Dukhan Bank – Q4-22 Earnings Call Transcripts

Date: 16 March 2023
Time: 13:30 Doha Time

Executives from Dukhan Bank:
1. Ahmed Hashem - Acting Group Chief Executive Officer
2. Osama Abu Baker - Group Chief Financial Officer
3. Zohaib Ahmed - Head of Reporting & Budgeting and IRO

Operator:	Hello, and welcome to Dukhan Bank Conference Call. I would like to advise all participants that this call is being recorded. I would now like to welcome Shahan. Shahan, over to you.
Shahan Keushgerian [QNBFS]:	Thank you. Hello, everyone. I want to welcome you to Dukhan Bank's Fourth Quarter and Fiscal Year 2022 Financial Results Conference Call. So, on this call from the Bank's management, we have Ahmed Hashem, Acting Group CEO, Osama Abu Baker, Group CFO, Zohaib Ahmed, Head of Reporting & Budgeting and IRO. So as usual, we will conduct this conference with first management reviewing the company's results followed by Q&A. I will now turn the call over to Ahmed. Please go ahead, sir.
Ahmed Hashem [Dukhan Bank]:	Thank you so much. As-salamu alaykum, everyone, and good afternoon. And welcome to all of you to our first investor call. I'm Ahmed Hashem, the Acting Group CEO of Dukhan Bank, and I'm accompanied here by my colleagues, Osama Abu Baker, Group CFO, and Zohaib Ahmed, Head of Reporting & Budgeting and IRO. We're so excited today to share our story with you and to take your questions and answers towards the end of this call. Let me start and quickly touch on the macroenvironment followed by the 2022 results highlights and later my team will share the details with you. As you all know, 2022 was a historic year for Qatar as it successfully hosted the FIFA World Cup finals. Some of you have already come here and witnessed the event. Almost each and everyone have praised the hospitality, the culture, and the event management abilities of the State. In our view, this event would definitely develop the tourism sector in the State, and we already are witnessing a strong tourist influx, post-World Cup as well. Now, Qatar's economy remained resilient and continued to prosper in 2022, with better-than-expected GDP growth and having a budget surplus. The liquidity in the system is strong because of improved physical position and higher hydrocarbon revenues with oil prices stabilizing above $70. We're optimistic about 2023, as Qatar is working on a couple of mega projects including the North Field expansion, which is around $29 billion, and the Ras Laffan petrochemical project around $6 billion. This would help the economy to grow during the years to come. The demand for LNG is also expected to stay strong

	due to the opening up of markets post, of course, COVID and considering its moderate level impact on the environment now. Now, regarding 2022 performance, yet another great year full of achievements, followed by our listing on the Qatar Stock Exchange and Fed plan this year. Now, we managed to deliver noteworthy performance despite challenging environments. As we all know, the total income year-on-year grew by 10% to QR 4.5 billion. The net profit for the year increased by 5% from last year to QR 1.25 billion. The total assets at the end of 2022 were QR 106 billion while financing assets after recording a growth of 1% from last year were QR 76 billion. Regularity known to deposit ratio, was 100%, showing our strong liquidity position. The return on equity was 11% and the return on assets was 1.2%. Due to the above performance, the Board of Directors have decided to declare 0.16 DH per share or 16% dividend, which was announced to QR 831 million, of course, this is subject to the Qatar Central Bank approval. Now, by ending here, I will let Zohaib to share with you the details on our history and operational performance. Zohaib?
