FitchRatings

Banks
Universal Commercial Banks
Qatar

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

Update

Key Rating Drivers

Qatar National Bank (Q.P.S.C.)'s (QNB) Issuer Default Ratings (IDRs) reflect potential support from the Qatari authorities, if needed. QNB's Short-Term IDR of 'F1' is the lower of two options permitted in Fitch Ratings' criteria for an 'A+' Long-Term IDR because a significant proportion of the banking sector's funding is government-related, and financial stress at QNB is likely to come at a time when the sovereign itself is experiencing some form of stress. The Stable Outlook reflects that on the Qatari sovereign (AA/Stable).

QNB's Viability Rating (VR) reflects the bank's dominant franchise in Qatar, underpinned by close links to the Qatari government. It also balances the bank's sound asset quality, solid profitability and adequate capitalisation against risks stemming from its international presence in challenging markets and high reliance on external funding. The 'bbb+' VR is assigned above the 'bbb' implied VR due to the following adjustment reason: business profile.

Government Support Rating of 'a+': The Qatari authorities have a strong propensity to support domestic banks, irrespective of the banks' size or ownership. They also have a strong ability to do so, as indicated by the sovereign rating and substantial net foreign assets and revenue, although this is weakened by the Qatari banking sector's high reliance on external funding and its recent rapid asset growth. QNB's Government Support Rating (GSR) is one notch above the 'a' GSR for Qatari domestic systemically important banks due to its flagship status.

Stable Domestic Operating Environment: High hydrocarbon prices continue to support Qatari banks' domestic operating environment. However, QNB's material non-domestic operations (end-2023: 46% of assets) in weaker markets weigh on Fitch's view of its operating environment. QNB's 'bbb-' operating environment score is a notch lower than the standard score for domestic Qatari banks due to these operations (notably in Turkiye and Egypt).

Flagship Bank: QNB is Qatar's flagship bank. Its dominant domestic franchise (end-2023: 53% market share of assets) is underpinned by its strong links with the state, resulting in high volumes of lower-risk public-sector business. QNB is 50%-owned by the Qatar Investment Authority (QIA). International operations (2023: 24% of net profit) provide diversification benefits but expose the bank to riskier jurisdictions (mainly Turkiye and Egypt).

Sound Asset Quality: QNB's asset quality compares well with domestic peers, supported by fairly low-risk lending to Qatari government-related entities (GRE; 35% of QNB's gross loans at end-2023). QNB's loans loss allowances/gross loans ratio was a reasonable 3.9% at end-2023, and coverage of impaired loans is solid. Fitch expects QNB's Stage 3 loans ratio (3%) to be broadly stable in 2024.

Solid Profitability: QNB consistently generates solid operating profits (2023: 3.5% of risk-weighted assets; RWA) underpinned by its strong competitive advantages, including close ties to the Qatari government, and growing net interest margins. Fitch expects QNB's operating profit/RWA to be stable at about 3.5% in 2024.

Adequate Capitalisation: QNB's capitalisation is adequate (end-2023: common equity Tier 1 (CET1) ratio of 14.8%) and compares favourably with most peers. We expect QNB's capital and leverage to remain stable considering its strong ability to generate capital internally, moderate growth targets and strong ability to access capital from shareholders and the market.

External Funding Reducing, Remains High: Non-resident funding comprised an above-average 57% of QNB's total funding at a domestic level at end-2023, although this was down from 62% at end-2021. QNB's funding profile is supported by its leading regional franchise, large volumes of GRE deposits and strong access to liquidity.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Long-Term IDR (xgs)	BBB+(xgs)
Short-Term IDR (xgs)	F2(xgs)
Viability Rating	bbb+
Government Support Rating	a+
Sovereign Risk (Qatar)	
Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA
Country Ceiling	AA+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Upgrades 7 Qatari Banks on Qatar Sovereign Upgrade

Qatari Banks – Peer Review 2024 (February 2024)

Middle East Banks Outlook 2024 (December 2023)

Qatari Banks Still Have a Higher Cost of Risk Than GCC Peers (November 2023)

Qatar (May 2023)

EM100 Banks Tracker – End-1H23 (December 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign rating or a negative change in Fitch's assessment of the government's propensity to provide support would likely result in a downgrade of QNB's GSR and IDR. This is unlikely given the Stable Outlook on the sovereign.

