

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

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' rating 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.

QNB's 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+' Viability Rating (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 their size or ownership. They also have a strong ability to do so, as indicated in the sovereign rating (AA-/Stable) and substantial net foreign assets and revenue, albeit weakened by the Qatari banking sector's high reliance on external funding and recent rapid asset growth. QNB's Government Support Rating (GSR) is one notch above the 'a-' GSR for Qatari domestic systemically important banks (D-SIB) given its flagship status.

Stronger Domestic Operating Environment: High hydrocarbon prices help strengthen the local operating environment for Qatari banks. The 2022 FIFA World Cup and higher private-sector demand from improving business sentiment also underpin this trend. However, QNB's material non-domestic operations (end-1H22: 31% of total assets) in weaker markets weigh on Fitch's assessment of its operating environment.

Flagship Bank: QNB is Qatar's flagship bank. Its dominant domestic franchise (end-1H22: 51% 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 (end-1H22: 21% 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 relatively low-risk lending to Qatari government-related entities (GRE), which comprised 36% of QNB's total loans at end-1H22. QNB's Stage 3 loans ratio has gradually increased since the start of the pandemic (end-1H22: 2.4%; end-2019: 1.9%). This could continue given the heightened asset-quality risks in Turkiye and lingering real-estate pressures in Qatar. Total reserves coverage of impaired loans increased to 1.5x at end-1H22 (end-2019: 1.3x).

Solid Profitability: QNB consistently generates solid operating profits (1H22: 3.6% of risk-weighted assets; 2021: 2.9%) underpinned by its strong competitive advantages, including close ties to the Qatari government. Growing net interest margins and excellent cost-efficiency supported a strong rebound in profitability in 1H22. Loan impairment charges (31% of pre-impairment operating profit in 1H22) remain higher than pre-pandemic levels (2019: 17%), partly reflecting operating environment uncertainties.

Adequate Capitalisation: QNB's capitalisation is adequate (end-1H22: common equity Tier 1 (CET1) ratio of 13.7%) and compares favourably to 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.

High External Funding: Non-resident funding comprised an above-average 58% of QNB's total funding at a domestic level at end-1H22 (end-2021: 62%). 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

Viability Rating	bbb+
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Government Support Rating	a
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Sovereign Risk (Qatar)

Long-Term Foreign-Currency IDR	AA-
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Long-Term Local-Currency IDR	AA-
Country Ceiling	AA

Outlooks

Long-Term Foreign-Currency IDR	Stable
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Sovereign Long-Term Foreign-Currency IDR	Stable
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Sovereign Long-Term Local-Currency IDR	Stable
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Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

[Fitch Affirms Qatar National Bank at 'A'; Stable Outlook \(September 2022\)](#)

[GCC Banks' Exposure to Turkiye Increasingly Credit-Negative \(August 2022\)](#)

[Fitch Ratings Initiates EM100 Banks Tracker Report Series \(July 2022\)](#)

[Qatar \(May 2022\)](#)

[Fitch Downgrades Qatari Banks; Stable Outlook \(April 2022\)](#)

[Fitch Affirms Qatar at 'AA-'; Outlook Stable \(April 2022\)](#)

[Qatari Banks Face Risks from Increasing External Funding \(November 2021\)](#)

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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.

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 views that the sovereign's ability to support the sector has strengthened, either through a sovereign rating upgrade or through a substantial reduction in external funding and system assets relative to GDP.

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

Debt Rating Classes

QNB Finance Ltd		
Rating level	Rating	Rating Watch
Senior Unsecured: Long-Term	A	n.a.
Senior Unsecured: Short-Term	F1	n.a.

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.

Significant Changes from Last Review

Turkiye's Hyperinflation Negative for QNB's Profitability

QNB, along with other 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. IAS 29 requires the banks to restate non-monetary assets and liabilities to reflect the impact of hyperinflation, leading to net monetary losses in their income statements.