Zohaib Ahmed [Dukhan Bank]:	Hi, welcome to all of you. So, keeping in view, it's our first call. So, I take a bit of your time to give details about our business. Dukhan Bank is the third largest and fastest-growing Islamic bank in Qatar, the capital of the bank is about QR 5.23 billion, currently, the total market cap. is around QR 15 billion with an adequate free float of 33%. The bank is owned 44% by State entities, the founders of the bank represent 66.6% of the bank's total share capital which includes a government stake as well. They are all restricted from selling during the first year of trading as per the listing regulations. So, all of the banks listed shares ranked pari passu carrying the same voting rights and the same rights with dividends. Bank gets permitted to allow up to 49% of the share capital to be in foreign ownership, which currently stands at around 1%. The bank was incorporated in 2008 under the name Barwa Bank and commenced operations in 2009 as a full-fledged Shariah-compliant bank. The bank rebranded itself by the name Dukhan Bank in 2020, followed by the merger with the Islamic International Bank of Qatar in 2019. IBQ's roots are traced back to 1956 and are considered one of the oldest banks in the state of Qatar. IBQ was renowned as a private banking powerhouse with generational trustworthy relationships, while Barwa Bank was an ambitiously dynamic and growing bank rooted in innovation and digitalization. The historic first-of-its-kind successful merger completion in Qatar in a record time was also a testimony to the bank's managerial abilities towards delivering excellence while maintaining higher standards. Further, as a result of this merger, we managed to realize 100% of the synergies target almost within a year post-merger, which resulted in a cost saving of QR 140 million per year. As part of the merger, the bank solidified its strong capital position, which helped it to grow and beat the market on multiple fronts, including total assets, financing, assets, customer deposits, total income, and net profit. Which have shown double-digit growth with a CAR well-above 10% post-merger till the end of 2022.

	The existing capital base with CAR above 18.3% on the back of strong profitability, operational efficiency, and prudent risk management allows it to excel in the future as well with similar ambitions. The rebrand resulted in all round revamp that reimagine how customers manage day-to-day banking, offering secure, simplified, and seamless banking. Dukhan Bank has been offering customer-centric, investor-friendly, innovative, and technology-driven banking solutions with a current focus also on ESG initiatives. The bank operates an efficient network of nine branches spread across the country, delivering a range of financial services to over 150,000 customers. The bank has been rated A2 and A- respectively by Moody's and Fitch with a stable outlook. Dukhan Bank provides an award-winning full range of banking services. The bank subsidiaries of primarily engaged in financing, investing, and advisory activities. The operations of the bank are primarily Qatar-based with 95% of its assets and revenue are generated through Qatar-related activities. Regarding segmental composition, we have structured the bank to cater all sorts of banking activities. Primary business segments include wholesale banking, which covers corporate, government, and institutional relationships. Retail & Private banking, which also covers wealth management activities, trading, and investment growth, which looks into asset liability management. Trading and investment activities, including hedging & risk solutions. In terms of total assets, wholesale banking comprises 36%. Retail and product banking with a similar weightage of 36%, followed by treasury & investment group which accounts for 27% of total assets. While in terms of total revenue, wholesale banking contributes 41% followed by retail & private banking 39%, and the remaining 20% by treasury & investment group. We have a very well-diversified financing group which covers all industrial sectors in the country including government 23%, real estate 27%, commercial 9%, consumer 6%, contracting 5%, industrial manufacturing 2%, and services and others around 28%. Further staging of loans is in line with the industry, where Stage 1 comprises 80%, Stage 2 comprises of 15%, Stage 3 at 5% of total loan book. With decent coverage of nearly 5% against Stage 2 accounts and 70% against Stage 3. However, if we consider an eligible collateral benefit, then the coverage stands around 95% against NPLs. We have been putting in our risk management practices, which is estimated in the fact that our stages have always been consistently above the 15% level since the merger time. Due to stringent practices adopted in exposure classification, the industry has in our view, played a catching up and only reach to this level during the past couple of years. Now, we'll let Osama to walk you through the year-end 2022 results update. Thank you.
Osama Abu Baker [Dukhan Bank]:	Thank you, Zohaib, and good afternoon all. As mentioned earlier, it's been another successful year for the bank. Our total income has grown by 10% from last year to QR 4.5 billion, which resulted in an increase in the net profit of the bank by 5% from QR 1.19 billion during last year to QR 1.25 billion during 2022.

