IR Call Transcript (Edited Version)
QNB Group Q1 2025 Results

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PRESENTATION

Janany Vamadeva *Arqaam Capital*

Good morning, good afternoon, everyone, and thank you for joining us today.
This is Janany Vamadeva, and on behalf of Arqaam Capital, I am pleased to welcome you to Qatar National Bank's Q1 2025 Earnings Conference Call.
I have with me here today from QNB management Mr Ramzi Mari, the Group Chief Financial Officer, Ms Noor Mohamed Al Naimi, Group Treasury and Financial Institutions, and Mr Mark Abrahams, Group Treasury Trading. Without further ado, I'll now turn the call over to Mark. Over to you.

Mark Abrahams *Qatar National Bank (Q.P.S.C.) - Executive Vice President - Group Treasury)*

Thank you very much, Janany and Arqaam Capital, for hosting our call today. Before we begin this call, it is customary to remind everybody that this call is for investors and analysts only, and media should disconnect now.

We will begin by giving a brief overview of the global and regional macroeconomic backdrop. We will then present briefly the quarterly financial results of the bank. Finally, we will open the floor to questions and answers.

The global economy is set to expand moderately in 2025, growing at a similar pace as last year and within its long-term trend of around 3%. The macroeconomic environment is volatile on the back of significant increases in US policy uncertainty and existing geopolitical challenges. Central banks and advanced economies have front-loaded a significant process of monetary easing, and more is expected as policy rates are taken from restrictive territory towards neutral levels by the end of this year.

Moderate oil and gas prices continue to support fiscal and external revenues in the GCC, resulting in either twin surpluses or the execution of large investment projects. This adds to the momentum created by structural reforms. Amid commodity price pressures, non-oil GDP growth in the GCC remains favourable, mainly based upon population growth, a large pipeline of Capex projects, and robust FDI inflows.

With total exports of US $128 billion and central government revenues of US $59 billion over the last four quarters, Qatar benefits from a robust fiscal and current account position. Domestic activity has also been strong and gained further momentum, with an expansion of 2.4% in GDP and 3.4% of non-hydrocarbon GDP in 2024. This was driven by dynamic sectors such as wholesale and retail trade, accommodation and food services, and financial services.

Importantly, Qatar continues to lay the foundations for GDP growth over the medium and long term through new projects. On the hydrocarbon front, tailwinds from investments in increasing gas production will drive economic growth, with eight new LNG trains planned under the flagship North Field Expansion Project, one of the largest capital expenditure projects in the region and industrial engineering projects in the world. These investments, to be executed in three phases, are expected to increase Qatar's LNG production by 85% to 142 million tonnes per annum by 2030.

Qatar is also ramping up efforts to diversify its economy and increase private sector engagement. On the non-hydrocarbon front, the country further consolidated its position as a regional and international hub for business, investments, commerce, tourism and culture. This accelerated the execution of Qatar National Vision 2030 and assisted in the ongoing transition towards a knowledge-based economy.

The North Field Expansion Project will also include an equivalent expansion of Qatar's refining, downstream and petrochemical capacity. Positive spillovers from these projects will combine with diversification efforts and structural reforms to boost economic activity and spending in the broader manufacturing and services sectors.

GDP growth is expected to remain strong and then accelerate in the coming years, projected at 2.4% in 2025, 5.2% in 2026 and 7.9% in 2027. As a result, the economic expansion continues in Qatar, while the banking sector is resilient and healthy, presenting significant growth, ample liquidity, adequate levels of capitalisation, high asset quality and robust profitability.

I will now move on to QNB's financial results for the three months ending 31st March 2025. Key financial results were as follows.

Net profit was QAR 4.3 billion, or US $1.2 billion, a growth of 3% compared to last year. The growth in net profit was partially impacted due to global minimum taxes effective in 2025. Excluding the impact of these taxes, on a like-for-like basis, net profit is actually up 11%.

Robust revenue growth resulted in an increase in operating income to QAR 11 billion, or US $3 billion, up 6%, demonstrating QNB Group's success in maintaining growth across the full range of revenue sources. QNB's cost-to-income ratio remained strong at 22.7%, which is one of the best ratios among large financial institutions in the EMEA region.

