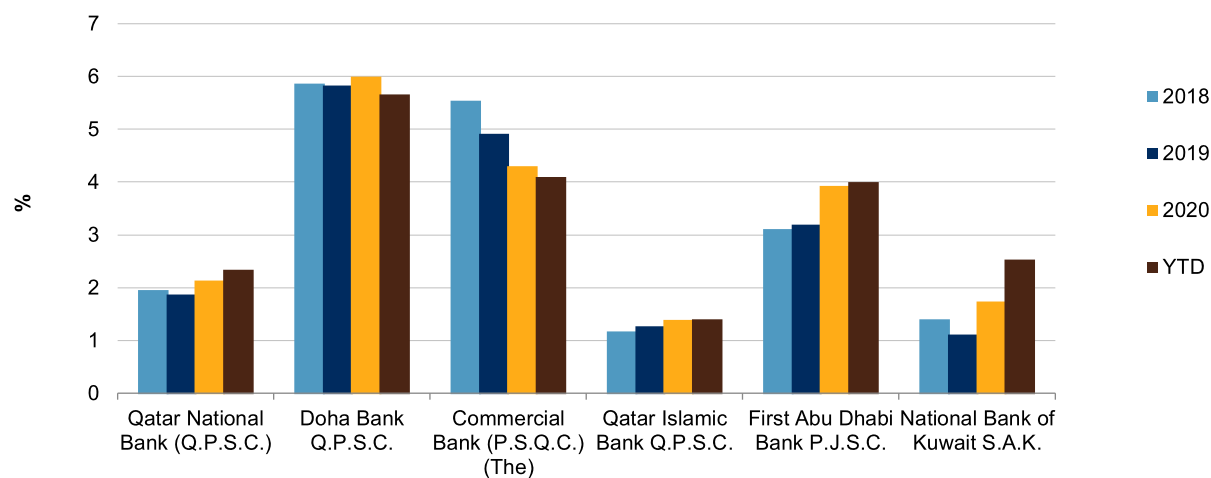


Source: S&P Global Ratings.

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Chart 5**Among The Lowest NPL Ratio**

Nonperforming assets* (%)

