Daiwa Capital Markets

Qatar National Bank

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	LT Credit Rating	ST Credit Rating	Outlook
Moody's	Aa3	P-1	Stable
S&P	A	A-1	Stable
Fitch	A+	F1	Stable

Source: Moody's, S&P and Fitch

Background and ownership

Qatar National Bank (QNB) was established in 1964 as the country's first Qatari-owned commercial bank. At end-2020, it was the nation's leading financial institution with a market share 49.5% of domestic banking sector assets. Reported consolidated assets amount to QAR1.02tr (USD281bn). The Qatari government holds a 50% stake in QNB through its investment arm, Qatar Investment Authority, while the remaining 50% is publicly traded. Since 1997, the bank's shares have been listed on the Qatar Stock Exchange.

The group offers a full range of investment banking services to corporate, government and institutional clients within Qatar and globally. QNB has extended its international network since 2005 through a combination of organic growth and acquisitions. The group operates across 12 subsidiaries, mostly in the Middle East, notably in Turkey where it owns the fifth largest private bank, QNB-Finansbank. QNB Group, subsidiaries and associate companies operate in more than 31 countries around the world employing more than 29,000 staff. Overseas operations totalled QAR344bn (USD94.5bn) or 32% of total assets, geographically split by Europe (16%), others (12%), other Gulf Cooperation Council (GCC) countries (2%), and North America (2%).

Qatar National Bank – Key Data

(QARbn)	**FY20**
Total Assets	1,025
Total Assets ($bn)	281.5
Loan Book	723.7
Loan Book ($bn)	198.8
Loans to Deposits (%)	97.9
Cost to Income (%)	24.3
Net Profit	12.1
Net Profit ($bn)	3.3
ROCE (%)	14.7
LCR (%)	164
CET1 (%)	14.0
Market Cap* ($bn)	46.3

*Source: Bank statements, Bloomberg. *As of 21/01/2021*

Main activities

QNB's activities are split into four key segments: **Corporate Banking** (49% of gross revenues in 2020), which includes lending, deposit taking, investment and advisory services with corporate clients as well as the group's funding and centralised risk management activities; **Consumer Banking** (4%), focused on retail customers; **Asset and Wealth Management** (5%) asset management, brokerage and custody services to high net worth customers; and **International Banking** (42%), which comprises the bank's universal banking services across international locations.

Operating Environment and Strategy

Qatar's operating environment has been negatively affected by the pandemic given the collapse in energy prices on which the local government relies, straining economic growth prospects. In response, the government has implemented key monetary and fiscal measures to support the banking sector. The central bank (QCB) lowered the policy rate twice in March of 2020 in line with actions taken by the US Fed to maintain its currency peg. Liquidity in the sector was maintained by QCB repo operations at zero interest rates as well as facilitating loan deferral mechanisms. However, there remain structural weaknesses within the banking sector such as limited transparency of local conglomerates that occupy large sections of private sector loan books. This signals a heightened risk tolerance, which we believe will likely persist beyond the pandemic.

In June 2017 a diplomatic blockade was imposed on Qatar by several other Arab states, including Saudi Arabia, Bahrain, Egypt and the UAE, over claims that it supported terrorist activities, maintained too-close relations with Iran and meddled in the internal affairs of neighbouring countries. However, three years and several mediation efforts and summits later, relationships have been restored in January 2021. The tense political situation certainly contributed to QNB's business stagey to seek further diversification from its regional market and increase its international footprint. It formulated the target to generate 40% of revenues from foreign operations, seeking to expand further into South-East Asia.