Total assets are at QAR 1.324 trillion, or US $364 billion, up by 7% from the same period last year. Loans and advances reached QAR 947 billion, or US $260 billion, up 9%. QNB Group remained successful in attracting deposits, which resulted in an increase in customer funding by 6% from March 2024, to reach QAR 930 billion, or US $255.6 billion.

The Group's regulatory loan-to-deposit ratio remained stable at 96.5%. QNB Group's ratio of non-performing loans to gross loans reduced to 2.8%, 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 remains at 100%.

Total equity increased to QAR 114.1 billion, up by 8% from March 2024. The Bank's capital adequacy ratio, at 19.3%, is comfortably higher than both QCB and the latest Basel III reform requirements.

In relation to the QNB buyback programme, QNB has completed buyback of approximately 91.4 million shares at a cost of QAR 1.5 billion up to March 31st, 2025. The buyback execution is in progress.

We will now turn to Q&A. Thank you.

QUESTIONS AND ANSWERS

Q - Jon Pearce *UBS*

Hi. Thank you for taking the question. So my first question, please, is you gave us some guidance last quarter that because of the impact of higher global taxes, that net profit could be down 6% to 8% this year. You've started stronger than that in the first quarter already. So I just wondered whether you still thought that guidance held or whether you were a little more optimistic now.

And the second question would be, could you just remind us, please, of your NIM sensitivity, and has your view changed on potentially the number of rate cuts this year and what impact that might have on your net interest income? Thank you.

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Hi, Jon. First, in terms of guidance, at the time of Q4 call, we gave a guidance of profitability growth before taxes of 7% to 9%, and after taxes of negative 6% to negative 8%. Because of strong performance from our Turkish franchise in the top line, we are now upgrading the guidance.

Before global minimum taxes, we now expect the profitability to be up 10% to 12%. And after the impact of minimum taxes, we now expect profitability to be up 2% to 4%. So we are upgrading the profitability guidance primarily because of strong performance from our Turkish franchise on net interest income.

Our other guidance remains the same, balance sheet growth of 5% to 7%, cost of risk still 80 to 90 bps, margin of 260 to 265 basis points.

Which brings us to the next question of NIM sensitivity and how many rate cuts are baked in. We haven't changed our guidance on rate cuts. We expect two further 25 bps rate cuts to happen in potentially second half of the year. And our NIM sensitivity, as per our financial statements, is for every 100 bps decline, the model predicts that if we don't take any action, our NIMs will decline between QAR 600 million to QAR 800 million for the full year impact.

Q - Jon Peace UBS

That's great. Thank you very much.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question comes from Olga Veselova from Bank of America. Your line is now open.

Q - Olga Veselova *Bank of America*

Good day and good morning. Thank you for taking my questions. One question is on net interest margin. Your presentation suggests that margin went up in Turkey in the first quarter. However, for the group, it did go down quarter by quarter. Could you help us to understand what was domestic, so only Qatari, margin dynamics and what was driving the dynamics in the first quarter?

And my second question is on effective tax rate. I think when you were presenting the full year financials, you mentioned that expected full year effective tax rate should be in the range from 20% to 25%. It was lower in the first quarter, 18.5%. I understand there was probably impact from hyperinflation. But maybe you could update us on your outlook on full year effective tax rate.

And finally, thank you for the update on your outlook on the full year net income guidance. What exactly has changed in your outlook? It's a quite material change of the full year guidance. Thank you.

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Thank you, Olga, for the questions.

First, one by one, margin sequentially went down. It was marginally lower. And the primary reason was, in the Qatar business, it was reset of asset yields, which usually is after some time, as we've already explained. It takes about six to nine months for asset yields to reset.

And since the rate cuts happened towards end of last year, Q3-Q4, that was the reason why margin went down in Qatar, which it was more than offset by margin increase in our Turkish business. So on an overall basis, net interest income was almost similar.

Our effective tax rate, as you have rightly said, when we were predicting last year, we were talking about 22% plus. But as you are always aware, the very large number in our income statement, hyperinflationary monetary loss and hyperinflation, is not tax deductible, which significantly changes the tax rate. Now, for the full year, we expect to be close to the effective tax rate which we have for Q1, obviously impacted by, if inflation comes down more materially, it will become better, if inflation inches up, it will become worse.

