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Qatar National Bank – Ratings Affirmed with a Stable Outlook

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has affirmed the Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of Qatar National Bank (QNB) at ‘AA’ and ‘A1+’, respectively. At the same time, CI Ratings has affirmed QNB’s Bank Standalone Rating (BSR) of ‘a-’, Core Financial Strength (CFS) rating of ‘a-’, and Extraordinary Support Level (ESL) of Very High. The Outlook for all ratings remains Stable.

The Bank’s LT FCR is set four notches above the BSR to reflect the very high likelihood of extraordinary support from the government in case of need. This is based on the government’s strong track record of support for Qatari banks in general and for QNB in particular. At different points in time such support has included the transfer of ‘difficult investments’ to the state, the transfer of real estate loans, and the injection of additional equity. The government’s financial capacity to support the Bank is also considered to be very strong given Qatar’s sovereign ratings (‘AA’/‘A1+’/Stable). In addition, given QNB’s position as the largest bank in the system with approximately half of sector assets and with the government as major shareholder, and its ‘national bank’ status, the probability of government support in the event of need is very high.

QNB’s BSR is based on a CFS rating of ‘a-’ and an Operating Environment Risk Anchor (OPERA) of ‘bbb’. The OPERA reflects Qatar’s very strong external balances, including very high current account surpluses as well as strong foreign exchange reserves and significantly declining external debt. It also takes into account the substantial volume of state assets under Qatar Investment Authority (QIA) management and Qatar’s very large hydrocarbon reserves. The CFS is supported by QNB’s very strong domestic banking franchise in the government and corporate segments, still good asset quality with robust credit loss absorption capacity, solid and resilient profitability and strong capitalisation. These strengths are counterbalanced to some degree by the limited size of the Qatari banking market; this restricts scope for domestic asset growth given the Bank’s already dominant position, as well as giving rise to some loan concentrations. Other credit challenges include a significant reliance on foreign sources of both capital markets and deposit funding at the parent level and the sub-investment grade country risk and foreign exchange exposure arising from key overseas operations – although the latter are self-funding with the FX risk limited to the OCI impact of FX movements on the capital invested by the parent. QNB’s asset quality is still considered to be good overall; Stage 2 exposures are low while the quality of the securities portfolio is very good. Credit loss absorption capacity remains strong.

QNB’s profitability is solid and earnings quality is good, with the Bank posting consistent results. Profitability is a little below the sector average, supported by its broadly stable net interest margins, while the Bank has continued to be able to post efficiency gains. The cost-to-income ratio had been on a declining trend but there was a small uptick to a still good 23.2% in 2024.

The Bank has a good liquidity and funding profile, supported by a stable and diversified customer deposit base. There however remains a significant dependence on foreign-source funding at the parent level, albeit that this is mostly in the form of medium-term money from debt capital markets. Funding and liquidity metrics have been stable and consistent in recent periods. Liquidity risk is considered low due to diversification of funding by provider, geography, instrument, and by the ability to turn to the government in extremis. All foreign subsidiaries are self-funding.

QNB is well capitalised with strong CAR and Tier 1 capital ratios, despite the start of a capital buy-back programme. The record of internal capital generation has been good as is the current level of balance sheet leverage. With still good asset quality and satisfactory loan loss reserve coverage, capital is unlikely to be impaired by unprovided NPLs in the future. One change that will take place this year is the application of the OECD minimum 15% corporate tax rate. As detailed regulations have yet to be published in Qatar, the effect could be to lower the rates of internal capital generation.

Rating Outlook

The Outlook for the LT FCR and BSR is Stable. This indicates that CI does not consider a change in either rating likely in the next 12 months. Similarly, there are currently no factors present that make a movement in either Outlook likely in the short to medium term.

Rating Dynamics: Upside Scenario

An upgrade over the next 12 months appears remote at this stage since this would require an upgrade of the sovereign ratings or outlook – something that is unlikely given its current very high level.

Rating Dynamics: Downside Scenario

A downgrade of the Bank's LT FCR would require a significant deterioration of its standalone strength or a downgrade of the sovereign. Given that the ratings for QNB are so closely tied to those of the sovereign, the most likely downside risk for QNB's LT FCR is related to potential downward changes in the ratings or outlook assigned to the sovereign. A lowering of the Bank's BSR appears unlikely in the short term, as this would require an unexpected and very significant weakening of key financial metrics.

Ratings

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
AA	A1+	Stable	a-	Stable	a-	Very High	bbb

Contact

Primary Analyst: Rory Keelan, Senior Credit Analyst; E-mail: rory.keelan@ciratings.com
Secondary Analyst: Darren Stubing, Senior Credit Analyst, E-mail: darren.stubing@ciratings.com
Committee Chairperson: Morris Helal, Senior Credit Analyst

About the Ratings

The credit ratings have been issued by Capital Intelligence Ratings Ltd, P.O. Box 53585, Limassol 3303, Cyprus.

The following information sources were used to prepare the credit ratings: public information and information provided by the rated entity. Financial data and metrics have been derived by CI from the rated entity's financial statements for FY2020-24. CI may also have relied upon non-public financial information provided by the rated entity and may also have used financial information from credible, independent third-party data providers.

CI considers the quality of information available on the rated entity to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The principal methodology used to determine the ratings is the Bank Rating Methodology, dated 3 April 2019 (see www.ciratings.com/page/rating-methodologies/bank-ratings). Information on rating scales and definitions, the time horizon of rating outlooks, and the definition of default can be found at www.ciratings.com/page/our-policies-procedures. CI's policy on unsolicited ratings including an explanation of the colour coding of credit rating symbols can be found at the same location. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

This rating action follows an ad hoc review of the rated entity. Ratings on the entity were first released in October 1986. The ratings were last updated in April 2024. The ratings and rating outlook were disclosed to the rated entity prior to publication and were not amended following that disclosure. The ratings have been assigned or maintained at the request of the rated entity or a related third party.

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