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Qatar National Bank

Reuters (QNBK.QA)

Equity Research
Initial Coverage

August 2006

Established in 1964, Qatar National Bank (QNB) is the State of Qatar's first Qatari-owned commercial bank, and with a market capitalization of QR 27.9 billion by June-end 2006 - which grew to peak at QR 36.99 billion on August 20, 2006 - is one of the Doha Securities Market's (DSM) largest listed companies.

Like other major Qatari banks, QNB experienced outstanding growth (85.7%) in its net profit during 2005, reaching QR 1,537 million as compared to QR 827.5 million in 2004.

Results for the first half 2006 indicate further growth with net income posting a substantial increase of 56.8% over the corresponding period of the previous year.

The success of the Qatari banking industry and that of QNB can be attributed to the healthy economic growth in Qatar, as it has become one of the fastest growing economies in the region boasting industrial nation-like GDP per capita figures in recent years.

QNB continues to develop its capabilities to remain Qatar's leading financial institution and aims to become a major regional player, amidst its effort to diversify revenue streams and enhance operational robustness.

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Qatar National Bank

41 Years of Ongoing Success

Building on a 41-year heritage of banking success, and thanks to a local and regional economic boom induced by rising energy prices, Qatar National Bank (QNB) enjoyed outstanding performance in 2005 that continued through the first half of 2006.

This growth has helped instigate QNB to undertake a number of initiatives along with the introduction of several important products and services, where it became the first commercial bank to offer Islamic Banking Services in Qatar, and was the first to establish an investment fund for both Qatari and Non-Qatari investors. Moreover, the acquisition of Ansbacher to become a wholly owned subsidiary of QNB, underlines the bank's expansive strategy into other markets in the region. The mentioned acquisition was carried out by the Luxemburg-based holding company, QNB International Holding Limited. Ansbacher was the first financial institution licensed to operate in the Qatar Financial Center in October of 2005.

QNB upholds its presence in both London and Paris, and continues to broaden its services across the Qatari boarders. It has recently acquired a stake in Mansour Bank; a newly formed Iraqi bank launched in September 2005. In addition, it plans to enter the Syrian and Iranian markets through a new private bank in Syria; Syria and Gulf Bank, and through a representative office in Iran that is due to be operational during 2006. It has also expressed interest in entering the Jordanian market

QNB ranks as one of the leading banks in the region in terms of shareholder equity. Moreover, it was the recipient for a number of banking awards from leading international financial publications, beside the upgraded ratings granted by well-recognized rating agencies.

QNB benefited from the strong growth witnessed in Qatar's economy thanks to increasing energy prices. Qatar's Real Gross Domestic Product, rose by almost 9% in 2005, with similar growth rates expected in the years ahead, as Qatar's overall development continues to accelerate. With significant proven reserves of oil and gas, Qatar continues to be on the receiving end of surging energy prices. The economic boom, and associated surplus liquidity, was reflected by the Doha Securities Market DSM price index that had increased by around 70% during 2005 over the previous year. However, and on the flip side of excess liquidity, a large number of DSM-listed companies suffered the bearings of an overvalued market as the DSM entered a severe correctional movement early in 2006. The market index lost 31% of its value by the end of June 2006 as compared to year-end 2005.

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2005 - First Half 2006 Highlights

2005 group revenues grew by 83.6% over 2004, net profit by 84.3%

- 2005 was a year of record financial performance for QNB. The bank ended the year posting a strong 83.6% growth in consolidated revenues over 2004 coming in at QR 2.19 billion while net income before tax reached QR 1.54 billion marking an 84.3% increment over last year's figure of QR 837.6 million. Net income also marked stellar growth as it witnessed an 85.7% boost to reach QR 1.54 billion, up from QR 827.5 million delivered the previous year.

H1 revenues grew by 37.6% over the same period of 2005 despite market downturn

- QNB further strengthened these results when its revenues reached QR 1.34 billion during the first six months of 2006; a 37.6% growth over the figure achieved for the same period during 2005. Despite this being considerably lower than the growth figures achieved in 2005, it does however remain of remarkable value considering that adverse conditions affected the region's stock markets as a whole since the beginning of the year, and the GCC countries in particular. Rising stock values were a major contributor to the significant revenue growth of local and regional banks in 2005.

Total assets grew by 26.6% in 2005, while H1 2006 growth came in at 16.2%

- Total assets rose by 26.6% from QR 39.5 billion at year-end 2004 to reach QR 50.1 billion by the end of 2005. The figure was further augmented by 16.2% to reach QR 58.2 billion by the end of June 2006. Noteworthy is that total assets under QNB control represent approximately 50% of the Qatari banking sector total assets.