On your third question of what led to the change in guidance, as I've explained, we have strong performance from our Turkish franchise. On the net interest income side, they were materially up, which led us to changing the guidance. And as we expect, the performance will continue for Turkey in future in terms of top line.

Q - Olga Veselova *Bank of America*

And these changes in Turkey, are they based on first quarter results, or you incorporate potential changes in the rest of the year, given the recent turbulence in Turkey?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

It is based on what we know as of now, including everything that has happened.

Q - Olga Veselova *Bank of America*

Fantastic. Thank you so much. Thank you.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question comes from Salome Skhirtladze. And it reads, hello, thanks for the call. Could you please reiterate your cost-of-risk guidance for 2025? Additionally, could you provide an update on growth and asset quality for Turkey and Egypt?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Our cost of risk guidance for the full Group continues to be 80 to 90 basis points. We are at around midpoint of this guidance in Q1. In terms of the Turkey asset growth, we expect the loans to grow to be around 30% to 35% in local terms.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Amazing. The next question is from Nikhil Phutane from Commercial Bank of Qatar. And the question reads, overall, it looks like the overall Turkish banking sector loans grew at a higher rate during Q1 2025 as against the finance bank loan growth. This is against what we normally see as the trend of finance bank doing better than the overall banking sector in the past. So can we know the reason behind the slowdown?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

I can't think of a very specific reason. We are about a 5% market share bank. Obviously, there will be differences in products and services, but we do not have any further details at this time.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. We have another question from Olga Veselova from Bank of America. Your line is now open. Please go ahead.

Q - Olga Veselova *Bank of America*

Thank you. If I can use this opportunity and follow up with one more question. There was a strong growth of corporate lending in the first quarter, over 4%. Can you help us understand if there were any one-offs and if you expect these one-offs to be reversed in the next quarters? Thank you.

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Olga, you are right, there was a sequential 4% growth in Q1. It was quite broad-based. We cannot think of any one-offs. But being a corporate bank, there are a lot of episodic transactions which come in, and then there are a lot of repayments also planned during the year. So we stick to our guidance. We haven't changed the balance sheet guidance, though we had very strong performance in Q1.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. We have another question from Jon Peace from UBS. Your line is now open. Please go ahead.

Q - Jon Peace UBS

Thank you, yes. Could I just ask a follow-up question, please, on the share buyback? Would you expect to complete that over the next couple of quarters at a similar pace that you've been enacting it so far? And what's your thinking on next year? I appreciate you might take the decision much later in the year. But if the share price remains at a fairly low level, would you consider another share buyback? Thank you.

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Jon, usually Q1 has higher volume, so pace picks up, but we would expect to finish in the next two to three quarters. And the decision for it will be board's decision once the execution of this current programme finishes.

Q - Jon Peace UBS

Got it. Thank you.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. As a reminder, to ask a question, it's star followed by one on your telephone keypad, or you can submit a text question via the Q&A button on your browser. Our next question is from Andy Brudenell from Ashmore. Your line is now open. Please go ahead.

Q - Andrew Brudenell *Ashmore*

Thanks very much. Yes, could I just ask, excuse me, a little bit more on costs and cost growth? Obviously, the last few years, the numbers of Opex-like percentage growth have been higher. Obviously, there's been subsidiary inflation, Egypt, Turkey.

Could you just give me a sense, please, of Opex growth? I know you give a cost-to-income ratio, but just to single out costs and where you're seeing the pressure. And maybe something on the sensitivity, you touched on what inflation may be in Turkey, how that might impact group Opex growth for the year, please. Thank you.

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Yes, Andrew. In terms of cost growth, if we look at it sequentially, the staff cost and depreciation are up 7% each, and other expenses are down 1%. Of the cost growth, almost 70% plus is still coming in from our Turkish franchise, yet the quarter-on-quarter numbers are down and Turkey is managing its expenses very well in the current situation.

But obviously, it's a hyperinflationary economy, and we cannot deny the fact. But having said it, we try to control it as much as possible, knowing what exactly are limitations of that franchise. In our core business, which is Qatar and the other international branches, the costs are quite well controlled and they are growing at very low single digits.