QNB recorded a QAR744 million net monetary loss in 1H22, equivalent to 8.3% of QNB's operating profit in 1H22. The losses would have been even higher without gains on CPI-linked bonds. We expect further net monetary losses in 2H22-2023, gradually declining as Turkish inflation eases slowly. Fitch expects Turkish CPI to average 75% in 2022 and 55% in 2023 (August 2022: 80%).


Qatari Banks' IDRs and Typical D-SIB GSR Downgraded

Fitch downgraded all Qatari banks' IDRs on 19 April 2022 and the typical D-SIB GSR to 'a-' from 'a'. The rating action reflects the Qatari banking sector's increased reliance on external funding and recent rapid asset growth, which Fitch believes has weakened the sovereign's ability to provide support to the system, in case of need. Fitch does not believe that higher oil prices will substantially benefit these metrics over the rating horizon.

Stabilised Asset Quality

The impact of the pandemic on the Qatari banks' asset quality and overall financial profiles has been contained due to the government's fiscal and monetary response. The sector's asset-quality metrics have largely stabilised and remain healthy (end-1H22: average Stage 3 loans ratio of 2.8%) despite the ending of the Qatar Central Bank's (QCB) credit deferrals since end-1Q22. The stronger operating environment with higher oil prices will continue to support asset quality for Qatari banks.

Ratings Navigator

Qatar National Bank (Q.P.S.C.) ESG Relevance: 

	Operating Environment	Business Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Risk Profile	Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%			
aaa										AAA
aa+										AA+
aa										AA
aa-										AA-
a+										A+
a									a	A Sta
a-									a-	A-
bbb+									bbb+	BBB+
bbb									bbb	BBB
bbb-									bbb-	BBB-
bb+									bb+	BB+
bb									bb	BB
bb-									bb-	BB-
b+									b+	B+
b									b	B
b-									b-	B-
ccc+									ccc+	CCC+
ccc									ccc	CCC
ccc-									ccc-	CCC-
cc									cc	CC
c									c	C
f									f	D or RD

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).

Company Summary and Key Qualitative Factors

Operating Environment

Higher Hydrocarbon Prices Boost Economic Recovery

The recovery of the Qatari banks' operating environment is strengthening, supported by higher hydrocarbon prices (similar to other GCC economies), rebounding economic activity after the pandemic, and the 2022 FIFA World Cup – although the positive effects from the latter will likely not extend beyond 2022. The sector's credit growth was healthy at 7.8% in 2021 (2020: 8.6%) as demand from the private sector picked up amid a recovering economic environment, although it was mostly flat in 1H22 (0.8% annualised), partly due to cutbacks in government capex and a lower need for government financing given higher hydrocarbon revenues.

Fitch forecasts real GDP growth to strengthen to 3.2% in 2022 (2021: 1.5%), mostly supported by high hydrocarbon prices and the North Field LNG expansion project, a key growth factor. Fitch then expects it will reduce to 0.2% in 2023 due to flattening hydrocarbon production and to a higher base in 2022. The opening-up of the economy and the removal of the blockade on Qatar since January 2021 have helped reduce pressures on tourism, commercial real estate and hospitality, which were among the most affected sectors. Purchasing Managers' Index (PMI) data show a strong improvement in Qatar's non-energy private sector's business conditions in 2022, supported by a rebound in demand, higher employment, and an increase in new supply orders. The PMI rose to an all-time high of 67.5 points in June 2022 (end-2021: 61.4; end-2020: 51.8; end-2019: 49.4).

Significant Portion of Assets in Foreign Markets

Given QNB's geographical diversification, with international operations representing 31% of its total assets at end-1H22, Fitch applies a weighted average approach for the bank's operating environment score. Based on the bank's geographical distribution of assets at end-1H22, the weighted average score is one notch below the operating environment score of domestically focused Qatari banks.

