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DUKHAN BANK

# Dukhan Bank – Q2'25 Earnings Call Transcripts

**Date:** 10 April 2025
**Time:** 1:30 PM Doha Time

**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

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| **Operator** | Hello, and welcome to the Dukhan Bank Conference Call. Please note that this call is being recorded. I would now like to hand the call over to our moderator, Shahan Keushgerian. You may begin, Sir. |
| **Shahan Keushgerian [QNBFS]** | Thank you, and hello, everyone. I want to welcome you to Dukhan Bank's second quarter 2025 financial results conference call.<br><br>On this call from management, we have the Acting CEO, Ahmed Hashem; Group CFO, Osama Abu Baker; and Riaz Khan, Head of Reporting & Budgeting and IRO.<br><br>As usual, we will conduct this call with management first, reviewing the Bank'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 for joining us today.<br><br>I will begin with a brief overview of the macroeconomic landscape for the first half of 2025. Following my remarks, the team will walk you through our financial results, and we will then open the floor for Q&A.<br><br>Despite a challenging and volatile global and regional environments, Qatar's economy continues to demonstrate resilience and positive momentum. According to the National Planning Council, real GDP grew by 3.7% in Q1 2025. This growth reflects Qatar's steadfast commitment to sustainable development and economic diversification, as outlined in the Qatar National Vision 2030 and operationalized through the Third National Development Strategy (NDS3).<br><br>The non-hydrocarbon sector was a key driver of this expansion, where:<br>► Manufacturing grew by 5.6%, supported by industrial upgrades and enhanced domestic production;<br>► Construction rose by 4.4%, driven by ongoing infrastructure and urban development;<br>► Real estate saw a strong 7% growth, fueled by demand across residential and commercial developments;<br>► Wholesale and retail trade surged by 14.6%, reflecting higher consumer activity and confidence. |

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| | Qatar's economy remains relatively insulated from global volatility, even amid rising geopolitical tensions and trade disruptions. Core domestic sectors continue to show resilience and sustained growth.<br><br>Notably, tourism remains a bright spot — with 1.5 million visitors in Q1 alone, reinforcing the nation's target of welcoming 6 million annual visitors by 2030.<br><br>Government-led initiatives in startups, SME support, and regulatory reform are further laying the foundation for a more innovative and diversified economy.<br><br>Looking ahead, the energy sector remains pivotal. Strategic projects like the North Field Expansion and enhancements within the downstream sector is poised to drive GDP growth over the medium-to-long term. Crucially, much of the upcoming LNG production has already been secured through long-term contracts, ensuring a stable revenue outlook.<br><br>In parallel, ongoing investments in infrastructure, digital transformation, and economic diversification align squarely with Qatar National Vision 2030, reinforcing long-term growth narrative.<br><br>With that, I will now hand over to Osama and Riaz, who will take you through the details of financial results for the first half of the year.<br><br>Over to you, Osama… |
| **Osama Abu Baker [Dukhan Bank]** | Thank you, Ahmed. Good afternoon, everyone, and thank you for joining us. I will begin with a brief overview of the first half 2025 results, after which Riaz will provide a more detailed walkthrough.<br><br>We have delivered a solid mid-year performance, building on the strategic progress made in recent years.<br><br>Despite external pressures, our resilience and client-focused innovation have positioned us as a trusted partner in national economic advancement.<br><br>For the six-month period ended June 2025:<br>► Our net profit reached QR 811.3 million, representing a 3.5% year-on-year increase;<br>► Our total assets reached a record QR 118.3 billion, underscoring continued growth across our portfolio;<br>► Liquidity remained strong, with ratios comfortably above regulatory thresholds;<br>► Our capital adequacy ratio stood at 18.3%, well above the minimum requirement — highlighting the Bank's solid capital base. |