Dividends paid saw shareholders equity drop 7.3% during H1 2006 after having grown 30.3% in 2005

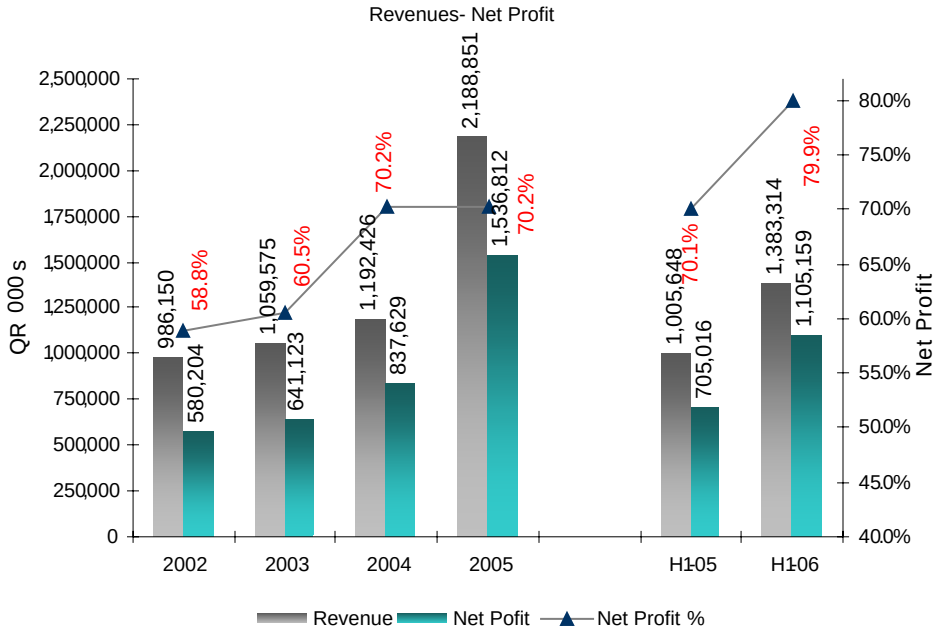
- The bank's shareholders equity reached QR 8.07 billion by June 30th, 2006, down 7.3% (mainly due to dividends distributed) from the year-end 2005 figure of QR 8.71 billion, which in turn had posted an increase of 30.3% over the QR 6.68 billion figure of 2004. Here we should note that the government of Qatar owns 50% of the capital with the remaining 50% being owned by the private sector.

Islamic Banking saw unrestricted investment deposit owners' equity grow 18.7 times during H1 2006

- The unrestricted investment deposit owners' equity that relates to the Islamic Banking arm division established in 2005 witnessed tremendous growth during the first six months of 2006. This balance sheet line item grew by 18.7 times to reach QR 4.66 billion by June 30th, 2006, up from QR 249.1 million at year-end 2005.

Cash dividends of QR 7.5 (US$ 2.06)/share. Pay out ratio 67.6% of net profits, plus 25% bonus shares

- In the light of the above achievements, QNB's board of directors recommended to the Bank's General Assembly the approval of a cash dividend of QR 7.5 per share (75% of par value), plus bonus shares of one share for every four shares (one-to-four). The 2004 cash dividend stood at QR 6 per share. The Annual General Assembly approved the board's recommendation for the cash dividends and the bonus issuance in February 2006.



- Revenues, net profit and net profit margin have all grown progressively throughout the 2002-2004 period. The 2005 Net Profit margin suffered with a slight 0.04% decline. The semi annual revenues, net profits and net profit margin continued on an upward trend peaking at QR 1.383 billion, QR 1.105 billion and 89.9% by the end of 2006, respectively.

QNB offers Islamic Banking Services, Watani fund

- QNB was the first commercial bank to offer Islamic Banking Services in Qatar through its 'Al Islami' subsidiary in April 2005. Moreover, it was the first to offer a Doha Securities Market Fund, 'Al Watani Fund' for all investors as of September 2005. Additionally, QNB owns the Ansbacher Group Holding Limited; the first company to operate in the Qatar Financial Center. QNB has also acquired a 25% stake in the Mansour Bank in Iraq and plans to expand into the Syrian and Iranian market during 2006.

2005 credit rating improves

- Higher credit ratings were assigned to QNB during 2005 from a number of leading credit rating agencies. The upgrade reflects the bank's strong fundamentals and leading position in a fast growing economy. The ratings place QNB as the highest-ranking bank in the region.

Rating Agency	2004	2005	2006
Standard & Poor's	Stable Outlook		
Long term counterparty bank credit and deposit		A	
Short term rating		A1	
Fitch			
Support rating		2	1
Long-term			A-
Short term		F2	
Individual rating			B/C
Capital Intelligence	Stable Outlook		
Financial strength rating	A-	A	
Short term foreign currency		A2	A1
Long term foreign currency	A-	A+	
Domestic strength		A-	
Foreign currency deposit rating			A-
Support rating			1
Moody's	Stable Outlook		
Financial strength rating	D+	C-	
Long term foreign currency	A3	A1	
Short term foreign currency	P2	P1	

Source: Qatar National Bank

QNB was able to harvest several awards during 2005 for its remarkable performance

- QNB ranked among the top banks for 2005 in the Gulf region. Additionally it has been the recepient of many awards from leading international specialized financial publications in 2005. Below is a list of achieved awards

Date	Awards won by QNB in 2005 include	
May-05	JPMorgan Chase Elite Quality Recognition Award	JPMorgan
Jun-05	Best Debt House	Euromoney
	2nd Middle East Banking and Finance Award for excellence in e-banking	
	Best Emerging Market Bank Award for Qatar	Global Finance
	Best Treasury and Cash Management	Global Finance
	Best Bank Gulf Real Estate Award	Euromoney
	Best Project Finance Bank in the Middle East	Pipeline
	Best Bank in Qatar	Global Finance
Sep-05	Best Bank in Qatar Award	The Banker
	Best Internet Bank Award	Global Finance
	Best Debit Bank	Euromoney
	Best Trade Finance Partner	Project Finance
	Global Best Bank for Risk Management in MENA	Global Finance
	Best Foreign Exchange Bank in Qatar	Global Finance

The bank focused on customer satisfaction by deploying required technologies

- QNB intensified its focus on technology as a means to provide financial services besides increasing customer's satisfaction. In May 2005, QNB went live with MISYS Equation Profitability Analysis, which would enable the bank to improve revenue streams and focus efforts and resources to better serve customers. In addition, the bank revealed in August of 2005 that it had installed its first Cash Acceptance Machine at the Bank's main branch in Doha to enable customers to pay cash into their accounts through a machine without having to queue for a teller, a step aimed at increasing accessibility to customers.