	Total assets stand at QR 1.6 billion, which mainly comprises financing assets at 71% amounting to QR 75.7 billion with a growth of 1% over last year followed by an investment portfolio of 19% at QR 20.4 billion. The balance sheet is mainly funded by customer deposits at 60%, which stood at QR 74.5 billion, followed by market funding at 14%, equivalent to QR 14.9 billion. Regulatory loan-to-deposit was maintained at 100%, while return on equity and assets was 11% and 1.2% respectively similar to the year 2021. The cost return ratio was at 28.2% slightly higher than the 2021 level of 27.4%. However, overhead expenses were below last year and absolute numbers by 4%, from QR 782 million to around QR 750 million during 2022. The net impairment charge was QR 660 million for the year 2022, which represents 34.5% of net income before impairments. This resulted in the cost of risk on financing assets of about 90 basis points versus 129 basis points for the year 2021. The reduction was due to already increase in the adequate coverage for the Stage 3 and Stage 2 accounts. The net profit margin was at 2.1%, which was reduced during the year by about 50 basis points due to the rising cost of funds. The main reason for the increase in the cost of funds of deposits, and interbank, interbank was driven by the Fed hikes to the rates, which was followed by the Regional Central Bank. In addition to that, the cost of funds has increased to the reduced reliance on nonresident funding to a record low which is around 10% for the year 2022 and previously it was around 20%. Considering some granular backup of total income, financing, and investment income was up by QR 356 million or 10% year-on-year to QR 4 billion, which is around 89% of the total income. Net fee and promotion income increased by 32% from 2021 level of QR 211 million during 2022, while FOREX income was also higher by a similar 32% reaching QR 223 million from last year. Due to this outstanding performance, the Board of Directors has proposed a cash dividend of Dirhams 16 per share or 16% of the share capital. And this is subject to the AGM and the QCB approval. Currently, considering this dividend payment, our capital adequacy ratio is above 18.3% which is well above the regulatory requirement of around 14.5%. This gives us ample room to grow in the future while maintaining an adequate dividend yield to our investors. We expect the year 2023 to continue to be challenging. However, the management is confident to deliver, inshallah of course, another good year by focusing mainly on NIM protection, liquidity management, while sustaining the market share by growing mid-single digits in 2023 by focusing on the quality assets mainly in the government GRE and good private and corporate credits. By this, I have completed my part and now, I would like to open the floor for your questions.
Operator:	At this time, I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. We'll pause just for a moment to compile the Q&A roster. Your first question comes from the line of Lee Beswick from QNB. Your line is now open.

Lee Beswick [QNBFS]:	Hi, thanks for the presentation. When are you going to go to 100% on your Foreign ownership limit, your foreign ownership? Can you do it at this AGM?
Osama Abu Baker [Dukhan Bank]:	We applied to our AGM in January or February this year and we got the approval. Hopefully, we'll go to the Central Bank and the other regulators very soon to ask for this, to be affecting our articles. So, hopefully, this year we'll complete this.
Lee Beswick [QNBFS]:	Okay. Thank you.
Operator:	Okay. So, our next question comes from the line of Shabbir Kagalwala from Al Rayan. Your line is now open.
Shabbir Kagalwala [Al Rayan Investment]:	Gentlemen, thank you for the presentation. This is Shabbir Kagalwala from Al Rayan Investment. I had a couple of questions if I may. You mentioned about a growth of single digits on your financing book, would like to know more in terms of you said about government & private sector. So, which sectors on the private side do you see that growth to pick up in 2023? The second question is on the margin side. What sort of margin compressions or increase do you see for 2023?
