

Qatar Bank No. 1 Supplanting Singapore as Canada Slips



Qatar's National Bank is No. 1 in Bloomberg's annual ranking. The tiny Persian Gulf nation boasts the planet's highest income per capita.

By Robert Tuttle & Chong Pooi Koon

The tiny Persian Gulf nation of Qatar controls vast gas and oil deposits that feed billions of dollars annually into the state Treasury. Its petroleum riches make it the wealthiest nation per capita in the world, according to the International Monetary Fund.

While other countries have been struggling to stay out of recession, Qatar averaged 13 percent annual growth during the five years through 2012, Bloomberg Markets will report in its June issue.

The Qatar Investment Authority, a sovereign wealth fund, has big stakes in Agricultural Bank of China Ltd., Barclays Plc (BARC), Credit Suisse Group AG (CSGN) and Tiffany & Co (TIF). It owns London department store Harrods outright.

As Qatar's government has spread its financial wings, the country's biggest financial institution, Qatar National Bank SAQ (QNBK), has been at its side. Under Ali Shareef Al Emadi, its chief executive officer since 2005, QNB has become the largest lender in the Middle East and one of the most profitable. Even as the bank has expanded, Al Emadi has maintained QNB'S capital base and aversion to risk.

As a result, based on its performance in fiscal year 2012, Qatar National Bank is No. 1 in Bloomberg Markets' third annual ranking of the world's strongest banks.

The convulsions that have rippled across the region, including the Arab Spring revolts and a near default in the nearby emirate of Dubai, have only brought new money to Al Emadi's door.

'Good Liquidity'

"We always see good liquidity coming to us when things get bad in the market," Al Emadi says in a rare interview at the company's headquarters overlooking a crescent-shaped bay in the capital of Doha. "That's a very strong signal from customers and investors that they view the bank as a safe haven."

The strongest-bank ranking includes lenders with at least \$100 billion in assets -- something QNB achieved for the first time in 2012 with a series of acquisitions in the Mideast and North Africa that gave it a foothold in 25 countries. The ranking weighs and combines five criteria, including Tier 1 capital compared with risk-weighted assets; nonperforming assets against total assets; and efficiency, a measure of costs against revenues.

Tier 1 capital consists of a bank's cash reserves, common equity and some classes of preferred stock, all of which combine to act as a shock absorber against losses when the economy hits a rough patch.

QNB joins a ranking whose top tier is dominated for a third year by Asian and Canadian lenders. Singapore's Oversea-Chinese Banking Corp. (OCBC), No. 1 the past two years, dropped to No. 2 in 2012.

Canada Falls

Some of Canada's banks also fell, as the industry was hit by ratings downgrades and hurt by a slowing economy and an increasingly risky housing sector. An exception was Bank of Nova Scotia (BNS), or Scotiabank, which moved up to No. 7 from No. 18.

In regional rankings, three of the top five European banks are Swedish, while all four of the strongest banks in South America are in Brazil.

In a surprising development, Citigroup Inc. (C) ranks as the strongest U.S. bank. At No. 9, it comes in ahead of JPMorgan Chase & Co. (JPM), which is No. 15. David Knutson, a senior

analyst at Legal & General Investment Management America, says the Federal Reserve gets the credit, for refusing to allow Citi to dissipate its capital through share buybacks and dividends.

Maybank No. 13

Another new entrant is Kuala Lumpur-based Malayan Banking Bhd (MAY). Maybank, as it's known, now has 2,200 branch offices in 20 countries. CEO Abdul Wahid Omar attributes its No. 13 rank to tough supervision by Bank Negara Malaysia, the central bank, and new stress testing and risk-control measures inside the bank.

Government supervision of Qatar's QNB comes with the territory. The bank's chairman, Yousef Kamal, is the country's finance minister. It's 50 percent owned by the QIA, the \$100 billion fund that absorbs much of the country's oil and gas revenues.

Bigger than all other publicly listed domestic lenders combined, QNB provided 66 percent of loans to the government and government-owned entities last year, while state agencies accounted for more than half of deposits, according to data provided by the bank.

"The bank is essentially an extension of the state," says Akber Khan, director of asset management at Al Rayan Investment in Doha. "Any concerns about future capital adequacy or balance sheet strength are entirely redundant."

Government ties don't explain all of QNB's strength, says Al Emadi, who graduated from the University of Arizona with a degree in finance.

'We Lose Deals'

"We are very close to the government and government agencies, but we get deals on a very much commercial basis," he says. "We lose deals; we get deals."

While the bank benefited from the government's purchase of its real estate investments after the 2008 financial crisis, it didn't receive a government capital increase as other local lenders had. QNB'S profits have risen by an average of 27 percent a year during the past five years.

QNB has become a global financial force, driven to do business outside the country in part by the small size of its home market. Qatar's population is 1.9 million, and just 20 percent of its residents are native Qataris. As economic turmoil gripped the world, other banks shrank into their home territories, Al Emadi says.

"We've done completely the other way around," he says.

Buying in Libya

During 2012, the bank purchased stakes in Iraqi and Libyan lenders. In March 2013, it bought the Egyptian branch of France's Societe Generale SA (GLE) for \$2.45 billion. In April 2012, it sought to acquire Turkey's Denizbank AS; it lost out to Moscow-based OAO Sberbank.

In 2011, QNB acquired a controlling stake in Indonesia's PT Bank Kesawan. Indonesia is the home market for PT Indosat, which is controlled by QNB customer Qatar Telecom QSC. The Qatar phone company recently changed its name to Ooredoo.

"QNB's profits have doubled in the last three years," Khan says. "For very rapid growth to continue, growth outside Qatar will be necessary."