Retail card services simplified and upgraded

- Moreover, and in October of the same year, QNB announced that it had acquired the licensing of ACI Smart Chip Manager solution that would help facilitate simpler and more convenient bank-issued card services for its retail customers. During the same period, Qatar National Bank signed an agreement with Card Tech Limited (CTL) for an upgrade to PRIME 3.0, the latest version of CTL's leading card management system, and for M/chip and Visa Smart Debit Credit (VSDC) certification.

Electronic pre-paid card launched

- In cooperation with the Ministries of Interior and Finance, QNB launched an electronic pre-paid (ecash) card in May 2005 to be initially used for payment of fees and fines at the Ministry of Interior, part of an effort to facilitate cashless transaction throughout government agencies. In mid-2006, the bank announced major reductions on the card's initial fees for issuance, and the initial loading charge of the card.

Co-branded credit card had been launched by QNB and Qatar Airways

- QNB launched a co-branded credit card with Qatar Airways, the airline' first co-branded credit card. The Privilege Club credit card is exclusively for members of the airline's frequent flyer program and forms an extension of the five-year relationship between the two organizations.

- As part of the marketing strategies, QNB has offered a MasterCard promotion, which gave customers the chance to win four trips to the 2006 world cup football in Germany.

QNB Al Islami, sponsors the 2nd IFSB Summit

- QNB Al Islami, sponsored the 2nd Islamic Financial Services Board (IFSB) Summit, held on May 2005. The summit provided an opportunity for organizations to reinforce and develop their Islamic banking credentials and understandings amongst their peers in the Islamic financial services industry. Governors and senior officials from Central Banks around the globe participated in this important event held in Qatar for the first time.

QNB and Dar Investment & Development sign client financing MoU

- In July 2005, a Memorandum of Understanding was signed between Dar Investment and Development and Qatar National Bank for property financing. Dar Investment and Development is the owner & developer of Lagoon Plaza. According to the agreement QNB will provide banking facilities and funds to purchasers who wish to buy apartments at the Lagoon Plaza.

QNB sponsors number of educational initiatives

- In November 2005, Qatar National Bank announced its support in shaping the country's educational future by sponsoring a scholarship program for students of Virginia Commonwealth University School of Arts in Qatar (VCUQ). A total of QR 176 thousand was offered to the university to this end. In addition, QNB continued its support to education by sponsoring the Tasmeem Doha 2006; the international design conference organized by VCUQ.

Fraud detection training undertaken in December 2005, related solutions deployed

- Qatar National Bank conducted Proactive Risk Management intensive training in December 2005 for Merchant Fraud and Debit/Credit Card fraud detection. The training programs, conducted with Partner Relationship Management (PRM) Systems supplied by ACI Worldwide, provided comprehensive fraud detection solutions for the merchant acquiring and processing as well as online and offline card environments. The PRM system will support QNB's efforts in minimizing operational risk and maximizing profitability through fraud loss savings and improved customer service.

QNB provides Dlala with its STES gateway.

- Qatar National Bank (QNB) and Dlala Brokerage & Investment Holding Company (Dlala) have signed an agreement in January 2006, whereby QNB provides Securities Trading e-Settlement Gateway (STES). The STES is an infrastructure that allows QNB and Dlala customers to trade directly on the Doha Securities Market. The e-settlement platform will facilitate trade/settlement between customers and the DSM and allow them to conduct sourcing, sales and order transactions online.

QNB launches a full service mobile branch in the beginning of 2006

- During January 2006, QNB released a full service mobile branch, a fully secured and attended service with Teller Window and a walk-in Customer Service area. This innovative concept will enable customers to carry out a range of banking services onboard including 24-hour ATM facilities, cheques encashment, deposits, bill payment, checking balance, Hala Card top-ups and account opening.

QNB joins consortium to establish three Islamic banks in Syria

- Qatar National Bank is participating as one of the consortium partners with the Saudi Dallah Al-Baraka Group and the Commercial Bank of Kuwait, which have been awarded licenses to open three banks in Syria that will operate under the Islamic principles.

QNB single-handedly managed Al Rayan Bank IPO, and acted as its subscription manager

- In the first quarter 2006, QNB handled the initial public offering and acted as the subscription manager for Al Rayan Bank without help from an external consultant or other foreign banking partners. Al Rayan IPO is QNB's tenth IPO management project. The surplus amount collected toward the IPO was refunded for the subscribers, the oversubscribed money, in the neighborhood of QR 11 billion, was handed over to Qatar Postal Corporation for distribution.