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| | In line with the practice established last year, the Board of Directors has approved an interim dividend of 8% of the nominal share value (QR 0.08 per share), subject to regulatory approval. This reflects the Board's confidence in our performance and commitment to delivering long-term value to our shareholders.<br><br>*Outlook*<br>Looking ahead to the remainder of 2025:<br><br>► We expect mid-single-digit balance sheet growth, aligned with the country's GDP trajectory, led by Wholesale and Private Banking.<br><br>► Profitability growth is expected to mirror this trend, supported by stable NIMs in a range of 2.1%. If benchmark rates are reduced later in the year, it may support further margin expansion, although this will depend on corresponding improvements in funding costs.<br><br>► Asset quality is expected to remain stable, with cost of risk guided at 50–60 bps<br><br>We will maintain a conservative provisioning approach, continuing to build buffers.<br><br>I will now turn it over to Riaz for a detailed overview of our mid-year financials. |
| **Riaz Khan [Dukhan Bank]** | Thank you Osama… Let me begin with a brief overview of the Group's balance sheet performance for the first half of 2025.<br><br>*Balance sheet*<br>Our total assets reached QR 118.3 billion, underpinned primarily by financing assets of QR 85.8 billion, representing 73% of total assets. Investment securities contributed QR 23.2 billion or 20% of the total.<br><br>We achieved a 3.8% year-on-year growth in our financing portfolio, reflecting our disciplined approach to **capital deployment** and **market share expansion**. The focus remains on building a diversified, high-quality portfolio, prioritizing prudent risk management over volumes.<br><br>On the funding side, we continued our efforts to diversify, while leveraging long-standing client relationships and maintaining a balanced maturity profile.<br><br>As a result, we maintained a regulatory loan-to-deposit ratio of 100%, with both the LCR and NSFR comfortably above the regulatory thresholds — demonstrating Bank's sound liquidity management.<br><br>Also, non-resident deposits remained minimal at just 2% of the total deposits. This is in line with our strategy to focus on stable domestic funding sources. |

*Profitability & Margins*
Now turning to profitability…..

Our first-half results reflect solid delivery against our strategy, with net profit rising 3.5% to QR 811.3 million, supported by a 6% growth in net banking income.

This growth was driven by:

- Our continued revenue diversification efforts, with stronger contributions noted from non-profit income streams
- Additionally, despite challenging external conditions, prudent management of funding cost provided further support to the Group's net banking income.

We remained committed to protecting our margins and managing the cost of funds efficiently. Our NIMs slightly inched higher to reach 2.1%.

Operational efficiency also remained a key strategic focus, with continued optimization efforts enhancing overall profitability. These results highlight the Group's resilience and its ability to sustain growth in an evolving operating environment.

*Asset Quality*
On credit quality…. which improved during the period:

- NPL ratio declined to 4.5%
- Stage 3 coverage ratio stood at 74.3%. The coverage rises to over 90% when including the effect of eligible collaterals
- Stage 2 loans represented 9.6% of the gross loans, with a solid coverage of 6.2%

Our financing book remained well diversified, encompassing all sectors including Government 21%, Real Estate 23%, Commercial lending 9%, Consumer financing 9%, 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 June 2025. This remains consistent with last December. GRE exposures are currently reported within their respective sector classes.

*Capital & Regulatory Developments*
Our Capital Adequacy Ratio stood at 18.3%, well above the regulatory minimum requirement of 14.6%. Notably, the impact of the interim dividend has already been factored into the reported CAR.

*Global minimum tax*
Regarding developments on the topic global minimum tax, Qatar introduced a 15% minimum tax for multinational groups in line with the Pillar Two framework during Q1 2025.