Business Profile

QNB was established in 1964 as the country's first Qatari-owned commercial bank. It has exceptionally high systemic importance in Qatar as the largest bank, with dominant market shares (end-1H22: 52% of sector loans and 48% of deposits). QNB is also the largest bank in the Middle East and Africa, with total assets over USD300 billion at end-1H22.

QNB's shareholding structure has remained stable since its incorporation. The bank is 50% owned by the government through the QIA (the sovereign wealth fund), which participated in rights issues in 2008 and 2011. The bank's board of directors is typically equally split between the QIA and private-sector representatives. Four board members are independent.

QNB is correlated with Qatar's 2030 National Vision plan and international strategy. The bank benefits from strong ties to the government and receives the largest share of government business and flow of funds among Qatari banks.

Balance Sheet (End-Jun 22)



Performance Through the Cycle



Risk Profile

Low-Risk Qatari Underwriting

QNB's underwriting standards in Qatar (end-1H22: 79% of total loans) are low-risk and compare well with peers', supported by high GRE lending (36%) and moderate exposure to the real estate and contracting sectors (a combined 10%, in line with the bank's internal limit). The latter are mainly related to the domestic market, government-related

projects and tier 1 contractors. In retail lending (end-1H22: 8% of total loans), the bank is focused domestically on high-quality government employees against salary assignments.

QNB has high loan book concentration by single obligors, with the 20-largest loans representing 3x equity at end-2021. However, 71% of these exposures are to GREs and fully covered by sovereign guarantees and real estate or cash collateral, mitigating risks.

International Network Raises Risk Profile

QNB is the most geographically diversified Qatari bank, with subsidiaries and associates in 30 countries across three continents. This helps diversify its business model, which is otherwise constrained by the relatively small and concentrated Qatari economy. However, it also adds exposure to volatile jurisdictions.

The contribution from international operations is material (end-1H22: 22% of loans, 42% of deposits and 21% of net profit) but concentration to higher-risk markets such as Turkiye (QNB Finansbank; end-1H22: 10% of total assets) and Egypt (QNB Al Ahli; 7%) are decreasing due to Turkish lira and Egyptian pound depreciation. The bank’s main other foreign operations are in Indonesia, Tunisia, Syria, Switzerland, Iraq, Jordan, Togo, and the UAE.

Risk limits and reporting tools are good and closely monitored. QNB has implemented an enhanced governance and oversight framework for subsidiaries and branches. However, we believe loan underwriting standards at most foreign operations cannot be of the same quality as in Qatar. In Egypt and Turkiye, large exposures to the high-risk SME segment, along with high foreign-currency (FC) lending in Turkiye, and amid challenging operating conditions, have raised credit risks. This is offset by QNB’s prudent provisioning.

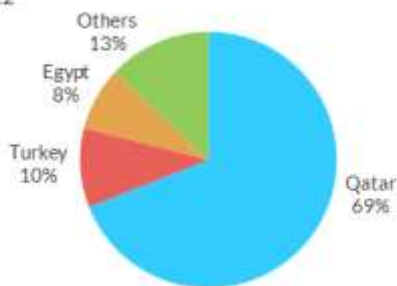
QNB is highly exposed to currency risks from its investments in Egypt and Turkiye. QNB reported FC translation losses of QAR3.6 billion in 1H22 (4% of equity) due to the depreciation of the Turkish lira and, to a lesser extent, the Egyptian pound. These losses were offset by fair-value gains (QAR1.4 billion) and the positive impact of hyperinflation (QAR3 billion) through other comprehensive income.

Revaluation on securities held at fair value through other comprehensive income are limited given the small size and good quality of the portfolio. Total securities (end-1H22: 13% of assets) mainly comprised debt from sovereigns (63% of securities; split 40% Qatar, 30% Egypt, 18% Turkiye and 12% others) and Qatari investment-grade corporates and financial institutions (30%).