QNB and QNB Al Islami lead a QR 375 million financing package for Qatar Real Estate Investment Company

- QNB and QNB Al Islami have been mandated in February 2006 to lead the arrangement of an Islamic financing package totaling US$ 270 million for Qatar Real Estate Investment Company, which will utilize the proceeds to develop various projects in Qatar. The financing arrangement will involve a 'Sukuk' issue and a syndicated Islamic facility.

- In collaboration with STS and Hypercom, QNB is to install the Hypercom Optimum point-of-sale (POS) terminals and applications at different locations throughout Qatar in a merchant card-acquiring plan.

- Customers financing their vehicles through QNB during the period November 2005 to February 2006 were included in a Hummer H3 draw at the end of the promotion period, held during March 2006.

QNB proactively engages in sponsoring community activities

- With a well-established sponsoring agenda in Qatar, QNB will sponsor a new, weekly community leisure event, the QNB Cyclofun that aims to promote health and well being among the community. Furthermore, the bank sponsors the series of motorbike races previously known as the Losail National Cup.

Company profile

Established in 1964, the first Qatari-owned commercial bank in the country.

Qatar National Bank was incorporated in the State of Qatar on 6th June 1964, as a joint stock company under Emiri Decree No. 7 issued in 1964 being the first Qatari-owned commercial bank.

Largest Qatari bank in terms of net assets and market cap

Qatar National Bank (QNB) is the largest bank in the State of Qatar in terms of net assets and market capitalization. It has the largest distribution network in Qatar with 32 local branches and offices; the head office is incorporated in Doha, two international branches in London and Paris and 79 ATMs. Additionally, QNB owns 100% of the issued share capital of Ansbacher Group Holdings Limited.

The Bank is engaged in a full range of commercial banking activities for individuals, corporate institutions and government entities besides the Islamic banking services and products, that were launched in April 2005 by opening the first specialized Islamic branch, QNB Al Islami. QNB continues to expand its business network and capture new markets; it was the first commercial bank to offer Islamic banking services in Qatar and the first to establish an equity fund (Al Watani Fund) in Doha Securities Market for investors at all levels.

QNB controls around 50% of the total banking system assets.

QNB has grown to become the largest bank in Qatar, controlling more assets than the rest of Qatari banking sector grouped together and representing approximately 50% of the total Qatari banking system assets.

The bank's capital amounted to QR 1,038 million by year-end 2005, with shareholders equity amounting to QR 8,708 million; this corresponds to 30.3% increase over 2004. Furthermore, the bank witnessed a capital increase during the first quarter 2006 to reach QR 1,297 million; a 25% increment over the 2005 year-end figure.

The bank's ownership structure at the end of H1 2006 looked as follows:

Shareholder	Holding
Government of Qatar	50%
Private Sector	50%

Source:Qatar National Bank

QNB's Board of Directors is comprised of the following:

- Chairman
  H.E. Yousef Hussain Kamal
- Vice Chairman
  H.E. Sheikh Hamad bin Faisal bin Thani Al-Thani
- Group of Members

Service Offering

QNB provides a full range of commercial banking activities for individuals, corporate institutions and government entities besides its investment banking services and more recently, the Islamic banking services and products

Personal Banking

- Deposit Services
    - *Current and Savings accounts*

      Conventional account types differentiated by the availability of a Personal Account Officer assigned to oversee the banking requirements on a one-to-one basis.
    - *Ladies Account:*

      Gender-specific banking service tailoring to the needs of a large segment of the market. Accounts holders can receive advice from lady bankers in tune with their financial needs and requirements.
    - *Mazaya:*

      The Mazaya Account package provides exclusive benefits to the corporate clients. This service is available to employees of companies on QNB's list of approved companies and corporations.
    - *University student account:*

      Custom-designed service for high-achieving academic students aimed at providing benefits to assist postgraduate life.
    - *Children Account*

      A Young Investor Program, designed for youth up to 17 years of age, provides four distinct options (Saving scheme: silver & gold and Time deposit scheme: silver & gold) each offer an array of benefits.
    - *Fixed deposits:*

      The QNB Fixed Deposit is an account intended for customers who have substantial non-utilized funds are considering a low-risk depository location with consistent and assured returns. Starting with a minimum of QR 10,000 (or its equivalent in all major currencies) funds can be invested for a fixed period ranging from one month upwards. The rate of return depends on the amount of money invested and time period.

- *Call-Notice deposit*

  The product is aimed at customers who wish to earn additional returns while maintaining instant access to their funds with a minimum balance requirement of QR 10,000 (or the equivalent in all major currencies). Customers can conveniently manage their finances while generating returns on their funds. By linking their Call Account and Current Account, QNB'S Account Management System will cover Current Account withdrawals from a Call Account or transfer excess funds to a Call Account thereby optimizing the return on the deployment of the customer's funds.

- Cards

  - *Al Watani electron card*

    Enables customers to have direct access to cash, in their current or savings account from any Automated Teller Machines (ATM) in Qatar or round the world. Plus, access to a whole selection of services, when using QNB ATMs.

  - *Al Watani credit cards*

    Enable customers to use a line of credit, which allows the customers flexible payments and earns the customers points on any transaction they make which can be used for free flights through the QNB and Qatar Airways partnership.

  - *Visa and MasterCard*

    QNB's Al Watani Visa and MasterCard's are accepted at over 1500 establishments in Qatar and 24 million worldwide. Al Watani Visa and MasterCard holders can obtain a cash advance from over 840,000 ATMs displaying either the Visa or MasterCard symbols and up to their card limits from member banks around the world.

