Dukhan Bank – Q1'25 Earnings Call Transcripts

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Executives from Dukhan Bank:

1. Ahmed Hashem - Acting Group Chief Executive Officer
2. Osama Abu Baker - Group Chief Financial Officer
3. Riaz Khan – Head of Reporting & Budgeting and Investor Relations Officer

QNBFS Chairperson: Shahan Keushgerian

Operator	Hello, and welcome to Dukhan Bank. Please note that this call is being recorded. You will have the opportunity to ask questions to our speakers' later on during the Q&A session. If you would like to ask a question by that time, please press star and then the number one on your telephone keypad. I'd like to hand over the call to our moderator, Shahan. Please go ahead. Thank you.
Shahan Keushgerian [QNBFS]	Thank you. Hello, everyone. I want to welcome you to Dukhan Bank's First Quarter 2025 Financial Results Conference Call. So, on this call from management, we have the bank's Group CEO, Ahmed Hashem, Osama Abu Baker, Group CFO, and Riaz Khan, Head of reporting & budgeting and IR officer. So, as usual, we will conduct this call with first, management reviewing the company's results followed by a Q&A session. I will turn the call over now to Ahmed. Please go ahead.
Ahmed Hashem [Dukhan Bank]	Thank you, Shahan. Good afternoon everyone, and thank you all for joining us today. I'll begin with a brief overview of the macroeconomic trends for the first quarter of 2025, before we dive into our Q1 performance. Afterwards, the team will walk you through the Group's financial results, followed by a Q&A session. Qatar's economic outlook remains strong and relatively insulated from global uncertainties, despite recent changes in U.S. trade policies and import tariffs that have increased market volatility and trade tensions. While, the overall momentum within the country remains constructive, key domestic sectors continue to demonstrate resilience and strong growth prospects. One of the standout performers has been the tourism sector, with international visitor numbers exceeding 5 million for the first time in 2024—marking a 25% year-on-year increase. This sustained strength in visitor numbers since 2022 continues to bolster Qatar's ambition of welcoming six million visitors annually by 2030.

	In addition, government-led initiatives aimed at boosting non-hydrocarbon sectors are showing meaningful progress. Support for startups, emerging enterprises, and structural reforms are laying the groundwork for a more diversified and innovative economy. Looking ahead, the energy sector remains a cornerstone of growth. Major undertakings like the North Field Expansion Project and increases in refining and petrochemical capacities are expected to fuel Qatar's GDP growth over the medium to long term. Importantly, much of the expected increase in LNG production has already been secured through long-term contracts, ensuring a stable and predictable revenue stream. Beyond energy, Qatar's focus on infrastructure development, digital transformation, and economic diversification is in clear alignment with Vision 2030. These efforts are driving expansion across various sectors, including services and manufacturing. Turning to Dukhan Bank's performance, we delivered a solid start to the year, building on the strategic progress and momentum we've established in recent years. Despite ongoing external headwinds, our continued resilience and innovative approach have strengthened our role as a key enabler of national economic growth. On the Group's financial performance for the first quarter of 2025, I'm pleased to report that our bottom-line profitability grew by 3%, with a net profit of QR 437 million for the first quarter on 2025. The Group's total assets reached QAR 117.7 billion remaining at historic levels. Our liquidity position remained robust, as the Group remained comfortably above the related regulatory thresholds throughout the quarter. Likewise, our capital adequacy ratio stood at 17.9%, well above the required minimum, reflecting our sound financial foundation. With that, I'll now hand it over to Osama, who will walk you through the financial details of our first-quarter performance. Over to you, Osama.
Osama Abu Baker [Dukhan Bank]	Thank you, Ahmed. Good afternoon, everyone, and welcome. Let me begin with an overview of the Group's balance sheet. As of the end of Q1 2025, our total assets reached a record high of QAR 117.7 billion. Our asset base continues to be primarily driven by financing assets, which stood at QAR 86.6 billion, representing 74% of total assets. Investment securities contributed QAR 19.6 billion, or 17% of the total. During the period, the Group maintained its financing portfolio, bringing the total to QAR 86.6 billion. This aligns well with the Group's strategic objective of steadily increasing market share, while maintaining disciplined and efficient resource deployment. The focus remains on achieving a well-diversified portfolio, prioritizing asset quality over volume growth to manage risk effectively.