Q - Andrew Brudenell Ashmore

Okay. Yes, great. Thank you.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question comes from Abhinav Sinha from Lesha Bank. And it reads, the impact of tax was 325 million. So for the full year, would it be 1.3 billion?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Assuming profitability remains the same, of course. But variation between quarters and profitability is always there.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question is from Nikhil Phutane from Commercial Bank of Qatar. And it reads, can we know your deposits in euro currency exposure by the end of Q1 2025?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

We don't have currency-wise exposure of deposits, but we have the full balance sheet by currency in our annual financials, and you can have a look over there as to how much of an exposure by assets and liabilities in each currency.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question is from Salome Skhirtladze from Bloomberg, and reads, how would a rate hike in Turkey affect Group NIM?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Rate hikes on its own, of course, have a negative impact, on especially the Turkish franchise, because liabilities price much more quickly, and assets reprice late. But our expectation, and our Turkish franchise expectation, is that the rate hike which they had towards the end of March was not because of inflation as a factor, and at some point in time, this rate hike is going to reverse, probably in second half of the year.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question is from Rahul Rajan from Bank of America. And it reads, is there any update on the dividend distribution for 2025, given the upgraded net profit guidance? Will the payout ratio go up?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

There is no change in our payout ratio guidance. It continues to be 35% to 40%.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. And our next question is from Murad Ansari from GTN Middle East. And it reads, deposit growth was strong in Q1 25, mainly on demand deposit growth. Can you please give some detail on key drivers of this growth?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Like loan growth, it was quite broad-based. And if you recall, towards the end of the last year, we talked about that we were very, very selective in deposits because we wanted to be very, very efficient in costs. And some of that, some of those deposits actually came back, which resulted in slightly higher growth than normal.

I would like to just go back to the question on the dividends. As we have always talked about, if the tax impact is going to be material on the profitability, then we will basically add back the taxes to compute the payout ratio.

Host - Janany Vamadeva *Arqaam Capital*

Perfect. Thank you. As a reminder, if you wanted to ask a question, that is star followed by one on your telephone keypad, or you can submit a question online via the text box on your browser. Sorry, we have another question, reading, is there any update to the loan growth guidance for this year? Are trading profits largely driven by lira and Egyptian pound volatility? What is a fair expectation for the through-the-cycle level of contribution from the trading desk?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

Loan growth guidance, as we have stated at the start of the call, continues to be the same. Trading profits are principally driven by client transactions. Yes, there are some positions, but the growth principally comes from the client transactions. And there was not much volatility on an overall basis in TRY and EGP compared to previous quarters. Can you repeat the third question?

Host - Janany Vamadeva *Arqaam Capital*

Yes. The third question was, what is a fair expectation for the through-the-cycle level of contribution from the trading desk?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

You can take the Q1 number, and that's more representative of what's client flow transactions during the quarters, during the period

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question reads, have the management been aggressive in hyperinflation accounting for any future contingencies during Q1 2025?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

There is no aggressive or passive posture in hyperinflation accounting. It's simply a formula that needs to be followed. And that is what we have followed, as always, during this quarter as well.

Host - Janany Vamadeva *Arqaam Capital*

Thank you. Our next question is from Rahul Rajan from Bank of America. And it reads, could you please repeat your comment on adding back the higher taxes while computing the dividend payout ratio? Do you mean to say that the dividend payout ratio guidance is on profit, excluding the higher taxes?

A - Durraiz Khan *Qatar National Bank (Q.P.S.C.) - Senior Vice President, Group Financial Consolidation*

See, when we initially were contemplating about taxes, and we took this discussion last year, our view was, if our profitability is significantly impacted because of new global minimum taxes, we are going to add back the impact of taxes to the profits and then compare payout ratio. So yes, your readout is correct. But again, operative condition is, if our profitability is significantly impacted by global minimum taxes.

Host - Janany Vamadeva *Arqaam Capital*

Perfect. Thank you. As a reminder, to ask a question, it is star followed by one on your keypad, or you can submit a question via the text box on your browser. We currently have no further questions, so I'll hand back to the speaker team for closing remarks.

Mark Abrahams *Qatar National Bank (Q.P.S.C.) - Executive Vice President - Group Treasury)*

Thank you very much, indeed, everybody, for taking the time for QNB today and us sharing our Q1 results with you. We look forward to speaking to you again in three months’ time and wish everybody a very good day. Thank you.