  - *Platinum Master Card:*

    The Al Watani Platinum MasterCard extends an exclusive range of benefits to suit QNB's most valued clients' lifestyles, including a Worldwide Concierge Service, and Global Assistance Service for all emergencies.

  - *The Credit Card e- Statement*

    A detailed credit card statement sent automatically to customers by e-mail. The statement contains a summary of customer's credit cards, balances and detailed statements. A printable payment slip is also attached, which could be sent to the bank with payment.

  - *Qmiles:*

    QNB partnership with Qatar Airways enables clients to earn Qmiles for every credit card transaction cardholders make.

  - *Al Watani E-Card*

    Allows the user to have a specific card when using the internet and making on-line purchases with its reduced limit, the E-Card makes it more protective against any misuse and reduces fraud.

- *E-CASH Card*

  E-CASH Card is a non-personalized prepaid card introduced for the exclusive use at the Ministry of Interior locations, for transactions such as paying residency permit fees, traffic violations, etc. The card is available to anyone whether he/she is a QNB customer or not. Card balance can be checked at any of QNB's ATMs. Additionally the card can be replenished at any authorized agent.

- Electronic Transfers
  - *Transfer to another QNB account*
  - *Transfer to accounts at another bank in Qatar*
  - *Transfer to accounts outside Qatar*

- Insurance
  - *Life insurance*
  - *Accident care:* is a personal accident program offered by QNB in conjunction with ALICO (American Life insurance Company).

- Loans

QNB provides a variety of loan choices:

  - *Personal Loan*
  - *Vehicle Loan*
  - *House Loan*
  - *Land Loan*

- Private Banking

- Safety Deposit Lockers

Safety Deposit Lockers are available at QNB for customers' valuable belongings. There are boxes of different sizes to suit each individual customer's requirements.

- International Services

QNB has branches in London and Paris, offering complete financial assistance while traveling, including ATM facilities.

- Traveler's Cheques

Traveler's Cheques are a convenient and safe way to carry money when traveling abroad. QNB issues American Express and Thomas Cook Travelers Cheques in all major currencies on demand at all branches.

- QNB Alerts

QNB offers all account holders this free service in which direct updates on credit card, debit card and account activities are received on the customer's mobile handset as an SMS message. The service is available in two languages; Arabic and English with two types of services; push and pull.

Some of the available services:

- Keep track of card usage.
- Be alerted on spending.
- Utility bill payment confirmation.
- Account overdrawn notification.

Corporate Banking

- Commercial Banking

This unit/division is responsible for delivering a comprehensive range of banking services to the business sector. Within the general categories of manufacturing and trading, this unit covers the following industries and sectors, among many others:

- Import & export of commodities
- Components, spare parts, and tools
- Transport, vehicles and heavy equipment
- White goods/appliances and furnishings
- Foodstuffs, agricultural products and consumables
- Telecommunications
- Money exchange; and insurance services

- International Corporate Banking

This division works at:

- Developing profitable new business with corporate entities of global standing with investment, contracting or trading interests in Qatar.
- Serving as a relationship management center for the entire Qatar Petroleum (QP) group of companies and for a range of flagship Qatari private and public sector corporations outside the QP Group.
- Acting as QNB's resource center for structured asset finance (principally ship and aviation finance) and industrial project financing.

The scope of these assignments is such that International Corporate Banking is heavily reliant on resources provided by QNB's Financial Institutions Department, and by QNB's active international branches in London and Paris.

- Contractor Finance

Contractor Finance division/unit provides a comprehensive range of banking services to facilitate the performance of engineering contracts in both the public and private sectors of the economy. Contractor Finance carefully verifies the credit viability of all projects prior to financing by analyzing feasibility studies, security structures and all other relevant risk parameters. Major contracts financed by the division in the recent past include Gulf Tower, the QIDB Building, the West Bay Complex, Al Hudeifi Tower, Weill-Cornell Medical College and the new Arts and Science Building.

- Syndication

This Corporate Banking division/unit has a number of responsibilities towards the bank's future new business development, these include:

  - Supervision and management of the unit's extensive portfolio of syndicated exposures. These exposures contain an array of agency and other specifically assigned management roles.
  - New business development; implying close liaison with the corporate and international division in domestic and regional markets, and with QNB's London and Paris branches for the European market.
  - Co-ordination with the Bank's close and active relationships with QNB's correspondent banks in Qatar, the region, and globally.
  - General management and activity facilitation to ensure that QNB's own syndications, and its positions in syndications managed by other banks, are handled in an efficient manner. Maintenance of databases on information concerning the key existing and prospective syndicated transactions within the GCC area.

- Trade Finance (Foreign Trade Department)

The department's practices and procedures are conducted in compliance with current international standards and ICC guidelines in issuing documentary credits and guarantees. The Department is placed to advise on trade practices and specific beneficiary requirements within the Qatari jurisdiction.

- Treasury

QNB Treasury participates in all major global markets. The department conducts inter-bank business with a number of reputable counter parties worldwide. Key services include:

  - Spot and forward FX (both inter-bank and corporate-related) in the five high-volume currencies and 25 further currencies on a more limited, customer-driven basis
  - Inter-bank money market deposit trading
  - Off balance sheet instruments for hedging, trading and client needs (financial futures, interest rate swaps, options, FRA's and other hedging tools).
  - Capital market products are used to strategically diversify the inter-bank asset book, adding liquidity through the availability of repurchase agreements
  - Making two-way markets on Qatari government bonds, Ras Laffan bonds, and most of the major treasury bills and notes

- Project-related finance

QNB views each major Qatari industrial project as a series of opportunities to foster and develop corporate relationships and to develop income potential at a variety of levels.