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| | While the enabling Executive Regulations are pending, we have conducted an initial assessment and based on the same we do not anticipate the Group to be subject to a Pillar-Two charge. We will continue to closely monitor any developments in this regard and update the markets accordingly.<br><br>*Closing remarks*<br>In summary, our first-half performance reflects the strength of our fundamentals, strategic clarity, and prudent financial management. We remain focused on sustainable growth, margin preservation, and long-term value creation for our stakeholders.<br><br>With that, we now open the floor for your questions.<br><br>Thank you. |
| **Operator** | Thank you. If you'd like to ask a question, please press star and the number one on your telephone keypad. Again, that is star and the number one on your telephone keypad. And our first question comes from the line of Zohaib Pervez from Al Rayan Investments. Your line is open. |
| **Zohaib Pervez [Al Rayan Investment]** | Thank you, gentlemen, for the presentation. I'll start off with two questions. So, if I look at your balance sheet, your loans in the first six months are actually lower year-to-date, and so is your deposit. So, this means, this to me it seems you're not seeing much opportunities in the banking area or in your core part of your business. I mean, most of the growth is being seen in investments. So, how do you see the business currently, considering you are kind of in a contraction mode?<br><br>My second question is on your asset quality. Your NPL ratio has reduced. Is it because of write-offs or is that because of recoveries? Thank you. |
| **Osama Abu Baker [Dukhan Bank]** | Okay. Regarding the first question, it's true that we have a flat loan book from the previous quarter. That reflects our approach for being selected. We don't go aggressive and compete for the loans, just for the purpose of growing the balance sheet. Any deal we enter into has to make commercial and economical value. The risk has to be acceptable according to our risk appetite. That doesn't mean there is no pipeline. As you know, we operate out of Qatar, which is full of opportunities. But you know, properties and good deals need time to materialize. I would like to remind you in 2024 where we had significant growth in the second half of the year in the loan book. So, to answer this question, there are opportunities in the pipeline. When it will materialize, that depends on the client base and the legal and risk base as well. So, we don't expect this contraction to continue in the year end.<br><br>On your second question, NPLs barely moved by 10 basis points, I believe, and it's not relating to recoveries, it is relating to the normal course of business. |
| **Zohaib Pervez [Al Rayan Investment]** | Sounds good. Thank you. Just a follow-up on that. Which sectors are you looking, do you see there is opportunities at the moment. |
| **Osama Abu Baker [Dukhan Bank]** | Well, oil and gas is definitely a promising sector. Telecommunication is another sector. GRE is in general, without specifying which sector, those GRE is always a focus for the bank. |
| **Zohaib Pervez [Al Rayan Investment]** | Thank you. |
| **Operator:** | Thank you. Our next question comes from the line of Andy Brudenell from Ashmore. Your line is open. |

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| **Andy Brudenell [Ashmore]** | Hi there. Great. Thank you. Yes, just one more follow-up from the prior question. I mean, I guess it's good that you're being prudent and sensible about when to offer credit. But you also gave a presentation at the beginning talking about the opportunity in Qatar, and there are lots of opportunities, and there's strong growth, and the North Field Expansion is a big part of that. And we're hearing from your peers that this is beginning to trickle down into credit demand. So, are you saying that you are seeing it, but you don't like the look of it, it looks too risky? Or you're not seeing it, or it doesn't really make sense to me in the last 18 months, given the improvements we've seen in the market, that your book is only up, like I think it's about 2.5% in 18 months in terms of interest-earning assets. That doesn't sound like a particularly dynamic market. And I wonder if you're being over prudent, or maybe you could just add a little bit more color, please. Thank you. |
| **Osama Abu Baker [Dukhan Bank]** | Thank you, Andy. Actually, we have not been over prudent. When I said that we are prudent and when I said that we don't book assets just for the purpose of growth, I meant we work on certain opportunities, certain risk profiles, and those needs come to materialize.<br><br>There is a big pipeline, there is a good amount of deals that we are working on right now which take time. As I mentioned earlier, last year in second half, we had strong growth. So, I'm expecting the same this year, but it depends on the third or fourth quarter, depending on the finalization of those deals.<br><br>The economy, yes, it is resilient. It is growing. The oil and gas sector is growing, the North Field. But for example, when you mentioned the North Field, most of the facilities for the North Field are on the off-balance sheet, which is LCs and LGs, not in the term loans. And if the companies who work in the North Field need liquidity, usually it is on a short-term basis month-to-month management.<br><br>So, in summary, there is a good pipeline. I expect the balance sheet, as I mentioned in the beginning, to grow by 5% to 6%, and that will reflect in the loan book for the 12-month period ending December 2025, inshallah. |
| **Andy Brudenell [Ashmore]** | Okay, great. Yes. That's useful color. Thank you. Just one second question on the non-funded income side of things has been actually pretty good. I wonder…and that there was some…there's been some moves around what those numbers are. I think in the first quarter mentioned that there were a little bit of one-off in that number, but it looks like with the second quarter, as sort of in a vertical, the cleaner recurring kind of level of fee income, and what should we sort of expect, because it's been very lumpy.<br><br>You've had some very big growth years and then last year was flat … So, if you just give us a sense of what's really going on there? What are the drivers? What should we really expect? And what are you hoping for growth-wise on non-funded income growth, the fees in particular? Thank you. |
| **Riaz Khan [Dukhan Bank]** | Thank you, Andy. This is Riaz.<br><br>To continue from Osama's remarks on the North Field Expansion and LC/LG's business — we have seen a notable pickup in trade finance volumes. This has been a key driver of performance, alongside the one-off item discussed during our Q1 call. In particular, the increase in LCLG volumes has contributed meaningfully, translating into higher activity.<br><br>Looking ahead, Q2 figures provide a solid basis for modeling, as they do not include any one-off items. This makes Q2 a more indicative quarter of the underlying business trend.<br><br>In cases where deals are finalized earlier than budgeted — or if one-off transactions arise — we remain committed to keeping the market informed in a timely and transparent manner. |

