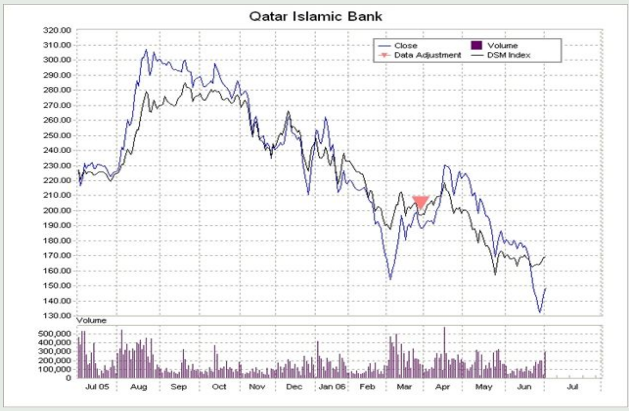
Qatar Islamic Bank (QISB.QA)

July 12, 2006

Key Data

Listing	Doha Securities Market
CMP (QAR)	146.00
YTD Change	-39.5%
52-week High/Low (QAR)	307.13 / 131.90
Mkt. Capitalization (QAR)	19,667 Mill
Annualized EPS (QAR)	7.71
BV (QAR)	21.07
PE	18.94
PBV	6.93
Div. Yield (%)	1.01

Price History



Financial Summary

(QAR '000)	**1Q'06**	**1Q'05**	***% chg***
Financing Income	160,974	102,479	*57.1*
Investment Income	75,197	91,319	*-17.7*
Commission Income	117,671	12,398	*849.1*
Administrative Expense	35,053	26,275	*33.4*
Net Profit	258,470	131,327	*96.8*
Segmental Info			
1) Operating Income	*236,171*	*193,798*	*21.9*
2) Other Income	*135,655*	*10,769*	*1159.7*
Shareholder's Equity	2,145,743	1,666,415	*28.8*
Share Capital	994,500	390,000	*155.0*
Retained Earnings	259,588	149,267	*73.9*
Basic EPS (QAR)	3.90	3.37	*15.7*
Return on Equity (%)*	48.20	31.52	*52.8*
Return on Assets (%)*	9.48	6.44	*47.0*

**Quarterly figures annualised*

For the quarter ended March 31, 2006, **Qatar Islamic Bank** (QIB) posted a net profit of QAR 258.47 million, 96.8% more than the QAR 131.33 million recorded for the comparable period a year ago. Net operating profit soared 93.8% to QAR 314.53 million at the end of 1Q'06 versus QAR 162.32 million at the end of 1Q'05. The bank also logged an improvement in return on total assets to 2.37% from 1.61% in the year ago period. For the quarter, QIB's total assets touched QAR 10.89 billion and shareholder's equity stood at QAR 2.15 billion.

Earlier, for the year ended December 31 2005, QIB had posted a net profit of QAR 511.25 million, up a handsome 73.9% from the QAR 294.06 million reported for 2004. Following robust results, the bank had announced 75% cash dividend on paid up capital. Despite a 70% increase in share capital during 2005 as against the previous year, EPS climbed to QAR 7.71, from QAR 4.5, showing a y-o-y growth of 71.3%. The ratio of shareholders' equity to total assets also surged to 21.94% in 2005 from 19.33% in the previous year.

Company & Industry Overview

Established in 1982, QIB ranks among the top ten Islamic banks in the world. It has been providing Shariah-compliant financing to various institutions such as industrial and insurance companies for the past 24 years. The bank has played an important role in the development of Islamic banking both regionally and internationally by establishing some of the leading Islamic financial institutions. For the year 2005, QIB was awarded 'The Best Performing Islamic Bank' on the basis of its distinctive leadership and profitability.