	On the funding front, we continued to strengthen and diversify our base, leveraging long-standing client relationships and maintaining a sound maturity profile. These efforts supported our resilient liquidity position, with our regulatory loan-to-deposit ratio at 100%. Both our Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained comfortably above regulatory thresholds, underscoring our strong liquidity management. Our exposure to non-resident deposits is limited to just 1.9%, reflecting our strategic focus on building enduring domestic relationships. We also remained committed to protecting our margins and managing the cost of funds efficiently. Our net interest margin has been maintained at approximately 2.0%. Now turning to profitability, our Q1 2025 performance reflects continued delivery on our strategy and a solid foundation for future growth. We noted a 3% growth in our bottom-line profitability, on the back of a 5% increase in net banking income. This uplift in net banking income was driven by the Group's ongoing efforts to diversify revenues and strengthen non-interest income streams. Additionally, prudent management of funding costs provided further support despite external challenges. Operational efficiency continues to be a priority. Our focus on optimization and cost discipline has contributed meaningfully to profitability, highlighting our agility and resilience in a dynamic environment. On credit quality, our non-performing loan (NPL) ratio improved to 4.5% as of March 2025, down from 5.1% in March 2024 and 4.6% in December 2024. This improvement is a result of robust credit management practices and risk controls. Our Stage 3 coverage ratio stood at 74.5%. Importantly, when factoring in eligible collateral i.e. after applying QCB-prescribed haircuts, the effective coverage against NPLs exceeds 90%, reflecting our conservative stance and prudent provisioning. Our Stage 2 loans represent 9.7% of gross loans, which is among the lowest in the domestic banking sector, with a solid coverage of 5.3%. Our financing book remained well diversified, encompassing all sectors including Government 21%, Real Estate 22%, Commercial 9%, Consumer 10%, Contracting 4%, Industry & manufacturing 3% and Services & others about 31%. GRE exposures accounted for 16% of the total financing book as at the end of March 2025, consistent with year-end 2024. These exposures are currently reported within their respective sector classifications. The Group's Capital Adequacy Ratio at the end of March 2025 stands at 17.9%, exceeding well above the minimum regulatory requirement of 14.6%, providing solid foundations to support future growth.

	Looking forward to the full year of 2025, we anticipate a sustained growth trajectory, with a mid-single-digit expansion in our Balance sheet that aligns with the overall GDP growth targets for the country for 2025. The drivers of this growth will be wholesale banking and private banking segments, with our growth strategy emphasizing “quality over quantity”. For bottom-line profitability, we expect a growth rate in line with balance sheet expansion, reflecting stable performance. On the margins, we anticipate that NIMs will remain stable at current levels, around 2.0%, as funding costs continue to be persistent, while asset yields have already absorbed most of the adjustments from the rate cuts that took place in the latter part of FY’24. Due to the complexities of global macroeconomic factors, it is not practical to make any definitive predictions about the benchmark rate cuts. However, should the benchmark rates be reduced later in the year, it would positively impact NIMs, though the precise timing of this improvement will depend on the constructive realizations in our funding costs. In terms of asset quality, we do not anticipate significant deterioration. However, we will maintain a conservative provisioning approach, continuing to build buffers to guard against unexpected risks. We expect cost of risk to remain in the 50–60 basis point range. In line with the Global Minimum Taxation initiative, Qatar introduced a 15% minimum tax in the first quarter of 2025, applicable to multinational groups, in accordance with the Pillar Two Model framework. The legislation also indicated that Executive Regulations will be issued in due course, detailing the key provisions required to meet the State's obligations under the international framework. As of now, these regulations have not yet been published. We have conducted an initial assessment, in collaboration with external tax experts, to evaluate the potential impact of the Pillar Two charge on the Group’s future financial performance. Based on this analysis, we do not anticipate the Group will be subject to the Pillar Two charge in the near term. However, a definitive conclusion cannot be reached until the Executive Regulations are released. We will continue to monitor developments closely and provide updates as new information becomes available. In summary, we remain confident in our outlook for 2025. We will continue building on our strengths, seeking new growth opportunities, expanding market share, and enhancing value creation for all stakeholders. At the same time, we remain focused on protecting margins, maintaining robust liquidity, and pursuing sustainable growth. With that, we now open the floor for your questions. Thank you.