The bank’s FC assets were well matched at end-2021, and US dollar exposures are mitigated by the Qatari riyal’s long-standing peg to the dollar. QNB ran a positive interest rate gap in the ‘less than three months’ bucket at end-2021, which supports its net interest margin in the current rising rate environment.

Assets Breakdown

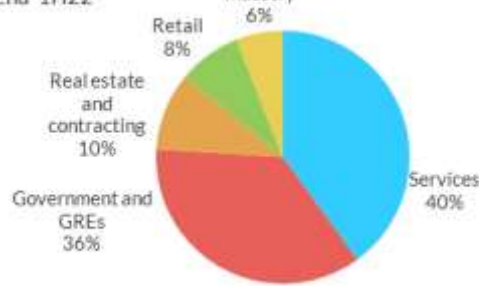
End-1H22



Source: Fitch Ratings, QNB

Loan Book Breakdown

End-1H22



Source: Fitch Ratings, QNB

Financial Profile

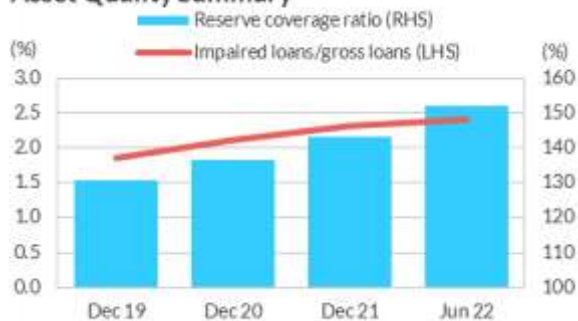
Asset Quality

QNB's asset quality compares well with peers' and is supported by its concentration in low-risk lending to Qatari GREs, including most of its largest exposures. These entities are liquid with relatively high credit quality and have a record of zero defaults.

The Stage 3 loans ratio increased to a still-low 2.4% at end-1H22 (end-2020: 2.1%) and could undergo continued, but limited, deterioration due to residual pressure in the bank's real estate (including limited exposure to hospitality) and contracting book and rising risks from its exposure in weaker operating environments, particularly Turkiye. Stage 2 loans accounted for 6.8% of gross loans at end-1H22 (end-2020: 5.8%) and were largely concentrated in real estate and contracting.

The bank's strategy to fully cover Stage 3 loans (specific coverage of 123% at end-1H22) also underpins our asset-quality assessment.

Asset Quality Summary



Source: Fitch Ratings, QNB

Profitability Summary



Source: Fitch Ratings, QNB

Earnings and Profitability

QNB ranks among the strongest and most consistent banks in Qatar across all profitability metrics, supported by its flagship status, long-term strategy and stable management. QNB's operating returns on RWA of 3.6% in 1H22 (3.1% over 2018–2021) is the highest in the sector and benefits from QNB's relatively low RWA density (end-1H22: 45%). The ratio in 1H22 excludes the non-operating hyperinflation loss.

QNB recorded net income growth of 4% in 1H22 (or 15% before the impact of hyperinflation) driven by 19% operating income growth following the positive impact on the net interest margin (1H22: 2.7%) from rising interest rates generally. Solid revenue growth drove the cost/income ratio down to a low 21% in 1H22 (2021: 23%). The bank's cost of risk (1H22: 100bp; 2019: 48bp) will remain above pre-pandemic levels in 2023.

Capital and Leverage

QNB's CET1 ratio of 13.7% at end-1H22 (end-2021: 14.2%) is reasonable considering its 11% regulatory minimum, including a 2.5% D-SIB add-on. The total capital adequacy ratio was 18.9% at end-1H22 (end-2021: 19.3%), against a 16% total regulatory requirement, supported by additional Tier 1 notes (end-1H22: 21% of total eligible capital).