Osama Abu Baker [Dukhan Bank]:	I would like to start with the margin compression. Our target as I mentioned is to protect the margin and to protect our NIM. Everybody is expecting a 50 to 75 basis points increase by the Fed. We believe that a 50 basis point is fair to assume an increase in the Qatari market by the Central Bank. We are doing our best to protect the margin by passing this cost to our borrowers. As you know, we are an Islamic bank so, we have a time lag between the increase and the rates, the market rates, and the time where we can pass it to the customers. Currently, our rollovers are done on monthly basis, so we have reduced the gap of repricing. I hope this answers the question. Relating to the which sectors we are focusing on, as you know, we are holding the best Islamic private bank in the region. So, our private banking customers has been always our targets. We continue to support them in their endeavors and their future expansion. In addition to that, we enjoy a very good relation, actually generational relations with most of the family businesses and the government of Qatar. So, we will continue to focus on that. GRE is definitely has been always the best performance in our relations and will continue to support their expansion.
Shabbir Kagalwala [Al Rayan Investment]:	Right. And on the cost of risk side, how much cost of risk do you assume to have on in 2023? Currently, you mentioned you have a 0.9% cost of risk. So, what's the target for 2023?
Osama Abu Baker [Dukhan Bank]:	We don't expect any deterioration in the quality of our books, so we assume the same level of cost of risk this year.
Shabbir Kagalwala [Al Rayan Investment]:	And this will be mainly on Stage 2 or Stage 3?

Osama Abu Baker [Dukhan Bank]:	Stage 2 and Stage 3 mainly, as I had mentioned, we include the securities that we are allowed to account for as the Central Bank. We are almost at 95% coverage. So, we aim always to reach 100% coverage for Stage 3, and we always aim to increase our coverage for Stage 2.
Shabbir Kagalwala [Al Rayan Investment]:	Right. Thank you.
Operator:	The next question comes from the line of Maha Marhaba. Your line is now open.
Maha Marhaba [ADIA]:	Hi. Good afternoon. I have two questions, please. First of all, I want to ask about your loan book composition. So, and a few foresee that to be changing in the future like since you're mentioning that you want to grow more into the GREs and the government business as you expect, I mean the corporate exposure to continue to grow compared to the retail. And my other question is on the cost-to-income ratio. So, you mentioned that it increased in 2022. Shall we expect the same trend in 2023 or we should see some improvements since your overhead expenses are going down or if they can continue to go down? Thank you.
Osama Abu Baker [Dukhan Bank]:	Well, I'll start with the cost-to-income first. As you know, the cost-to-income for 2022 has increased due to the decrease in the operating income or the banking income and that was mainly driven by the increase in the cost of funds. But in the absolute numbers cost to the G&A and the overhead has reduced from the year 2021. For the year 2023, we don't expect any increase in the cost to income ratio, and we will try our best to, as I mentioned, control the funding cost and increase our yield on assets. So, hopefully, that will have a real impact or neutral impact to the cost to income, and we don't expect any increase in the overheads or the General & Admin expenses. Going back to the loan composition, we have a well-diversified for loan portfolio and we aim to keep the same allocation into 2023. Retail, as you know, is a very small market in Qatar, and we will continue to cater for the existing customers as we try to onboard new customers. But we continue to be private bank number one, followed by wholesale banking. So, this composition won't change in 2023.
Maha Marhaba [ADIA]:	Thank you.
Operator:	Our next question comes from the line of Ahmed Farooq from Dawul Group. Your line is now open.
Ahmed Farooq [Dawul Group]:	Hi, thank you for the presentation. Now, I have a specific question on slide number 19 and that's basically about the asset and the debt distribution within the bank. My question is that the bank is very focused on wholesale banking and government along with the individuals. So, we can see that the majority of your financing is going to gear even corporate, but in the meantime, you don't have so much cash deposits in your deposit structure. May I ask why that? I mean in that kind of structure if we have a corporate bank and a government bank, we might expect CASA to be higher than 22% of the total deposit. My second question is about growth or expected growth. I mean if I look at your net financing assets to total deposit, it's almost 100% with the 111% with the average sector

	in Qatar, which basically tells that you have a good potential of growth if you basically deploy and unutilized that. Do we have any commitments for the future, or we need a project that Qatar is planning to achieve in the next seven years?