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| | Assuming current momentum continues, we expect to close the year with mid-single-digit growth in fees and commissions, consistent with Q2 trends. |
| **Andy Brudenell [Ashmore]** | Okay. Thank you. Sorry. And just one final follow up and I'll let someone else have a go. On the sort of other income generation has been FX has been pretty good; it's been two consistent quarters. Is that sort of the right level to think about as well on that space, because again that's quite a volatile number? |
| **Riaz Khan [Dukhan Bank]** | We expect a similar trajectory in FX-related fee income in the coming quarters. While there may be occasional one-offs due to seasonal factors — particularly when travel activity impacts FX volumes — we do not anticipate any significant spikes or surprises. Overall, the outlook remains stable and consistent with recent trends. |
| **Andy Brudenell [Ashmore]** | Great. Thank you. I'll let someone else have a go. Thanks. |
| **Operator** | Thank you. Our next question comes from the line of Salome Skhirtladze from Bloomberg. The line is open. |
| **Salome Skhirtladze [Bloomberg Intelligence]** | Hi. Hello. Thank you for the call. I have two follow up questions. The first one is on the NIM sensitivity. Given the structural change of your balance sheet in Q1-Q2, more investments in the securities portfolio. You had your NIM profile changed over that period. If you could quantify that part?<br><br>And the second question is on the liquidity. So, you have seen some increase in the CASA deposits and current accounts. Could you quantify what was the part of the government share from that movement on the deposit account? Thank you. |
| **Riaz Khan [Dukhan Bank]** | Thank you for your questions.<br><br>Starting with the increase in CASA (Current and Savings Accounts), the growth was driven by a combination of factors, but the main contributor was a few private banking clients. Looking ahead, we believe a targeted CASA range of 28% to 30% would be a reasonable assumption for forecasting over the coming quarters.<br><br>Regarding Net Interest Margins (NIMs), if you look at the first two quarters, we achieved an organic improvement of approximately 3 to 5 basis points. This was primarily due to a reduction in cost of funds and stabilization of yields. Based on current trends, we expect NIMs to be in the range of 2.1% by year-end.<br><br>As for interest rate sensitivity, as noted in previous calls, it's challenging to provide a precise outlook given the uncertainty around the evolution of benchmark rates.<br><br>However, as a high-level hypothetical scenario: If we assume a 25 basis point change in benchmark rates (starting from 1 January), and consider the current balance sheet structure with the profit rate sensitivity gaps, we estimate a potential positive impact of approximately 7 to 8 basis points on NIMs. That said, this is purely hypothetical. Actual outcomes may vary due to timing differences, market dynamics, cost of funds evolution, and sector's deposit pricing behavior. |
| **Salome Skhirtladze [Bloomberg Intelligence]** | Thank you. |
| **Operator:** | Thank you. Our next question comes from the line of Abhinav Sinha from Lesha Bank. The line is open. |