- Financial Institutions Department

  QNB's Financial Institutions Department is responsible for the Bank's communications with its key correspondent banks. The department works closely with the Bank's London and Paris branches, with Corporate Banking and with the Foreign Trade Department.

- Investment Department

  Investment Department's primary functions:
  - Brokerage services for local and international clients at the Doha Securities Market.
  - Brokerage services covering the US equity markets.
  - Development of investment products for corporate and retail clients.
  - Initial Public Offering (IPO) services for Government and private businesses.
  - Dividends Payment Services for listed corporations.
  - Management of QNB's local and international equity portfolio.

Investment Services

- Al Watani Funds

  Al Watani Funds offer investment opportunities for investors at all levels, both Qatari and non-Qatari, resident and non-resident, private and institutional investors. These Funds have been designed for investors who have a minimum of QR 20,000 to invest and are looking for an effective way to invest in the Doha Securities Market (DSM), with lower volatility than that associated with single share trading on the DSM.

  Three types of investors can invest in these equity funds:

  Individuals: in Qatar or abroad can benefit from this portfolio of diversified equities listed on the Doha Securities Market (DSM).

  High Net Worth investors: Al Watani Funds are efficient and valuable investments as they share the potential for strong returns, are highly liquid and comprise units that are redeemable after just one month.

  Institutional investors: looking for healthy returns will be able to scale their investment up to QR 20 million (equivalent to US$ 5.48 million) to suit their investment objectives.

The Qatari Economy

GDP Fishing and pearling were the main activities that the economy was standing on before discovering oil and gas

In its beginnings, and well before the discovery of oil, the Qatari economy was built around fishing and pearling. However, and after the introduction of the Japanese cultured pearl onto the world market in the 1920s and 1930s, Qatar's pearling industry faltered. Nonetheless, the discovery of oil reserves in the early 1940s, acted as the starting point for completely turning around the nation's economy. Qatar now has a high standard of living, with many social services offered to its citizens and all the amenities of any modern nation.

GDP per capita stands at 80% of leading west European industrialized countries, with oil and gas counting for more than 60% of Qatar's GDP

Oil and gas account for just over 65% of Qatar's Gross Domestic Product, roughly 85% of export earnings, and 70% of government revenues. The oil and gas industry have adorned Qatar a per capita GDP exceeding 80% of that of the leading West European industrial countries. Proved oil reserves of 16 billion barrels should ensure continued output at current levels for the coming 23 years. Moreover, Qatar's proved reserves of natural gas account for more than 5% of the world total and are the third largest in the world. Qatar has allowed substantial foreign investment in the development of its gas fields during the last decade and is expected to become the world's top liquefied natural gas (LNG) exporter by 2007. In recent years, Qatar has consistently posted trade surpluses largely due to high oil prices and increased natural gas exports, becoming one of the world's fastest growing and highest per-capita income countries.

Government promotes a 'knowledge economy' in an attempt to diversify away from an energy-based economy

More recently, and much like other gulf states; Qatar's Government is attempting to diversify its economy from the traditional energy-based model. But while countries such as the United Arab Emirates focus on areas such as tourism, the focus in Qatar is in large part on education and on prompting the 'knowledge economy'. In 2004 the Qatari government established the Qatar Science & Technology Park (QSTP) to attract and serve technology-based companies and entrepreneurs, from overseas and within Qatar. A key feature of QSTP is that it is co-located at Qatar Foundation's Education City with leading international universities. These include Carnegie Mellon, Cornell, Georgetown, Texas A&M and Virginia Commonwealth. The science park helps its tenant companies collaborate with the universities and acts as an incubator for spinout ventures from the universities (and other sources).

"Qatarization' program aims at placing Qatari nationals in positions of greater authority, reducing reliance on expatriate workforce

Qatar pursues a vigorous program of "Qatarization," under which all joint venture industries and government departments strive to move Qatari nationals into positions of greater authority. Growing numbers of foreign-educated Qataris, including many educated in the U.S., are returning home to assume key positions formerly occupied by expatriates. In order to control the influx of expatriate workers, Qatar has tightened the administration of its foreign manpower programs over the past several years. Security is the principal basis for Qatar's strict entry and immigration rules and regulations. Moreover, Qatar enjoys a very lenient tax regime with no income tax; it is one of the two least taxed sovereign states in the world with Bahrain being the other.

As part of a wide ranging reform program, the Emir has recently lifted press censorship and instituted other liberal reforms, including democratic elections and the introduction of the country's first constitution on June 9, 2005. It guarantees freedom of expression, assembly, and religion, and calls for a 45-seat parliament. Thirty of the seats will be filled in democratic elections; the Emir will appoint the remaining seats.

Politically, the state of Qatar aims to build a prosperous democracy that will serve as a global and regional model for good governance. Economically, its goals are to improve the investment climate and develop the private sector in order to ensure long-term prosperity. Socially, Qatar aims at equitable access to the fruits of modernization, including education, health care and opportunity.