QNB's VR is sensitive to further material expansion into weaker operating environments that undermine its risk profile and asset quality. A weakening in QNB's CET1 ratio to below 13% and tangible leverage ratio to below 6%, combined with a weaker ability to access capital from the market or the QIA, could put downward pressure on the VR. A significant increase in non-domestic funding or a material decline in liquidity buffers could lead to a VR downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

QNB's GSR and IDR could be upgraded if Fitch believes that the sovereign's ability to support the sector has strengthened, reflected by a sovereign rating upgrade, although this is unlikely given the Stable Outlook on the sovereign.

Upside to the VR is unlikely unless QNB significantly reduces its exposure to more vulnerable markets. A combination of a material and sustainable improvement in core capitalisation, asset quality and profitability, and a material reduction in external funding risks, could also put upward pressure on the VR.

Other Debt and Issuer Ratings

QNB Finance Ltd

Rating level	Rating
Senior unsecured: long term	A+
Senior unsecured: short term	F1
Senior unsecured: long term (xgs)	BBB+(xgs)
Senior unsecured: short term (xgs)	F2(xgs)

Source: Fitch Ratings

The ratings of senior debt issued by QNB's special-purpose vehicle (SPV), QNB Finance Ltd, are in line with the bank's Long- or Short-Term IDRs because Fitch views the likelihood of default on any senior unsecured obligation issued by the SPV as the same as the likelihood of a default by the bank.

QNB's Long-Term IDR (xgs) is at the level of the VR. The Short-Term IDR (xgs) is mapped to the Long-Term IDR (xgs), taking into account the funding and liquidity factor score.

Significant Changes from Last Review

Qatari Banks Upgraded on Sovereign Upgrade

Fitch upgraded all Qatari banks' Long-Term IDRs on 28 March 2024 to 'A' from 'A-' and Qatar National Bank (Q.P.S.C.)'s (QNB) to 'A+' from 'A' due to its flagship status in Qatar (see "Fitch Upgrades 7 Qatari Banks on Qatar Sovereign Upgrade"). This followed the upgrade of Qatar's sovereign rating on 20 March 2024 (see "Fitch Upgrades Qatar to 'AA'; Outlook Stable") and reflects the agency's view of the increased ability of the Qatari authorities to support the banks.

Turkiye's Hyperinflation Negative for QNB's Profitability

QNB, along with other Gulf Cooperation Council (GCC) banks with Turkish subsidiaries, adopted hyperinflation reporting in 1H22 under the accounting standard IAS 29 because cumulative inflation in Turkiye has exceeded 100% over three years.

QNB recorded a QAR3,503 million net monetary loss in 2023, equivalent to 20% of QNB's operating profit (2022: 10%). We expect net monetary losses to persist due to a stubborn Turkish inflation. Fitch expects Turkish CPI to be 40% at end-2024 and 20% at end-2025 (2023: 65%).

Neutral 2024 Sector Outlook; Still-Weak Sector Growth

Fitch expect the general business and operating environment for Qatari banks to remain broadly the same in 2024 as in 2023. Real GDP growth was 1.3% in 2023. Fitch expects it will be 1.1% in 2024, and forecasts a real non-oil GDP growth of 2% in 2024. Bank credit growth (2023: 3%; 2022: 3.3%; 2021: 7.8%) has been slowing due to large government repayments and limited demand from the public sector, given higher hydrocarbon revenues. Higher rates also slightly constrain credit demand from the private sector. We expect loan growth of 3% in 2024, supported by spending related to the North Field expansion project, but to remain below that of most other GCC countries.