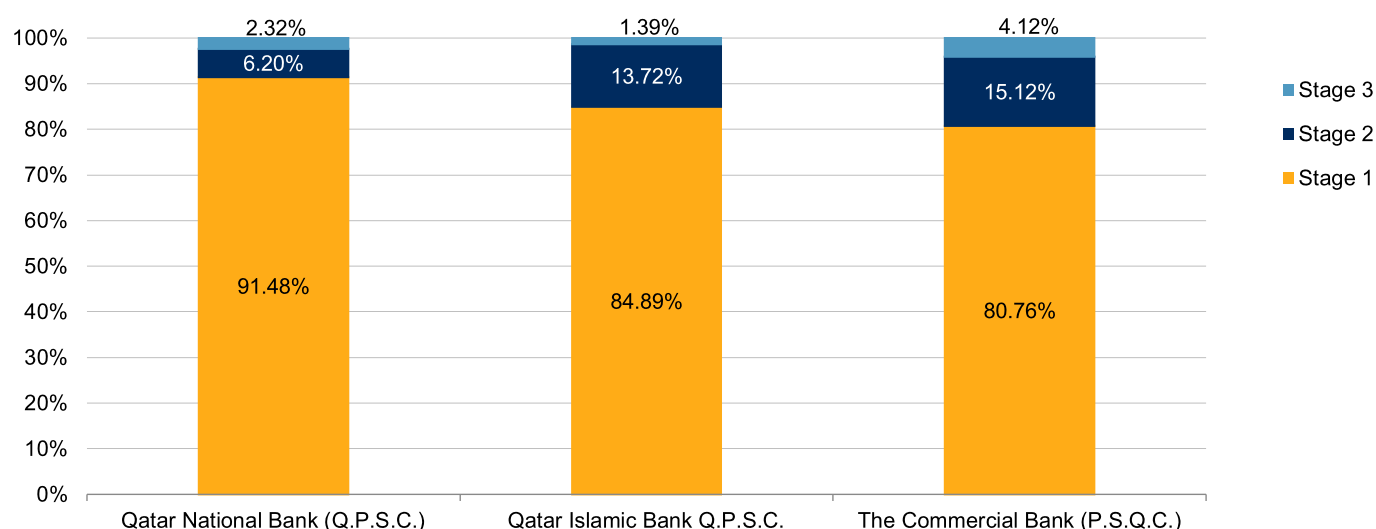


*Adjusted nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

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Chart 6

Qatari Banks: Loan Portfolio Distribution By IFRS 9 Stages In June 2021



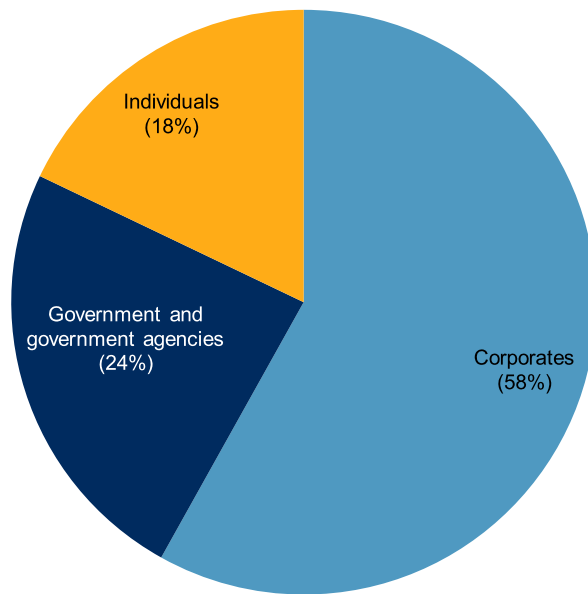
GCC--Gulf Cooperation Council. Source: S&P Global Ratings.

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High external funding remains our main concern, mitigated by long tenors and expected government support. We see QNB's high dependence on external funding as a risk, as they present a less stable form of funding. Though international deposits contribution as a percentage of total deposits remained flat at 45% in June 2021 compared to December 2020, in nominal terms they have increased to QAR304 billion from QAR260 billion in 2017 (58% of international deposits come from Europe). The longer tenor of these deposits and our expectation of strong government support in case of need are mitigating factors. As of June 2021, QNB had about 10% of its debt securities in high quality liquid assets and, with cash at 8% of assets, we view the bank's liquidity position as solid.

Chart 7

Qatar National Bank (Q.P.S.C.)--Deposits Split By Counterparty As Of June 2021

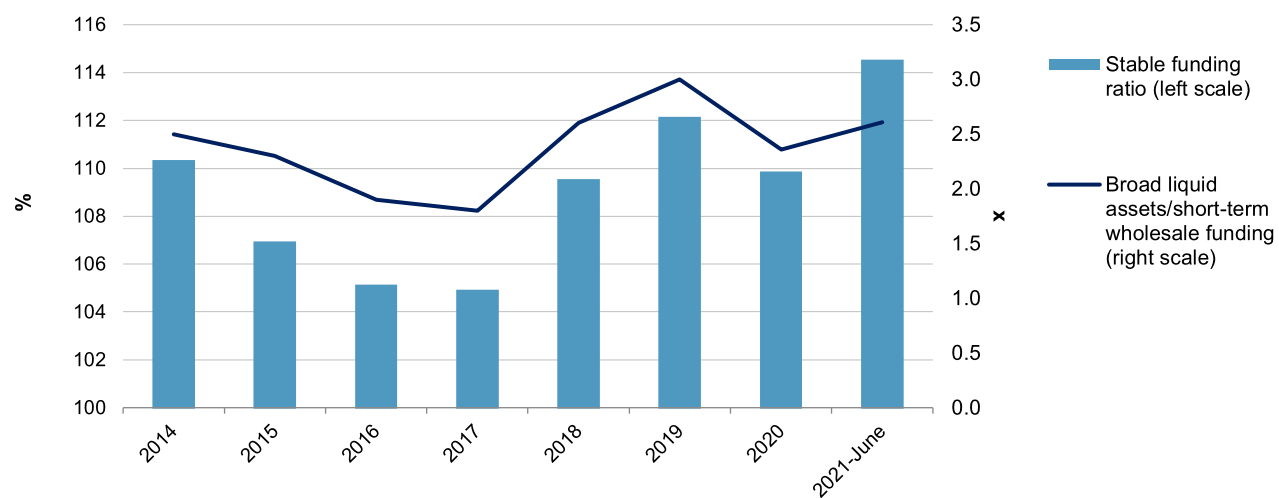


Source: S&P Global Ratings.