Osama Abu Baker [Dukhan Bank]:	Okay. If I understand the first question correctly, why we have a low CASA.
Ahmed Farooq [Dawul Group]:	Yes.
Osama Abu Baker [Dukhan Bank]:	Actually, being a bank and a bank serving and focusing on GRE, naturally leads to a lower CASA, because usually, CASA comes from retail investors. Usually, government and private banking customers, look for each and every opportunity to maximize their returns and they don't keep a lot of CASA in the bank. So, that's why we are a small retail franchise. We keep our efforts always to increase our retail share in the market. But as you know, Qatar is a very competitive retail space. But if you look at the history of the bank, we have managed to increase it from lower than 10% to the current level. So, we'll continue, but we don't promise that next year we will see a dramatical change in the liability composition that's relating to CASA. The second question actually, we have very prudent liquidity management, and we have to comply with the Qatar Central Bank rules that have been always the mission number one for the management of the bank. So, a 100% loan-to-deposit is mandatory by the Central Bank, and we aim to comply all the time with that. I cannot comment about other banks in Qatar on why they are breaching that, that for them to answer. But our mission is to deploy our funds in a proper way and to reduce the cost of funds while keeping the regulator happy. And that's proof of our prudent management styles. I hope this answers your question.
Ahmed Farooq [Dawul Group]:	It does. Thank you very much. And just back to the second question. What I meant is I think you have a good potential for growth if you do blow the asset, but within the bank strategy, do we have that, that we are going to be more focused on GRE in the future as well? And for that, I will attach another question basically about the margin. My colleague asked it. Do we have bargaining power with GREs, or we do have the upper hand? Because I see the margin is lower compared to the average of the banking sector in Qatar.
Osama Abu Baker [Dukhan Bank]:	Well, GREs are essential in for any bank in Qatar. If you want to grow, if you want to continue doing business, and if you want to manage your risk properly you have to do business with the GRE. Nobody has the upper hand neither is the client or the bank. It's based on a mutual beneficial relationship. Some of our GREs have the ability to diversify their banking options, but being a bank with robust capital adequacy, a good level of liquidity. And as we know, we have a very big room for real estate that we always deploy to the GRE. So, that was a really very competitive advantage when it comes to doing business with GRE, where we can have good pricing for those assets, where the bank can really protect the net interest margin.
Ahmed Farooq [Dawul Group]:	Thank you, sir. Last point, I'm sorry for taking more time from my colleagues. That's basically when I looked at the net profit breakdown and I've seen Treasury has contributed negatively these months, it's almost -3%.

Osama Abu Baker [Dukhan Bank]:	I would like to push this question to Zohaib. Zohaib, would you please take this?
Zohaib Ahmed [Dukhan Bank]:	Could you repeat your question?
Ahmed Farooq [Dawul Group]:	Yes. If you look at the net profit breakdown for 2022, Treasury and Investment has been reduced -3% around this year. So, it means they made a loss?
Zohaib Ahmed [Dukhan Bank]:	Which slide you're referring if you don't mind, is pointing at?
Ahmed Farooq [Dawul Group]:	It's seven. It's slide number seven.
Zohaib Ahmed [Dukhan Bank]:	Yes, this is basically if you see the net return of minus 3%, that's because of higher market funding costs. So, this result is before the FTP allocation. If we do the FTP allocation, it gets different. This is the the pie chart that you're seeing is before the FTP allocation. So, this is the gross results by all the segments.
Ahmed Farooq [Dawul Group]:	Right. Yes, but why -3%, that's what I asked you.
Zohaib Ahmed [Dukhan Bank]:	Why?