Financial strength indicators

Asset quality – Loans to customers at FY20 totalled QAR724bn (USD199bn; +6.6% yoy) and were predominantly extended to the Qatari government and its agencies (34% of total). These low risk exposures contributed to a strong 2.1% NPL ratio (FY19: 1.9%) and a coverage ratio of 107% for stage 3 impairments (FY19: 100%). Other loan exposures by sector were towards services (25%) and commercial enterprises (13%). The bank's cost of risk stood at 80bps vs 48bps one year ago, showing that QNB built sizeable provisions against the reduction in energy prices and general deterioration of the operating environment caused by the pandemic. QNB's strategy to diversify its revenues and exposures away from its domestic market can be seen in its growing international presence. However, the share of international loan exposures, customer deposits and profits has in fact declined over the past three years, as QNB remains cautious over its international activities amidst market uncertainty while domestic and foreign currency lending in USD has risen. The economic shock is expected to continue to materially slow loan growth, especially in some of the more volatile markets in which QNB operates. A resumption of normal business activity will also depend on local policy and healthcare responses to the pandemic.

Profitability – QNB reported net profit of QAR12.1bn (USD3.3.bn) in FY20, down 16.4% yoy on the back of lower net fee and commission income (-18.7% yoy) and higher loan loss provisions (+83% yoy), the latter accounting for 30% of pre-provision group revenue. 27% of the group's net income was generated overseas which is below QNB's 40% target, predominantly in Egypt (13% of the total) and Turkey (12%) providing some regional diversification but also making QNB susceptible to foreign currency devaluation. Group ROCE was 14.7% (FY19: 18.9%) supported by a healthy net interest margin of 2.33% (FY19: 2.46%). The group's operating efficiency as measured by the reported cost to income ratio improved to 24.3% vs 25.9% due to cost controls that saw staff and other administrative expenses decline.

Capitalisation – QNB's CET1 ratio amounted to 14% at FY20, up 30bps yoy, backed by retained earnings and comfortably above the 11% capital requirement of local regulators. Total capital ratio stood at 19.1% (FY19: 18.9%) above a 16% requirement. Sizeable exposure to governmental entities support QNB's regulatory ratios through their low RWA balance sheet impact making this form of lending capital efficient. However, the increased focus on private sector lending and lending abroad is expected in the near term to increase RWA density (RWA / Total Assets), which currently stands at 48% (FY19: 50%).

Funding & Liquidity – QNB's funding is dominated by customer deposits, which accounted for 80% of total non-equity liabilities as of FY20. This allows QNB to completely fund its loan book with customer deposits, resulting in a low gross loan to deposit ratio of 98%. Other sources of funding are interbank deposits (9.5%) and debt securities (4.6%). The majority of deposits are sourced from corporate clients (57%) as well as the Qatari government and its agencies (23%) and are held as time deposits (77.5% of total). The rather low volume of current accounts 19% is reflective of the low deposit volume of individuals and households (19.5%). Debt securities of QAR42.6bn (USD11.6bn) are issued in USD, EUR, GBP and AUD and backed by the bank's EMTN Kangaroo programmes, which allows for a total issuance of USD17.5bn AUD2bn respectively. Based on the bank's debt maturity profile we can see that refinancing needs are front-loaded with almost 40% of maturities approaching by end-2022. In terms of liquidity QNB is well positioned with liquid assets of USD74bn amounting to 24% of total assets while liquidity indicators such as LCR and NSFR were robust at 164% and 104% respectively.

Qatar National Bank - Additional Data

Key Ratios (%)	FY20	FY19	FY18
CET1	14.0	13.7	13.4
Total Capital	19.1	18.9	19.0
NPL	2.1	1.9	1.9
NPL Coverage	107	100	104
LCR	164	160	124
Cost to Income	24.3	25.9	25.8
Balance Sheet (QARbn)			
Total assets	1,025	944.6	862.1
Loans to customers	723.7	678.7	617.1
Customer deposits	738.7	684.4	620.6
Debt securities	42.5	33.7	26.2
Shareholder Equity	78.2	76.1	67.2
Income Statement (QARbn)			
Operating Income	25.4	25.2	24.0
Operating Expenses	6.2	6.5	6.2
Cost of Risk (bps)	80	48	50
Net Income	12.1	14.4	13.8