Positive economic outlook for 2006 with both high growth and low inflation; 8.5% & 2.3% respectively

Current economic outlook is bright with an annual real growth rate of 8.5% and inflation of 2.3% expected for 2006. Qatar is a member of OPEC, the Arab Monetary Fund and the Islamic Development Bank. It also belongs to the World Trade Organization, and hosted the organization's 2001 round of negotiations. Currently, most of Qatar's oil and gas is sold to Japan and Italy. EU countries, Japan and the USA are the country's main trading partners.

The Doha Securities Market (DSM) index has registered a whopping year in 2005, which is inline with strong performance posted by other GCC bourses. The 2005 index closed at 11,053.06 points marking an increase of 70.21% against the 6493.62 points reported in the previous year. In 2005, the trading value was significantly increased to record at QR 102.8 billion or by 345.31% in comparison to QR 23 billion in 2004. Additionally, market capitalization rose by 115.5% to report QR 317.2 billion compared to QR 147.2 billion in 2004. Noteworthy, the market started operations on 26th of May 1997 with 17 listed companies; by the end of 2005 the number had risen to 32. The Doha Securities Market revealed a new record for the period ending 2005 when compared to 2004.

Like other markets in the region, the DSM entered a severe correctional movement since the beginning of 2006, with the index falling sharply to reach below the 9,000 point at the end of the first quarter, posting a 19.1% decrease from year-end 2005. The market index continued in this direction losing 31% of its value when compared to 2005, to reach 7627.9 points by the end of June 2006.

During the first six months of 2006, value traded came in at QR 35.3 billion shrinking by 24% (QR 11.1 billion) in comparison with the same period of 2005; this was because of the instability that took place in the market as short-term investors (who had entered a cash-saturated bullish market in 2005) moved to liquidate their positions to avoid losses. As result of this, market capitalization stood at QR 231.8 billion by the end of June 2006 down from a maximum of QR 363.2 billion achieved on September 30, 2005. However, here we should note that QNB has managed to recoup its losses with its market capitalization reaching a historic-high of QR 36.99 billion on August 20, 2006.

Main Economic Indicators			
Figures in US$ million	**2003**	**2004**	**2005**
Population	717,766	756,486	796,186
Production and Prices			
GDP	23,697	28,446	34,334
Growth Rate(%)	20.3%	20.0%	20.7%
Oil Sector Share (%)	60.4%	62.2%	65.6%
Growth Rate (%)	24.2%	27.3%	27.4%
Non-Oil Sector Share (%)	39.6%	37.8%	34.4%
Growth Rate (%)	14.0%	10.8%	97.0%
GDP Per Capita (US$)	33,016	37,603	43,124
CPI - Inflation (%)**	2.26%	6.80%	8.81%
Public Finance			
Total Revenues	8,437	15,171	16,901
Total Expenditures	7,421	9,781	12,859
Deficit or Surplus	1,016	5,390	4,042
Deficit or Surplus/GDP (%)	4.3%	18.9%	11.8%
Money and Banking			
QCB Rate (%)			
Deposits	1.23%	2.50%	4.40%
Loan	1.33%	2.60%	4.50%
Repo Rate (%)	1.53%	3.15%	5.10%
Money Supply (M1)	3,098	4,010	6,142
Growth Rate (%)	79.3%	29.4%	53.2%
Money Supply (M2)	10,224	12,323	17,659
Growth Rate (%)	15.8%	20.5%	43.3%
Foreign Assets (Net)	7,092	8,738	13,126
Total Deposits	14,548	16,553	23,246
Private Deposits	9,634	11,611	16,866
Total Credit	11,906	13,265	18,504
Private Credit	6,431	8,192	13,381
Balance of Payments			
Trade Balance	9,022	13,272	11,969
Exports (FOB)	13,380	18,681	21,859
Imports (FOB)	-4,358	-5,409	-9,889
Current Account (CA)	5,752	7,550	7,062
CA/GDP (%)	24.3%	26.5%	20.6%
Capital & Financial Account	-1,523	-3,624	-2,754
Overall Balance	4,230	3,926	4,308
Doha Securities Martket			
Traded Volume (Thousand)	189,973	305,386	1,033,082
Traded Value	3,220	6,343	28,248
Market Capitalization	26,704	40,429	87,127
Index	3,947	6,494	11,053
Rate of Change (%)	69.8%	64.5%	70.2%

Source: Qatar Central Bank

Qatar Central Bank

In 1973, the Qatar Monetary Agency (QMA) was established to take on the duties of a central bank. QMA was accountable to maintain the stability of the Qatari Riyal exchange rate against other currencies and its free convertibility.

In August 1993, Qatar's government issued decree number 15 to establish Qatar Central Bank (QCB) as the monetary authority in Qatar to replace Qatar Monetary Agency. QCB's mandate is to formulate monetary, banking and credit policies in order to achieve and comply with the Qatar's financial and economic objectives and directives.

QCB objectives:

- Stability in the QR exchange rate and its free convertibility to other currencies.
- Stability in domestic price levels.
- Financial stability.
- Other macroeconomic objectives.