Ahmed Farooq [Dawul Group]:	Why contributed negatively?
Zohaib Ahmed [Dukhan Bank]:	That's what I'm saying. If we give them FTP benefits, then it turns positive. We are showing only on a gross level how much the earning by each profit center. So, that does not account for how the borrowing by the segments from the Treasury. So, when Treasury borrow on behalf of the segments, the Treasury should charge that to the segments. So, that, here you can see, this is shown as a gross level. So gross results of each of the segments, wholesale banking, retail banking, and treasury banking. If we remove that then it would go to around 20% level. If we account for the FTP impact, the treasury share will increase to around 20%. As Treasury plays a central pool where all the deposits and market borrowings is placed then the Treasury passes it on to all the segments. So, we are not showing that passing on impact and that's why you see it as negative here.
Ahmed Farooq [Dawul Group]:	Okay. Okay. No provision on Debt instruments and anything you guys have built up during this year because of the higher interest rate?
Zohaib Ahmed [Dukhan Bank]:	No, we have 90% of the Sukuk portfolio which is AAA investment grade, high investment grade and we didn't sell any of our amortized cost portfolio and we don't see any challenge there to sell our amortized cost bonds. So, we face no challenge or issues there.
Ahmed Farooq [Dawul Group]:	Okay. Thank you very much.
Operator:	Our next question comes from the line of Zohaib Pervez. Your line is now open.
Zohaib Pervez [Al Rayan Investment]:	Thank you, gentlemen, for the presentation. Could you tell us what is your average yield on the investment book? The Sukuk book?
Zohaib Ahmed [Dukhan Bank]:	This, if you can see our financials, it's given in there as well. It's nearly around 4%.
Zohaib Pervez [Al Rayan Investment]:	4%. And these are all invested in Qatar sovereigns?

Zohaib Ahmed [Dukhan Bank]:	Mostly.
Zohaib Pervez [Al Rayan Investment]:	Any strategy to probably diversify into other even sovereigns because the rates have moved quite high, and the yields are quite high at the moment. Any plans to increase the yield on this book?
Osama Abu Baker [Dukhan Bank]:	Well, if you allow me here. As you know we have, we have certain limits that we need to comply with, which is the country limit, counterparty limit, etc. And as you know, we are an Islamic bank, a Sharia compliance bank so our options are really limited. And for example, just a few days ago the Development Bank issued a paper recently and the yield on that is less than 5%, while the interbank rate on Qatar is almost 5%. So, the options are really limited, and as you know we have to be careful here when we deploy funds into long-term asset. So, the concentration is really to protect the NIMs, find other options to increase the yield on each and every asset line. But we have to be careful when it comes to liquidity management and the maturities of those assets.
Zohaib Pervez [Al Rayan Investment]:	Okay. And my other question is regarding liquidity. So, we can see throughout the quarters your NIMs have been under pressure and one of the reasons is probably it has been the higher base rates in the US and the subsequently higher rates by QCB. So, do you think that is the only reason or you see a tightness of liquidity within the system, considering you are a heavy borrower in the interbank market?
Osama Abu Baker [Dukhan Bank]:	It's not about liquidity and the rates went up on both sides, the interbank, the market in general, and the deposits as well. The increase in the cost of funds is happening for most of the banks in the region actually, so far from this issue that most of their deposit pays is short-term (three to six months) while the assets are longer. We, as Islamic Bank, cannot pass the cost, the increase in the cost of funds immediately like any conventional bank. So, we have to wait for the rollover of the assets that takes place between three to six months. As I mentioned earlier, we have managed now the portfolio, 90% is repriced and we have changed the repricing return from six months or three months to one month now. That's why you can see there was a compression in the NIM. Going forward, we will do our best to protect that and pass the rate hikes i.e. increase in the cost of funds to the customers, but definitely, the increased cost of funds cannot 100% passed immediately. There will be a lag between one month to two months.