Malaysia's Maybank (MAY) owes its size and strength to the aftermath of the 1997 to 1998 Asian financial crisis, which forced the devaluation of the region's currencies and the near collapse of a dozen Indonesian, Malaysian, South Korean and Thai banks.

In Kuala Lumpur, Bank Negara Malaysia orchestrated mergers that combined the country's 60-plus financial institutions into 10 big commercial banking groups, now reduced to eight. Maybank emerged from that shake-up as Malaysia's biggest lender. It has since expanded further to become the fourth-biggest bank by assets in Southeast Asia.

A Pragmatic Approach

"The central bank has always adopted a very pragmatic supervision approach," Maybank CEO Abdul Wahid says. "Whenever there are signs of problems, Bank Negara has never been hesitant to intervene."

Maybank's rapid overseas expansion began with the acquisition of a controlling stake in PT Bank Internasional Indonesia (BNII) in 2008. The bank aims to extend its footprint to all 10 members of the Association of Southeast Asian Nations as the region moves toward a planned economic integration by 2015, Abdul Wahid says.

Maybank earned 30 percent of its pretax profit from overseas operations last year, the bulk of it from Indonesia and Singapore.

Alfred Chan, director of financial institutions at Fitch Ratings in Singapore, says Maybank had no choice but to look for growth outside its home territory.

'Highly Saturated'

"Malaysia and Singapore are highly saturated banking sectors," he says. "That means profitability tends to be on the lower end."

Maybank's answer has been to expand to fast-growing nations such as Indonesia. But in Indonesia, "risk is also relatively higher compared to Malaysia," Chan says.

As the Kuala Lumpur-based lender, which includes an Islamic-banking unit, has expanded, it's also strengthened its risk management team.

"We needed to make sure that we have the right people with the right skills to manage our risks," the CEO says. "That has been done."

There's now a risk-control team embedded in every key division of the bank, a spokesman says.

Malaysia started putting into place the so-called Basel III rules, designed to reinforce the capital of big international banks, on Jan. 1 -- ahead of a majority of the 27 members of the Basel Committee on Banking Supervision. In October, Maybank raised 3.66 billion ringgit (\$1.18 billion) from a private placement of its shares to help bolster its capital.

Basel III

And the bank says it has instituted several other Basel III reforms ahead of the international group's timetable, which stretches the process to 2019.

"We always believe in being ahead of the curve," Abdul Wahid says. "We are very much prepared to meet all the new requirements under Basel III."

As Asian banks have gained strength, Canadian banks have lost a little of their luster. While five of the six biggest Canadian banks are among the 20 strongest, only two -- Scotiabank (BNS) and Royal Bank of Canada -- improved their positions. Toronto-Dominion Bank (TD) fell to No. 8 from No. 4. Still, Toronto-Dominion CEO Ed Clark says nothing has changed.

"Every year, our stress tests tell us we're stronger than the previous year," he says. That's in part because the bank continues to avoid areas like structured finance, he says.

No Foolish Bets

"You don't have to go out on the risk curve to look after the shareholder, and it's a foolish bet to do that," Clark says.

Canada's banks have been bracing for a lending slowdown as the country's household debt-to-income ratio reached a record 167 percent at the end of 2012. Standard & Poor's lowered credit ratings on six Canadian lenders by one grade in December, and Moody's Investors Service followed suit in January with downgrades on six lenders.

S&P forecast that revenue and loan growth would slow to mid-single-digit levels in 2013 from 9 percent and 10 percent in 2012.

“We base this expectation on a slowing domestic retail lending business -- the banks’ largest growth engine and revenue contributor,” the ratings company said in a March 21 report.

Citigroup (C), which was rescued from insolvency in 2008 with a \$45 billion U.S. government bailout, makes the Bloomberg Markets ranking after being excluded in 2011 for failing the Fed’s stress test. Assets in Citi Holdings, the New York institution’s so-called bad bank, tumbled 49 percent in the two years through March to \$149 billion.

Declining Risk

“The businesses that they’ve exited are higher-risk businesses,” Legal & General’s Knutson says. “You remove them from the balance sheet and the level of risk declines.”

Even as Citigroup ratcheted down its risk and increased its capital, the board of directors decided new management was needed and replaced CEO Vikram Pandit with Michael Corbat, a prior head of the bad bank.

Unlike Citigroup, Qatar National Bank has no quarrel with the government over its size or the quality of its assets.

“Five years ago, the government’s goal was to make QNB the largest bank in the region,” Al Rayan Investment’s Khan says. “Growth has been astonishing, and the objective was achieved very rapidly.”

And as the bank continues to fund Qatar’s ambitious projects, he says, “the government will make sure it has the capital it needs.”

How We Crunched the Numbers

To identify the world’s strongest banks, we used the Equity Screening function on the Bloomberg Professional Service to obtain a list of the 78 banks with total assets of \$100 billion or more as of mid-March.

The ratio of a bank’s Tier 1 capital to its risk-weighted assets accounted for 40 percent of each bank’s overall score. The ratio of nonperforming assets to total assets got a weighting of 20 percent, as did the ratio of reserves for loan losses to nonperforming assets. The ratio of deposits to funding accounted for 15 percent of the score. And the efficiency ratio, which compares costs with revenues, received a 5 percent weighting.

Banks were ranked on each criterion, and the ranking positions were weighed and combined to determine the banks’ overall scores. Lenders that reported a loss in net income for 2012 or that failed the Federal Reserve’s most recent stress test were excluded.

All data are for the banks’ 2012 fiscal year, which in most cases ended on Dec. 31. Banks that hadn’t reported data for fiscal year 2012 by March 31 weren’t included.