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| **Abhinav Sinha [Lesha Bank]** | Hi. I have one question. So, if I look at your net interest income, it increased around 7.5% in two Q. But the flow through to the EPS was a little lower as EPS grew 3%, 4% and I see it's mainly because of depreciation. So, if you can just clarify like what's flowing there.<br><br>And the second thing is, you said that the balance sheet guidance is still 5% for the full year 2025. That means you're expecting to add another QR 5 billion of assets. So, could you please throw some color, like do you expect it entirely from the loan book, or is there some contribution from the investment side as well? Thank you. |
| **Riaz Khan [Dukhan Bank]** | Hi, and thank you for your questions.<br><br>I will address the last question first before moving to the earlier one.<br><br>With regard to balance sheet growth, we anticipate that it will be primarily driven by loan book expansion. As Osama mentioned, there are several deals currently under discussion and ongoing work in the pipeline. Based on that, we continue to target a mid-single-digit growth—approximately 5%—in both the loan portfolio and total assets over the next two quarters.<br><br>Turning to the evolution of EPS and net banking income, we have seen a solid improvement in net banking income, which reflects a combination of better spreads and growth in non-interest (or non-profit) income. However, as we've consistently stated in the past, we remain prudent in our provisioning approach to ensure adequate buffers are built for any potential future risks.<br><br>This conservative stance on provisioning partly explains why, despite a 6% increase in net banking income, the bottom-line growth was around 3%.<br><br>I believe this addresses your questions, and I'm happy to provide further clarification if needed. |
| **Abhinav Sinha [Lesha Bank]** | Yes. And just on depreciation, like what was driving that, the significant increase in depreciation? |
| **Riaz Khan [Dukhan Bank]** | Yes, thank you. There are two main factors contributing to the increase in depreciation.<br><br>First, as you may recall, we moved into our new head office building during the second half of 2024. Accordingly, this year reflects the full annual depreciation charge for that facility, unlike the partial charge recorded last year.<br><br>Second, during the previous year, a number of our facilities were operating under short-term rental contracts due to pending decisions related to relocation. Those contracts have since been finalized, and in 2025 we entered into long-term lease agreements. As a result, the Right-of-Use (RoU) asset depreciation under IFRS 16 has also increased this year.<br><br>These two elements together account for the rise in depreciation expenses. I hope this addresses your question. |
| **Abhinav Sinha [Lesha Bank]** | All right. Understood. Yes, sure. Thanks. Thanks a lot. |
| **Operator** | Thank you. Our next question comes back from the line of Zohaib Pervez from Al Rayan Investments. The line is back open. |
| **Zohaib Pervez [Al Rayan Investment]** | Thank you. My question is on the investment securities. So firstly, the investment book has grown significantly in this quarter. Is it because there is a change in strategy, or is this a new area that you're looking at, and where do you see this stabilizing? Is it going as a percentage of total assets, I mean? Because it has grown significantly from about like what |

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| | 14% last year to now significantly higher. The second question is on the income from this investment book. Even though the book was higher, the income was actually numerically lower. So, could you give us more sense of how? Is it because the investments are made at the end of the quarter, or what is the rationale for those? Thank you. |
| **Riaz Khan [Dukhan Bank]** | Yes, thank you, Zohaib.<br><br>On the investment side, the major increase took place during the last week, so the full impact of that will be reflected in the profitability of future quarters. As for the outlook for the full year, we anticipate that approximately QAR 1 billion could be added further to the investment book until the year-end.<br><br>To provide further context: the recent investments are primarily in high-yield assets and HQLAs. This strategy not only enhances return potential, but also supports the bank's liquidity metrics, including LCR and FX positions.<br><br>That said, in the current reporting period, we observed a dip of around 10% in investment income. This decline is primarily due to a reduction in placements. Beginning in Q4 of last year, we started scaling down placements as part of our liquidity management strategy. Naturally, with lower placement volumes, the associated income declined as well.<br><br>However, it is important to note that while the placement income has decreased, our coupon income has increased, which is directly tied to the recent growth in the investment book. This positive trend may become more evident in the year-end financial disclosures.<br><br>I hope this addresses your question. |
| **Zohaib Pervez [Al Rayan Investment]** | Thank you, and excellent decisions on moving from the interbank loan areas to investments. Could you give us some sense of what is the average yield on your investment book currently? |
| **Riaz Khan [Dukhan Bank]** | The yields are currently in the range of approximately 440 to 450 basis points. The exact yield figures are also disclosed as part of the year-end financial statements, as we report this information annually. |
| **Zohaib Pervez [Al Rayan Investment]** | Sounds good. Thank you. |
| **Operator** | Thank you. There are no further questions. I'll now turn the call back over to our moderator, Shahan, for final remarks. |
| **Shahan Keushgerian [QNBFS]** | Okay. I'd like to thank the management for giving us an update on the second quarter and the guidance, and we will pick this up again in the third quarter. Thank you. |
| **Osama Abu Baker [Dukhan Bank]** | Thank you, Shahan. Thank you, everyone. Thank you. |
| **Operator** | The meeting has now concluded. Thank you all for joining. You may now disconnect. |