Fitch expects Qatari banks' profitability metrics to remain stable in 2024 as the benefit of higher interest rates is undermined by higher funding costs than in other GCC sectors, due to lower levels of current and savings accounts and higher reliance on external funding, and strong competition. We expect the sector-average operating profit/RWAs ratio to remain about 3% in 2024.

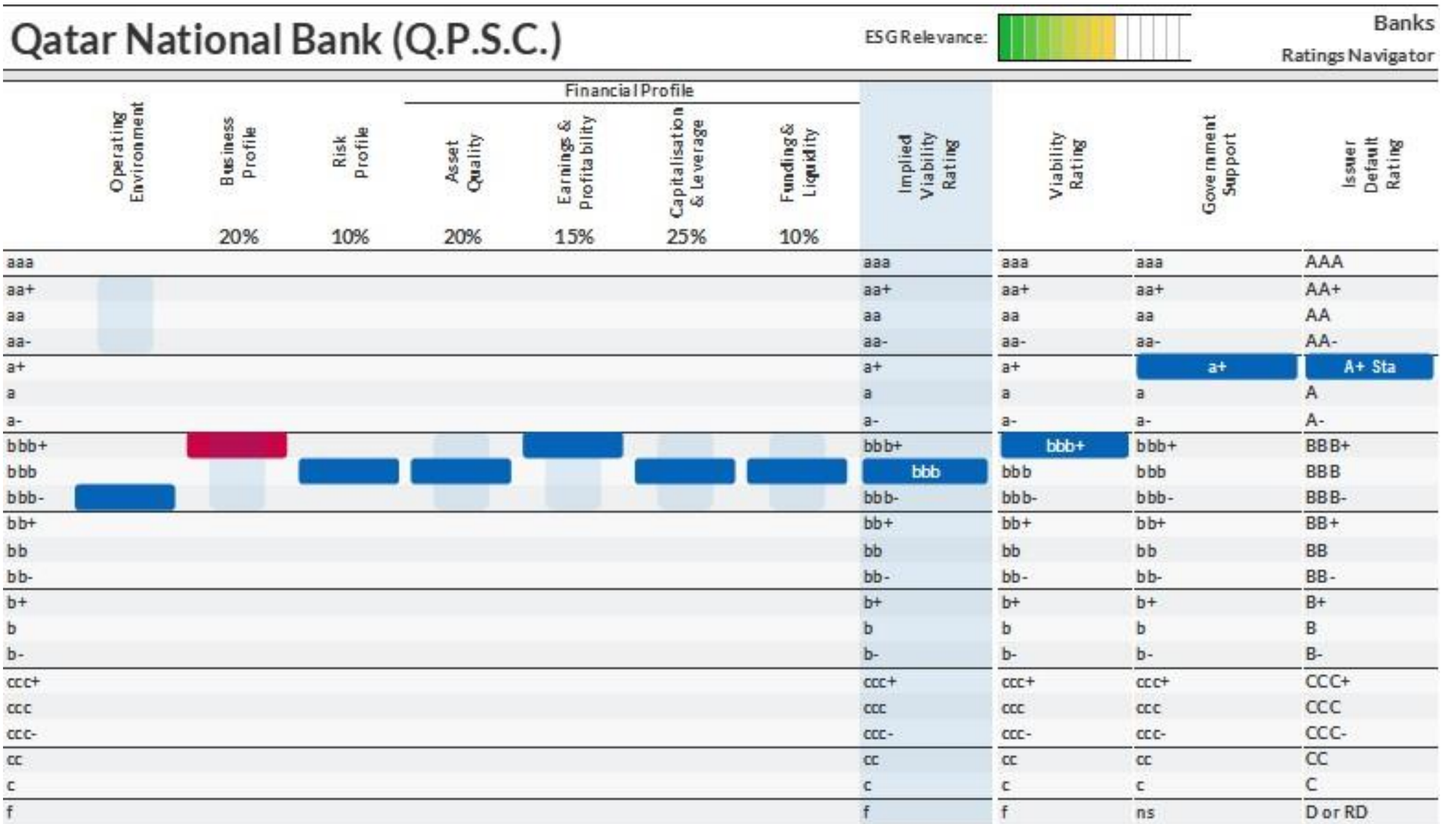
Asset-Quality Risks Contained, but Still-High Cost of Risk