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Chart 8

Qatar National Bank (Q.P.S.C.)--Stable Funding Ratio And Broad Liquid Assets To Short-Term Wholesale Funding, 2014-June 2021

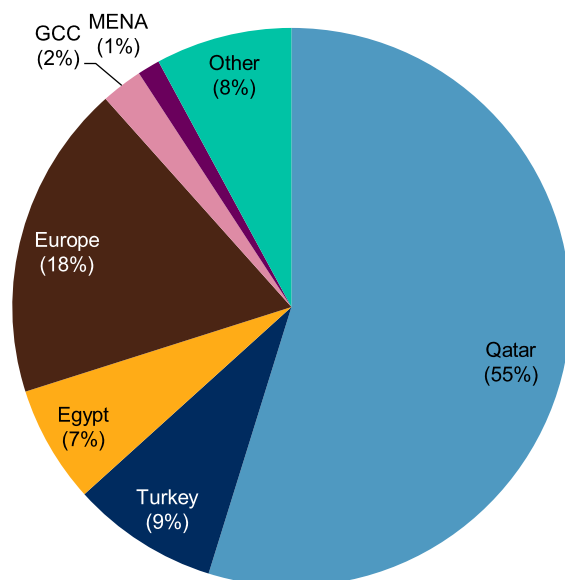


Source: S&P Global Ratings.

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Chart 9

Qatar National Bank (Q.P.S.C.)--Deposits Split By Country As Of June 2021



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

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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 were to downgrade the sovereign. For instance, albeit 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.

Key Metrics

Qatar National Bank (Q.P.S.C.)--Key Ratios And Forecasts*					
	--Fiscal year ended Dec-31 --				
	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue (%)	4.4	(0.4)	4.0-4.5	4.7-5.7	6.2-7.2
Growth in customer loans (%)	10.6	7.2	6.3-7.7	7.2-8.5	8.5-9.0
Growth in total assets (%)	9.6	8.5	5.5-6.7	6.3-7.7	7.0-8.5
Net interest income/average earning assets (NIM) (%)	2.5	2.3	2.25-2.30	2.18-2.22	2.18-2.22
Cost to income ratio (%)	25.9	24.6	23.8-24.5	23.8-25.0	23.7-24.9
Return on equity (%)	20.4	16.1	15.6-17.2	16.2-17.9	16.0-17.7
Return on assets (%)	1.6	1.2	1.1-1.3	1.2-1.4	1.2-1.4
New loan loss provisions/average customer loans (%)	0.5	0.8	0.8-0.8	0.7-0.75	0.65-0.70
Gross nonperforming assets/customer loans (%)	1.8	2.1	2.4-2.6	2.5-2.7	2.3-2.6
Net charge-offs/average customer loans (%)	0.3	(0.1)	0.3-0.3	0.2-0.2	0.2-0.2
Risk adjusted capital ratio (%)	9.3	9.3	9.5-9.7	9.5-9.7	9.5-9.7

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Environmental, Social, And Governance

We see environmental, social, and governance credit factors for QNB as broadly in line with those of industry and regional peers. The bank benefits from good governance and disclosure practices compared with local and regional companies. Even though Qatar's political institutions are still developing, we believe this 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, QNB's direct lending to sectors exposed to energy transition risk stood at 1%-2% of the bank's total lending at year-end 2020. 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.

Key Statistics

Table 1

Qatar National Bank (Q.P.S.C.)--Key Figures						
--Year ended Dec. 31--						
(Mil. QAR)	YTD June 2021	2020	2019	2018	2017	2016
Adjusted assets	1,061,069	1,021,068	940,704	858,317	807,245	715,812
Customer loans (gross)	770,494	745,355	695,458	628,649	596,020	531,201
Adjusted common equity	68,141	63,545	59,415	52,143	53,129	46,667
Operating revenues	13,565	25,540	25,636	24,550	22,927	23,085
Noninterest expenses	3,101	6,205	6,636	6,344	6,674	7,023
Core earnings	6,853	12,159	14,535	13,954	13,212	12,482

QAR--Qatari riyal. YTD--Year to date.