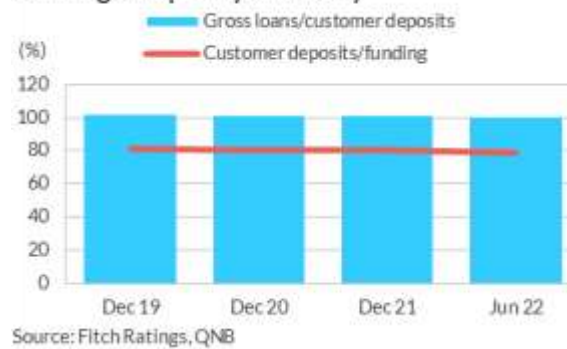
However, capitalisation remains sensitive to potential FC translation and fair-value losses and should be viewed in light of high borrower concentration, although the latter is of strong credit quality given the high proportion of government lending and sovereign guarantees.

QNB's tangible leverage ratio (7% at end-1H22) is lower than at domestic and GCC peers; unlike regulatory capital ratios, it does not benefit from the 0% risk weight on large government lending and sovereign securities.

Capitalisation & Leverage Summary



Funding & Liquidity Summary



Funding and Liquidity

QNB is primarily funded by customer deposits (end-1H22: 79% of total funding). The gross loans/deposits ratio is stable (end-1H22: 100%) and below most domestic peers'. The bank has diversified its funding profile by tenor, geographies and sources in recent years.

QNB's funding profile is supported by a strong domestic franchise, large volumes of government and GRE deposits (end-1H22: 27% of total deposits), and good access to capital markets, including during challenging market conditions.

Qatari deposits were a stable 55% of QNB's total deposits at end-1H22 (end-2021: 55%). Non-resident deposits were a lower 31% of these (i.e. 17% of total deposits) at end-1H22, down from 41% (23%) at end-2021. Higher levels of liquidity in the local market given current hydrocarbon prices have supported domestic deposit growth and, in turn, lessened QNB's reliance on non-resident deposits. However, remaining non-resident deposits are much shorter-term, with 33% of these deposits maturing within six months at end-1H22 (end-2021: 10%) and a further 24% maturing within a year (end-2021: 4%). Non-resident deposits are geographically diversified across Asia, Europe, the GCC, North America and North Africa.

Non-Qatari deposits (45% of total deposits on a consolidated basis at end-1H22) are raised through Turkiye (7%), Egypt (7%) and the bank's remaining international network (mainly in Europe). Corporate deposits accounted for the majority (57%) of total deposits.

Reliance on non-resident deposits and on wholesale funding increases the bank's exposure to investor sentiment. Market funding (end-1H22: 21% of total funding) comprises various debt securities issued in the international debt capital markets.

QNB's liquidity is adequate (liquidity coverage ratio: 147% at end-2021), underpinned by ordinary support from the Qatari authorities, if required.