Qatari banks still have a higher cost of risk than for other GCC banking sectors, despite the stable operating environment. This is exacerbated by weak credit growth due to government repayments. This is also due to Qatari banks' more conservative approach to provisioning, in anticipation of asset-quality pressures in a longer-lasting higher interest-rate environment and persisting pressures in the real estate sector. Fitch expects any asset quality deterioration and increase in banks' cost of risk to remain contained in 2024. The sector remains supported by a high coverage of problem loans at most banks.

Reduced, but Still-High, Reliance on Foreign Funding

Of all banking sectors in the GCC, Qatar's is the most dependent on non-domestic funding. The latter comprised a high 41% of sector funding at end-2023, despite falling from its end-2021 peak of 47% due to improved liquidity conditions, supported by high oil prices. As a result, the banking sector's net external debt has fallen, but is still high, at 50% of GDP at end-2023 (end-2021: 71%). This makes banks' funding vulnerable to external political and economic shocks.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'bbb-' has been assigned below the 'aa' category implied score due to the following adjustment reasons: size and structure of the economy (negative), financial market development (negative), regulatory and legal framework (negative), and international operations (negative).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months	12 months	12 months	12 months	12 months
	(USDm)	(QARm)	(QARm)	(QARm)	(QARm)
	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net interest and dividend income	8,386	30,524.4	28,919.9	23,083.3	21,043.7
Net fees and commissions	1,039	3,780.9	3,374.4	3,212.8	3,016.1
Other operating income	1,324	4,818.2	2,810.3	2,017.4	1,480.1
Total operating income	10,748	39,123.5	35,104.6	28,313.5	25,539.9
Operating costs	3,162	11,508.6	8,792.2	6,422.9	6,318.4
Pre-impairment operating profit	7,587	27,614.9	26,312.4	21,890.6	19,221.5
Loan and other impairment charges	2,652	9,653.1	9,143.9	7,224.5	6,037.2
Operating profit	4,935	17,961.8	17,168.5	14,666.1	13,184.3
Other non-operating items (net)	—	—	—	—	—
Tax	631	2,296.5	2,719.2	1,390.0	1,101.6
Net income	4,304	15,665.3	14,449.3	13,276.1	12,082.7
Other comprehensive income	-1,176	-4,280.8	-1,804.2	-4,497.6	-2,855.3
Fitch comprehensive income	3,128	11,384.5	12,645.1	8,778.5	9,227.4
Summary balance sheet					
Assets					
Gross loans	243,739	887,208.3	837,470.6	789,882.9	745,354.8
– of which impaired	7,240	26,354.5	23,680.1	18,344.6	15,811.1
Loan loss allowances	9,401	34,221.0	29,869.3	26,230.8	21,559.6
Net loans	234,337	852,987.3	807,601.3	763,652.1	723,795.2
Interbank	23,757	86,476.9	96,259.7	69,055.1	65,127.8
Derivatives	1,958	7,128.1	10,594.5	7,308.7	5,506.0
Other securities and earning assets	49,741	181,055.7	167,815.3	150,288.3	130,448.3
Total earning assets	309,793	1,127,648.0	1,082,270.8	990,304.2	924,877.3
Cash and due from banks	24,126	87,820.4	91,563.9	88,551.3	81,551.0
Other assets	4,263	15,516.6	15,384.3	14,182.1	18,586.8
Total assets	338,183	1,230,985.0	1,189,219.0	1,093,037.6	1,025,015.1
Liabilities					
Customer deposits	235,469	857,106.3	842,278.7	785,511.5	738,737.6
Interbank and other short-term funding	43,130	156,991.4	142,814.7	111,441.5	87,953.7
Other long-term funding	18,046	65,689.0	60,746.0	66,227.1	70,475.0
Trading liabilities and derivatives	1,509	5,492.1	6,055.1	5,630.9	5,858.2
Total funding and derivatives	298,154	1,085,278.8	1,051,894.5	968,811.0	903,024.5
Other liabilities	9,753	35,499.1	31,267.7	24,170.0	25,088.9
Preference shares and hybrid capital	5,495	20,000.0	20,000.0	20,000.0	20,000.0
Total equity	24,782	90,207.1	86,056.8	80,056.6	76,901.7
Total liabilities and equity	338,183	1,230,985.0	1,189,219.0	1,093,037.6	1,025,015.1
Exchange rate		USD1 = QAR3.64	USD1 = QAR3.64	USD1 = QAR3.64	USD1 = QAR3.64