With total assets touching USD 400 billion globally, the Islamic banking industry has witnessed robust annual growth of around 10% to 15% against a lackluster 7% for conventional Arab banks. Currently, there are more than 300 Islamic financial institutions spread across 75 countries. Islamic financial institutions seek to raise their client base by improving customer services and innovative products. In addition, Islamic banking is widening its horizons to include unexplored markets outside the GCC region, as its principles find acceptance among both Muslim and Non-Muslim communities.

With the perception of Islamic Banking as a lucrative business segment gaining momentum, some heavyweight international banks such as ABN Amro, Citigroup, HSBC, UBS among other have also opened Islamic banking subsidiaries by introducing Shariah-compliant products. According to estimates, Islamic banking will continue to expand at its historical growth rate of 10% to 15% per annum in the near future as well.

TAIB Brokerage Services

TAIB Securities WLL
TAIB Tower, Diplomatic Area
Post Box 20485, Manama, Kingdom of Bahrain
Tel: +973 17549499
Fax: +973 17916035
research@taib.com; www.taibdirect.com

Recent Developments

On May 1, 2006 the QIB board approved a restructuring project, which will be implemented with the help of PriceWaterhouseCoopers (PWC), a reputed international consultant. The restructuring process will enable QIB to achieve its long-term plans of geographical expansion to minimize country risk and credit risk. Meanwhile, QIB also plans to float a 20% Rights Issue in order to raise capital. Recently, the bank also started three new branches, launched new e-banking services, and introduced new financial products into retail and corporate banking.

In March 2006, QIB unveiled plans to set up Qatari Finance House (QFH) – the first Islamic investment bank in Doha, in collaboration with Gulf Finance House (GFH). A fully dedicated Islamic investment bank and the first of its kind in Qatar, QFH will have an authorized capital of USD 1 billion with a paid-up capital of USD 500 million. QIB and GFH will jointly manage QFH with a 15% stake each and the remaining 70% of equity will be offered through an Initial Public Offer (IPO). QFH will offer innovative products (meeting Shariah standards) such as managed funds of equity and debt securities, infrastructure & real estate direct investment, private equity & venture capital direct investment, structured products, corporate finance advisory services. With this, both QIB and GFH are likely to see a rise in their fee-based income.

In the first half of 2006 QIB launched the Asian Finance Bank (AFB) – an Islamic Bank based in Malaysia. It is in the process of initiating procedures to form a European Finance House (EFH) based in London, offering trade finance and trade related support to Islamic financial institutions. EFH will focus on core investment banking by facilitating other financial institutions in the European region, while AFB will concentrate on investment and corporate banking in the Asian region.

Concerns

Qatar's banking sector has become highly competitive with the presence of some international banks, which may adversely affect the profit margins of QIB, going forward. On account of receiving deposits at negligible cost, Islamic banks have managed to have high profit margins by using them in consumer financing and Murahaba markets. However, with ever increasing customers' demand, it may put some downward pressures on the sizeable profit margins for QIB. Moreover, constant contradictions among Shariah scholars regarding Shariah standards, has led to confusion in product innovation. To make matters worse, Islamic banking suffers from a lack of international standards, poor disclosure and transparency norms, illiquid products, unviable inter-bank market & money market, and a low number of Shariah scholars. All these factors can make it tough for QIB to continue with its rapid growth. To face these challenges, the bank needs to grab more market share through consolidation to achieve sustainable growth.

Outlook: Positive

Qatar remains one of the fastest growing economies in the GCC region with a plethora of investment opportunities that QIB can seize. Further, the bank plans to diversify its investment portfolio through foreign investment projects. It is also trying to tackle the intense competition by entering into partnerships and strategic alliances. QIB's stock has lost nearly 40% since the beginning of 2006 in line with the erosion ofg value in the stock markets in the region, and the Doha Securities Market in particular. Its current PE multiple of 18.9 multiple of 21.37 is at a slight discount to the market PE (of around 20), which gives further credence to the current valuations, given its strong leadership position. We believe QIB is well positioned to carve a niche for itself in Islamic finance in the coming years. Consequently, our outlook on QIB's growth potential in the foreseeable future is POSITIVE.

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