Zohaib Pervez [Al Rayan Investment]:	Okay. So, you said the repricing for the loan book has become monthly now?
Osama Abu Baker [Dukhan Bank]:	Yes, that's what we have started to work on, since last year.
Zohaib Pervez [Al Rayan Investment]:	Okay. Great. Okay, thank you.
Operator:	Your next question comes from the line of Lee Beswick from QNB. Your line is now open.
Lee Beswick [QNBFS]:	Thank you. Can I just offer as a comment? Thank you for not diversifying outside of Qatar Government bonds, that's a good thing. And also thank you for not over-leveraging your balance sheet like other banks in Qatar do. So, it's good to see that your loan deposit ratio is fairly conservative. Conservatism is a good thing, not a bad thing.

	My question is regards the payout ratio. Your payout ratio is one of the highest in the banking sector. Is this something that you will seek to maintain? Do you have any views on that.
Osama Abu Baker [Dukhan Bank]:	Well, as you know…first of all, thank you for the compliment. And second, relating to the question, the dividend actually is driven by two or three issues.: 1. Capital adequacy and expansion plans; 2. Payout ratio, the historical payout ratio; and 3. The Market Number one, we have a very adequate capital adequacy ratio or we are well capitalized and we can cater for the expansion in the future. Yes, two, we have been one of the highest in terms of payout ratio and the recent decision by the board or recommendation by the board proves that. To be honest with you, with the market conditions right now, it is irrelevant. Unfortunately the markets are not driven by standards or by math. To answer your question, it is something that we can see in the medium-term to continue expanding our balance sheet, growing while we can sustain such a high payout ratio.
Lee Beswick [QNBFS]:	Okay. Thank you.
Operator:	Our next question comes from the line of Zohaib Pervez from Al Rayan Investment. Your line is now open.
Zohaib Pervez [Al Rayan Investment]:	Sorry, I've got a few more questions. Firstly, in your loan book distribution, so you have deferred profits which have actually reduced. When I look at other Islamic banks, the deferred profits have increased and one of the rationales was because of higher interest rates, base rates, this was increased. Could you tell us why this has reduced for you? Or is my understanding different?
Zohaib Ahmed [Dukhan Bank]:	Let me answer you this question. Actually, as Osama pointed out, we have reduced the repricing frequencies from three to six months conventionally to one month. So, that has contributed to this. So, once you reduce the repricing, you don't have a higher deferred profit. Your deferred profit restricts to just one month period. So that proves actually this. You can see that we are walking towards that and that results in a reduction in the deferred profit. Because this is the future profit which…if you compare it with the conventional bank you need to net this against the growth to come up to the net financing balance.
Zohaib Pervez [Al Rayan Investment]:	Okay, got it. Got it. Thank you. My other question is, you mentioned about the interbank market, could you tell us what would be your borrowing cost on the interbank market?
Osama Abu Baker [Dukhan Bank]:	Well, actually it is not our borrowing cost, it's the interbank in Qatar. I think it ranges between 4.5% to 4.75%. That's the interbank in Qatar nowadays.
Zohaib Pervez [Al Rayan Investment]:	4 to 4.75%?
Osama Abu Baker [Dukhan Bank]:	4.5 to 4.75% depends on the tenure actually.
Zohaib Pervez [Al Rayan Investment]:	So, that's higher than the earnings on your investment book? So, you know, wouldn't it be optimal to either retire the book or probably to get higher-yielding assets?

Osama Abu Baker [Dukhan Bank]:	Maybe you are comparing it…you should compare it to the total cost of funds for the bank because we don't fund investments purely from the interbank. It's a pool of money sources, capital, returned earnings, additional Tier 2, additional Tier 1, deposits, and interbank. Interbank is to manage liquidity, not to invest into long-term assets. I know yes, Qatar in Sukuk is yielding low nowadays compared to the other options. But at the end of the day, this is a strategy to manage your ratios, NSFR, LCR, etc. So, you need to have those assets in your balance sheet to comply with the regulatory ratios, but they are not yielding a lot definitely, as high as the loan book for example.