Operator	At this time, I would like to remind everyone that in order to ask a question, press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Zohaib Pervez with Al Rayan Investment. Please go ahead.
Zohaib Pervez [Al Rayan Investment]	Thank you, gentlemen, for the presentation. So, I've got three questions. Firstly, could you give us more information on your fee income growth and foreign exchange growth, income growth? I mean, your loan growth was kind of stable for the quarter, but the fee income has shown significant growth. So, could you give us some color on that? And similarly for the Foreign Exchange. The other question is on investment income, so investment income is lower year-over-year compared to last year, while your portfolio has been is higher. So, this is… could you give us some information on why… how come the security of your book is higher, while the income is lower is because you have a lower yielding asset. If so, could you give us… could you let us know what is the difference between the yield that you were… that was in the first quarter of 2024 and what has the yield of your investment portfolio currently? Thank you.
Riaz Khan [Dukhan Bank]	Thank you, Zohaib. This is Riaz. I'll start by addressing your first question regarding fee income. As you've observed, there are certain quarters where we see a spike in fee income, often driven by one-off items that materialize during that period. This quarter was one such example, where several one-off items that had been in the pipeline from previous years or quarters were realized. These one-offs amounted to approximately QR 30 million. If we exclude these items from the total, the underlying fee income remains broadly in line with previous quarters. As Osama mentioned, looking ahead, we expect year-on-year profitability growth to remain in the mid-single-digit range, barring any unusual one-offs that may cause quarterly fluctuations. Now, on your second question regarding FX income — the numbers have remained largely stable. In Q1 2025, we reported around QR 31 million, compared to QR 30 million in Q1 2024, so there hasn't been any notable increase. While we would certainly welcome growth in this area, the data currently doesn't reflect a significant change. As for investment income, there has been a decline, primarily driven by a reduction in placement volumes. If you look at the balances due from banks or placement-related assets, they've dropped by nearly 50%, which is the key factor behind the lower investment income. However, the yields on our investment portfolio have remained stable, and in fact, we saw a marginal increase of around 5 bps. I understand the financial statements may not provide a detailed breakdown between investment income and placement income, which may limit visibility, but I can confirm this is the underlying reason behind the movement.

	I hope that addresses all your questions clearly.
Zohaib Pervez [Al Rayan Investment]	Thank you, Riaz. So, on the yields, what is your yield that you have on your current investment portfolio.
Riaz Khan [Dukhan Bank]	If you refer to last year's financials, the reported yield was approximately 430 basis points. As I mentioned, we've seen an increase of about 5 basis points, bringing the current yield to around 435 basis points.
Zohaib Pervez [Al Rayan Investment]	Sounds good. Thank you.
Operator	Your next question comes from the line of Alessandra David with Ashmore Group. Please go ahead.
Alessandra David [Ashmore]	Hi, thank you for the presentation. Maybe following up on the last question, if maybe you could give me some indication of your cost of funds between sort of your deposits and your cost of borrowings. That'd be really helpful. Secondly, maybe if you could just give a little bit more commentary around the shrinking balance sheet over the quarter, and maybe what we can sort of expect going forward, how much of that is one-offs or sort of seasonality timing issues? And then lastly, maybe if we could touch on through your confidence going in… your confidence given the discussions going on with the pillar two change in the tax, and sort of how confident you are that you will not be subject to that tax. Maybe if there's any sort of timeline you can give us as to when we can expect further communications, that would be really helpful.
Osama Abu Baker [Dukhan Bank]	I'll start with the first question. As you know, last year we have seen the rate cuts in the last quarter of the year. Unfortunately, due to the structure of the big depositors in Qatar, those deposits at the end of last year were rebooked at a longer tenure. So, we didn't see the decline from the first two months, we started to see the decline in March. So, assume that there is no rate cuts in the future, no change in the liquidity position in the local market. We expect the cost of funds to go lower in the second and third quarters. Regarding your question about the shrinking in the balance sheet, actually, this is due to the liquidity management. It mainly comes from the interbank; the treasury manages the liquidity on an efficient basis and our aim is not to inflate the balance sheet. But if you look at the loan book and the investments, it is stable compared to previous years. And we could… as we said, we expect it to grow in mid-single digits during this year. Regarding taxation, as you are well aware that there is a draft of the detailed laws that might be applied in the future, and those drafts have been circulated to the tax advisors in the country by the tax authorities. And according to the draft that we have seen, 99% will not be subject to taxation. If the law is implemented as they are drafted. The timeline we expect that to be official and final in the second quarter, but definitely, I'm not the right person to confirm it. That's what we have heard from the advisors. I hope I answered your three questions.