Table 2

Qatar National Bank (Q.P.S.C.)--Business Position						
--Year ended Dec. 31--						
(%)	YTD Jun-2021	2020	2019	2018	2017	2016
Total revenues from business line (currency in millions)	13,564.9	25,540.0	25,636.3	24,549.9	22,927.3	23,084.7
Commercial banking/total revenues from business line	53.1	48.5	41.1	40.4	40.2	39.1
Retail banking/total revenues from business line	42.3	45.8	53.6	55.2	55.4	56.7
Commercial & retail banking/total revenues from business line	95.4	94.3	94.8	95.7	95.6	95.9
Asset management/total revenues from business line	4.2	5.4	5.0	3.9	4.0	3.8
Other revenues/total revenues from business line	0.4	0.3	0.3	0.4	0.3	0.3
Return on average common equity	17.8	16.1	20.4	20.4	20.5	20.4

Table 3

Qatar National Bank (Q.P.S.C.)--Capital And Earnings					
--Year ended Dec. 31--					
(%)	2020	2019	2018	2017	2016
Tier 1 capital ratio	18.1	18.0	18.1	16.5	15.9
S&P Global Ratings' RAC ratio before diversification	9.3	9.3	9.7	9.9	9.5
S&P Global Ratings' RAC ratio after diversification	9.4	9.7	10.1	10.1	8.6
Adjusted common equity/total adjusted capital	76.1	75.2	75.2	84.2	82.4
Double leverage	32.1	32.4	34.2	39.4	40.9
Net interest income/operating revenues	82.2	78.8	77.5	78.0	77.5
Fee income/operating revenues	11.8	14.5	14.8	15.9	15.0
Market-sensitive income/operating revenues	5.3	4.7	5.3	5.2	5.4
Cost to income ratio	24.3	25.9	25.8	29.1	30.4
Preprovision operating income/average assets	2.0	2.1	2.2	2.1	2.6
Core earnings/average managed assets	1.2	1.6	1.7	1.7	2.0

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 Ratings RWA	Average S&P Global Ratings 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
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 Ratings RWA	% of S&P Global Ratings 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 Ratings 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). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. QAR--Qatari riyal. Sources: Company data as of Dec. 31 2020, S&P Global Ratings.

Table 5

Qatar National Bank (Q.P.S.C.)--Risk Position						
	--Year ended Dec. 31--					
(%)	YTD Jun-2021	2020	2019	2018	2017	2016
Growth in customer loans	6.7	7.2	10.6	5.5	12.2	34.4
Total managed assets/adjusted common equity (x)	15.6	16.1	15.9	16.5	15.3	15.4
New loan loss provisions/average customer loans	0.8	0.8	0.5	0.5	0.4	0.6
Net charge-offs/average customer loans	0.1	(0.1)	0.3	0.0	(0.1)	0.1
Gross nonperforming assets/customer loans + other real estate owned	2.3	2.1	1.8	1.9	1.8	1.8
Loan loss reserves/gross nonperforming assets	133.4	136.4	130.7	132.5	111.9	113.9

Table 6

Qatar National Bank (Q.P.S.C.)--Funding And Liquidity						
	--Year ended Dec. 31--					
(%)	YTD Jun-2021	2020	2019	2018	2017	2016
Core deposits/funding base	81.7	82.3	83.3	83.2	83.2	81.6
Customer loans (net)/customer deposits	97.4	98.0	99.2	99.3	99.8	102.7
Long-term funding ratio	90.8	91.3	93.3	92.2	89.7	90.1
Stable funding ratio	114.5	109.8	112.1	109.5	104.9	105.1
Short-term wholesale funding/funding base	10.2	9.6	7.5	8.7	11.4	10.9
Broad liquid assets/short-term wholesale funding (x)	2.6	2.4	3.0	2.6	1.8	1.9
Net broad liquid assets/short-term customer deposits	32.6	25.9	27.5	23.8	15.0	13.4
Short-term wholesale funding/total wholesale funding	49.7	48.1	39.0	44.9	62.7	54.5
Narrow liquid assets/3-month wholesale funding (x)	5.4	5.0	4.0	4.1	2.4	2.4

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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 September 1, 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.

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