Source: QNB earnings reports

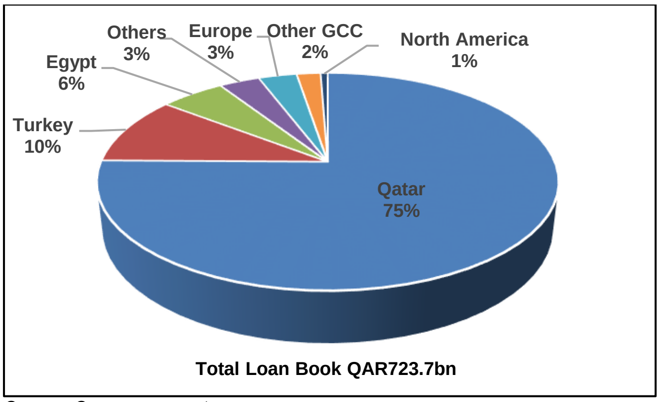
Rating agencies' views

Moody's ratings reflect the bank's strong profitability together with the bank's dominant market position and deep ties to the government. Asset quality and capitalisation are strong while the bank has a diversified funding base to rely on. Increasing geographical diversification from non-domestic operations is a strategic priority for the group. These strengths are moderated by an increased risk in some jurisdictions, including the bank's presence in the weakening operating environment of Turkey, which Moody's expect to exert pressure on the group's asset quality and profitability; and the high degree of concentration on both sides of the balance sheet.

S&P QNB has an unrivalled leading position in a narrow-but-wealthy domestic market, and its international expansion has gradually reduced its domestic concentration. S&P expects the ongoing economic strains to cause some metrics to deteriorate; but the bank is expected to maintain strong fundamentals. S&P forecast in their base case that QNB's asset quality will deteriorate, causing a rise in nonperforming loans (NPLs) to nearly 2.6% by year-end 2022 and an increase in cost of risk to 70-80bps in 2020-2021. QNB's high dependence on external funding is viewed as a risk. However, the expectation of strong government support in case of need is a mitigating factor. Some volatility in deposits is expected over the next 12-24 months because of COVID-19 induced market instability. The bank's liquidity position is considered sufficient to help it withstand some stress. The bank is a government related entity (GRE), so S&P 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.

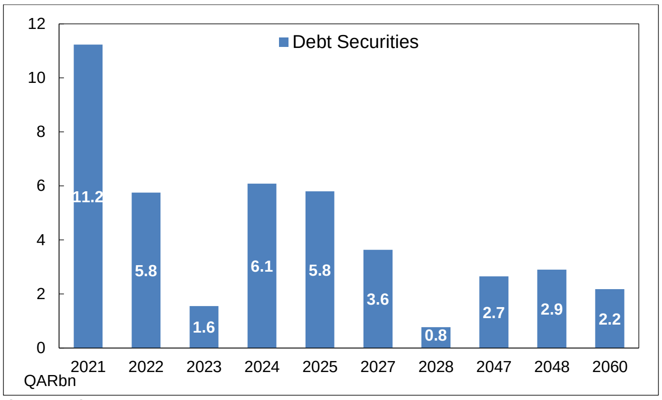
Fitch: QNB's ratings reflect the high probability of support from the Qatari authorities for domestic banks if needed. This reflects the strong ability of Qatar to support its banks, as indicated by its rating (AA-/Stable), although the size of the banking system relative to GDP is high, combined with the belief that there is strong willingness to support the banking sector and the bank. The latter is based on a record of sovereign support to the banking sector. For instance, between 2009 and 1Q11 some banks received capital injections to enhance their capital buffers and the government purchased some problem assets from the banks. In addition, during 2H17 the Qatari authorities placed significant deposits with the banks to support sector liquidity following the start of the blockade between Qatar and some of its neighbours. The government owns stakes in all Qatari banks.

Loan Book Geographic Breakdown as at FY20



Source: Company reports

Debt Maturity Profile as at FY20



Source: Company reports

This is an issuer profile and contains factual statements only. All statements are sourced from Qatar National Bank's financial reports, which can be found at *https://www.qnb.com/sites/qnb/qnbqatar/page/en/enannualreports.html*

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Additional notes for Japanese-based investors

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[Standard & Poor's]

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[Moody's]

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[Fitch]

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