Alessandra David [Ashmore]	Thank you. That was very clear on the tax. So, if I can maybe just follow up going back to your loans and deposits. So, your loans were broadly flat in the quarter, and deposits declined 2% quarter-on-quarter. Was there any seasonality on this? So now you've given the guidance of the mid-single digits, so maybe if you could just help me understand the run rate for the remaining three quarters.
Osama Abu Baker [Dukhan Bank]	I expect the loans to grow by 3 to 5%. Normally, if we don't get any special bulky deals, definitely any bank is always we have those special bulky deals in the pipeline, but unfortunately, they take time to materialize. If you remember, in the last quarter of last year, we had the big jump in Q4. I don't guarantee that the same is going to happen this year, but if it happens, that's definitely something we are working on, but the time if it materializes this year or next year, I'm not sure. On the deposits, yes, there was a decline in deposits. As part of the liquidity management, we have always been in Dukhan Bank, avoiding price wars for deposits. We avoid addressing our balance sheet, and we are not happy to engage in any price wars. This decline was temporary and we are building our deposits again in order to maintain the deposit in a healthy manner and our liquidity to always robust. It's worth mentioning that our loss deposits regulatory ratio is at 100%. That's what really counts because, as you know, last year we have issued the $800 million Sukuk, which helped us to afford the lifting of some of the deposits at the year-end or early this year to avoid paying high rates on those.
Operator	Your next question comes from the line of Abhinav Sinha with Lesha Bank. Please go ahead.
Abhinav Sinha [Lesha Bank]	Yes. Hi. I just have one question because you said that on the QR 94 million of net fees and commission income, you had QR 30 million one-offs. So, for the rest of the year, how should we think about the fee and commission income? And the second thing is that, given that your cost of funding would be better in 2Q and 3Q, as you said. So, are we looking at a higher NIM than 2% for the remaining year, or is that very close to 2%?
Osama Abu Baker [Dukhan Bank]	Yes. Regarding the first question, if you exclude the QR 30 million, we expect the same trend to continue, and we are targeting a 3 to 5% from last year growth excluding the one-offs. Regarding the cost of funds in NIMs, hopefully, our cost of funds will go down as I mentioned, depending on the situation, if things stays as it is today, yes, we expect the cost of funds to decline, and that will lead to an improvement in the NIMs. I don't expect the NIMs to go below 2%, and we are targeting to keep it between 2% and 2.05%.
Abhinav Sinha [Lesha Bank]	Okay. Understood. Thank you.
Operator	Thank you so much, everyone. And that concludes our Q&A session for today. I will now turn the call back over to our moderator, Shahan. Thank you.

Shahan Keushgerian [QNBFS]	If there are no more questions, we can wrap up this call, and I would like to thank management for giving us an update on the quarter. And we'll pick this up again next quarter. Thank you.
Ahmed Hashem [Dukhan Bank]	Thank you, Shahan. Thank you, everyone, for attending.
Operator	Thank you, everyone. That concludes today's call. You may now all disconnect. Thank you for joining, and have a nice day ahead.