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(QARm)	(QARm)	(QARm)	(QARm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	3,645	13,266.0	23,083.3	21,043.7	20,255.9
Net fees and commissions	471	1,715.4	3,212.8	3,016.1	3,713.0
Other operating income	368	1,340.7	2,017.4	1,480.1	1,667.4
Total operating income	4,484	16,322.1	28,313.5	25,539.9	25,636.3
Operating costs	921	3,352.5	6,422.9	6,318.4	6,703.4
Pre-impairment operating profit	3,563	12,969.6	21,890.6	19,221.5	18,932.9
Loan and other impairment charges	1,113	4,050.6	7,224.5	6,037.2	3,289.8
Operating profit	2,450	8,919.0	14,666.1	13,184.3	15,643.1
Other non-operating items (net)	-204	-743.8	n.a.	n.a.	n.a.
Tax	303	1,104.6	1,390.0	1,101.6	1,182.3
Net income	1,942	7,070.6	13,276.1	12,082.7	14,460.8
Other comprehensive income	214	779.1	-4,497.6	-2,855.3	-973.5
Fitch comprehensive income	2,157	7,849.7	8,778.5	9,227.4	13,487.3
Summary balance sheet					
Assets					
Gross loans	218,476	795,252.5	789,882.9	745,354.8	695,458.0
- Of which impaired	5,266	19,168.9	18,344.6	15,811.1	12,839.1
Loan loss allowances	8,000	29,121.1	26,230.8	21,559.6	16,776.2
Net loans	210,476	766,131.4	763,652.1	723,795.2	678,681.8
Interbank	25,246	91,896.1	69,055.1	65,127.8	79,316.3
Derivatives	1,592	5,795.8	7,308.7	5,506.0	5,345.9
Other securities and earning assets	41,542	151,211.4	150,288.3	130,448.3	103,015.8
Total earning assets	278,856	1,015,034.7	990,304.2	924,877.3	866,359.8
Cash and due from banks	25,344	92,253.9	88,551.3	81,551.0	62,155.2
Other assets	4,674	17,012.1	14,182.1	18,586.8	16,182.7
Total assets	308,874	1,124,300.7	1,093,037.6	1,025,015.1	944,697.7
Liabilities					
Customer deposits	218,352	794,800.3	785,511.5	738,737.6	684,488.9
Interbank and other short-term funding	37,022	134,759.8	111,441.5	87,953.7	78,383.9
Other long-term funding	16,635	60,550.2	66,227.1	70,475.0	59,044.9
Trading liabilities and derivatives	788	2,869.5	5,630.9	5,858.2	4,711.9
Total funding and derivatives	272,797	992,979.8	968,811.0	903,024.5	826,629.6
Other liabilities	7,884	28,696.8	24,170.0	25,088.9	23,348.9
Preference shares and hybrid capital	5,495	20,000.0	20,000.0	20,000.0	20,000.0
Total equity	22,699	82,624.1	80,056.6	76,901.7	74,719.2
Total liabilities and equity	308,874	1,124,300.7	1,093,037.6	1,025,015.1	944,697.7
Exchange rate		USD1 = QAR3.64	USD1 = QAR3.64	USD1 = QAR3.64	USD1 = QAR3.64

Source: Fitch Ratings. Fitch Solutions, QNB

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.6	2.9	2.7	3.3
Net interest income/average earning assets	2.7	2.4	2.4	2.5
Non-interest expense/gross revenue	21.0	23.0	24.9	26.6
Net income/average equity	17.8	17.0	16.5	20.7
Asset quality				
Impaired loans ratio	2.4	2.3	2.1	1.9
Growth in gross loans	0.7	6.0	7.2	9.8
Loan loss allowances/impaired loans	151.9	143.0	136.4	130.7
Loan impairment charges/average gross loans	1.0	0.9	0.8	0.5
Capitalisation				
Common equity Tier 1 ratio	13.7	14.2	14.0	13.7
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	7.0	7.0	7.1	7.5
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	-14.5	-10.4	-7.8	-5.6
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
Funding and liquidity				
Gross loans/customer deposits	100.1	100.6	100.9	101.6
Liquidity coverage ratio	n.a.	147.0	164.0	160.0
Customer deposits/total non-equity funding	78.7	79.9	80.6	81.3
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

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 have 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-2021: equivalent to 198% of GDP) and revenue. Nevertheless, non-resident funding reached 47% of the Qatari banking sector's liabilities at end-2021 (up from 38% at end-2018), while the banks' foreign assets were moderately increasing. As a result, the banking sector's net external debt increased to a substantial 71% of 2021 GDP (31% at end-2018). Total system assets also increased, to 282% of GDP at end-2021 (end-2018: 212%).

Therefore, notwithstanding the substantial resources at the sovereign's disposal, the authorities' ability to support the banking sector if needed has weakened and the 'a-' D-SIB GSR is at the lower end of the typical range for D-SIB GSRs in jurisdictions where the sovereign is rated 'AA-'.

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 business links with the state.

Environmental, Social and Governance Considerations

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.

	key driver	0	issues	5	Overall ESG Score
	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

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.

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 position, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

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.

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	1	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

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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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