Source: Fitch Ratings, Fitch Solutions, QNB

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.5	3.3	2.9	2.7
Net interest income/average earning assets	2.8	2.8	2.4	2.4
Non-interest expense/gross revenue	29.9	25.4	23.0	24.9
Net income/average equity	18.2	17.5	17.0	16.5
Asset quality				
Impaired loans ratio	3.0	2.8	2.3	2.1
Growth in gross loans	5.9	6.0	6.0	7.2
Loan loss allowances/impaired loans	129.9	126.1	143.0	136.4
Loan impairment charges/average gross loans	1.0	1.1	0.9	0.8
Capitalisation				
Common equity Tier 1 ratio	14.8	14.6	14.2	14.0
Fully loaded common equity Tier 1 ratio	—	—	—	—
Fitch Core Capital ratio	—	—	—	—
Tangible common equity/tangible assets	7.1	7.0	7.0	7.1
Basel leverage ratio	—	—	—	—
Net impaired loans/common equity Tier 1	-9.5	-7.6	-10.4	-7.8
Net impaired loans/Fitch Core Capital	—	—	—	—
Funding and liquidity				
Gross loans/customer deposits	103.5	99.4	100.6	100.9
Gross loans/customer deposits + covered bonds	—	—	—	—
Liquidity coverage ratio	206.0	104.0	147.0	164.0
Customer deposits/total non-equity funding	77.9	79.0	79.9	80.6
Net stable funding ratio	105.0	103.8	104.0	104.0

Source: Fitch Ratings, Fitch Solutions, QNB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	a+
Government ability to support D-SIBs	
Sovereign Rating	AA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Positive
Government propensity to support bank	
Systemic importance	Positive
Liability structure	Neutral
Ownership	Positive

The colours indicate the weighting of each KRD in the assessment.
Higher influence · Moderate influence · Lower influence

Fitch considers the Qatari authorities as having a strong propensity to support all domestic banks regardless of their size or ownership, based on past support. For example, the authorities placed significant deposits with the banks to support sector liquidity in 2H17 following the start of the blockade between Qatar and some of its neighbours; and, between 2009 and 2011, some banks received capital injections to enhance their capital buffers, and the government purchased some problem assets from the banks. The government owns stakes in all Qatari banks.

Qatar has a strong ability to support domestic banks, as reflected in its 'AA'/Stable rating, and substantial net foreign assets (end-2023: equivalent to 176% of GDP) and revenue. The sector's non-resident funding accounted for a still-high 41% of the banking sector's funding at end-2023 and the sector's net external funding was a substantial 50% of GDP at end-2023. Total banking system assets accounted for a high 254% of GDP at end-2023.

The 'a' GSR for Qatari D-SIBs is three notches below the sovereign 'AA' Long-Term IDR. QNB's 'a+' GSR is one notch higher than all other Qatari banks' GSRs. This reflects its flagship status, role in the Qatari banking sector and close links with the state.

Environmental, Social and Governance Considerations

FitchRatings **Qatar National Bank (Q.P.S.C.)** Banks Ratings Navigator

Credit-Relevant ESG Derivation

Qatar National Bank (Q.P.S.C.) has 5 ESG potential rating drivers

- Qatar National Bank (Q.P.S.C.) has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

Overall ESG Scale

key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3'means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.