Zohaib Pervez [Al Rayan Investment]:	Sounds good. So nice.
Osama Abu Baker [Dukhan Bank]:	You're welcome.
Operator:	Our next question comes from the line of Nikhil Phutane from CBFS. Your line is now open.
Nikhil Phutane [CBFS]:	Hi, good afternoon, gentlemen. Well, actually it is about your loan composition of books. You mentioned about your real estate which has around 27%. I was just trying to compare it with other peers. I mean you could be on the higher side of the curve. Now, this is in the background of what exactly we are currently seeing in terms of post-World Cup, the debacle in terms of real estate prices, and other things. So, do you see going forward in 2023, especially in the second half, you could be seeing a markup on your NPL which indirectly could trigger provisions for Stage 2 loans to Stage 3. Do you see that possibility in 2023? Thank you.
Osama Abu Baker [Dukhan Bank]:	Well, let me give you just a highlight about our real estate portfolio. It is split 50% residential and 50% commercial. And within this 50% commercial, actually, more than 60% is government-related or GRE-related project. So, that gives us comfort that our real estate portfolio is actually safer than anybody can read from the peer members. Number two as part of the 10-year strategy that we have approved post-merger, we stopped lending to projects…off plan projects or projects under construction. The reason is we felt at that time that real estate market, post the World Cup might have some issues, and it will be under this situation. So, to answer your question, we have some issues in the book and we have dealt with them after the years 2019,2020,2021 and the latest was last year. The increase in Stage 3 was due to a couple of real estate financing and I don't see any more deterioration in the quality of the real estate book during 2023.
Nikhil Phutane [CBFS]:	Thank you, Sir. Thank you.
Operator:	Again, if you would like to ask question press star then the number one on your telephone keypad. Our next question comes from the line of Wei Chao from Epicure Investments. Your line is now open.
Wei Chao [Epicure Investments]	Hi, gentlemen. Thank you for the call. This is Wei Chao here from Epicure Investments. My question is on the NPLs. So, if you're comfortable with the current level of NPLs and you have taken most of the payment and you're fine with the levels of NPL. How should we think about the coverage? So going forward, your cost of risk should drop and come to a more normalized level. Thank you.
Osama Abu Baker [Dukhan Bank]:	I couldn't hear the question, so I would like to ask Zohaib, because the line was not clear.

Zohaib Ahmed [Dukhan Bank]:	Yes, let me answer you. We, as you mentioned like, we are stabilizing. Our NPL ratios is stabilizing. If we're comfortable with this level, at some point, we don't expect any material deterioration during this year. So yes, as you mentioned, we expect drop, but we don't account for it, but we expect to drop realistically in our cost of risk.
Wei Chao [Epicure Investments]	Okay. And just want to get a sense on the loan book. So, do you see a lot of the loans that are on the real estate can be classified under personal as well? So, do you see any risks from that side?
Zohaib Ahmed [Dukhan Bank]:	If I understand it correctly, Osama pointed out, our real estate is like half off between residential and commercial. And as you pointed, the commercial is more than 60% under government, GRE-related exposures. So, we don't see any challenge here. If you have anything specific to us.
Wei Chao [Epicure Investments]	No, that's it. Thank you. Thank you so much.
Zohaib Ahmed [Dukhan Bank]:	Thank you.
Operator:	There are no further questions at this time. I would like to turn the call back to our speakers.
Ahmed Hashem [Dukhan Bank]:	Yes, I would like to thank you all for attending this investor call and it was a pleasure talking to all of you. You can reach out to us for any other further questions any time of the day. We'll be happy to walk you through it. Thank you.
Operator:	This concludes today's conference call. You may now disconnect.