QCB functions include:

- Manage and conduct operations related to exchange rate policy.
- Conduct, implement and evaluate monetary policy.
- Issuance, and circulation of domestic currency, and adopt and take necessary security measures to prevent counterfeiting.
- Supervise and control the activities of financial institutions, such as banks, exchange houses, investment companies, financial companies, and representative offices.
- Conduct domestic public debt operations.
- Contribute to policies of financial stability.
- Act as a bank for all banks operating in the state of Qatar.
- Manage QCB's reserves in foreign assets.
- Organize and manage bank clearing operations and payments system.
- Conduct studies and researches related to domestic and world economic developments.
- Extend advice and consultation to the Government in relation to financial and economic issues.
- Promote the banking sector in Qatar.
- Promote efficiency and development of the financial markets.
- Any other function that falls within its jurisdiction.

QCB has adopted the exchange rate policy of its predecessor, the Qatar Monetary Agency, through fixing the value of the Qatari Riyal (QR) against the US Dollar (USD) at a rate of QR 3.64 per USD as a nominal anchor for its monetary policy.

Chronology of QR Exchange Rate			
Period	**Currency in Circulation**	**Peg**	**Exchange Rate QR per Sterling Pound/SDR/USD**
Prior to June 1966	Indian and Gulf Rupee	Linked to Sterling Pound	
June-September 1966	Saudi Riyal		
September 1966-November 1967	Qatar-Dubai Riyal	Sterling Pound*	13.3333
November 1967-August 1971	Qatar-Dubai Riyal	Sterling Pound	11.7647
1971	Qatar-Dubai Riyal	USD	Par value against gold at 0.186621 gms of fine gold
1973-March 1975[1]	Qatari Riyal	USD	Par value against gold at 0.186621 gms of fine gold
March 1975-14th Jan 1976[2]	Qatari Riyal	SDR	4.7619±2.25%
15th Jan 1976- July 2001	Qatari Riyal	SDR	4.7619±7.25%
From July 2001 till date[3]	Qatari Riyal	USD	3.64

Source: Qatar Central Bank

* The par value of the QR was fixed at 0.186621 gms of fine gold

[1] Decree No. 72 of the year 1974; QR pegged to USD retroactively from May 19, 1971

[2] As per decree No. 60 of the year 1975

[3] As per decree No. 34 of the year 2001

QCB's Department of Banking Supervision

Objectives:

Supervise the activities of Financial Institutions (banks, investment and finance companies, exchange houses, and representative offices) in order to avoid or minimize banking and financial risks.

Functions:

- Inspect Financial Institutions (FI) and verify their compliance with the provisions and terms of the laws and regulations issued by QCB.
- Obtain necessary information and data from FIs to verify compliance with QCB's instructions.
- Propose the issuance of necessary instructions, regulations and directives to organize the activities of FIs.
- Study violations committed by FIs and propose the appropriate fines in this regard.
- Propose issuing and renewing FIs' licenses.
- Supervise any FI liquidation.
- Study the banking risks through on-site and off-site inspections.
- Any other function that falls within, related to, or implied by the nature of work at the department.

The Qatar Central Bank adopts a prudent and corrective supervision policy that aims to promote stability and soundness of the banking system by adopting the latest offsite and onsite supervision standards.

Basic Criteria of QCB Supervision Policy

QCB bases its supervision policy on the term **"CRAFTE"** which reflects its standards. It stands for:

Corporate Governance
Risk Management
Assets Quality
Financial Leverage and Capital Liquidity Management
Transparency
Earnings and Performance

These terms are discussed in more detail below

Corporate Governance

Entails formulating plans and policies, specifying authorities and responsibilities, adopting appropriate measures to attain proper conduct and sound performance of work at all administrative levels.

The following criteria are adopted toward achieving these objectives:

- Construction of organization charts that assists board of directors in assigning their authority and responsibility.
- Formulation of policies, plans, and strategies for banks and financial institutions.
- Activating the role of the board of directors.
- Identification of acceptable risks to banking and financial activities.
- Construction of organization charts for executive management and committees and activation of their roles.
- Adoption of appropriate and effective systems for auditing and internal control.
- Applying transparency principle at work.
- Adoption of an effective reporting system on the performance of departments and divisions.

Risk Management

Risk management aims at identifying expected risks, and setting plans to minimize them through the following:

- Implementing risk management strategies.
- Identifying, and following up with different expected risks.
- Constructing organizational charts for risk management.
- Implementing capital adequacy criteria of the Basel II accord.

Asset Quality

Bank asset quality is based on effective asset management, particularly credit facilities management. Asset quality can be realized through applying the following standards:

- Adopting strategies and policies appropriate for spreading risks.
- Evaluating components and trends of asset portfolios.
- Measuring asset concentration, in particular, credit concentrations.
- Evaluating assets rating and allocating sufficient provisions for them.

Financial Leverage, and Capital and Liquidity Management

Bank Financial Leverage refers to the condition where Bank obtain loans in order to boost their profits. This is measured by loans to equities ratio. Financial leverage is an indicator of risks facing banks upon any sudden demand on deposits. As such, banks should consider indicators and standards necessary for maintaining adequate liquidity. Such standards are:

- Specifying leverage limits.
- Adopting measurements for financial responsibility assigned to deal with adequate liquidity.
- Assuring the ability to increase capital when necessary.
- Maintenance of adequate liquidity ratio.

Transparency

Transparency is a major task of the bank and constitutes a major responsibility on the part of its management. As such, banks must be responsible for transparent and accurate information, and assure the availability of such information at the appropriate time for the shareholders, concerned parties, and relevant entities working in the field of evaluation and estimation of risks.

Earnings and Performance

Generating profits lies at the core of any bank's objectives. Moreover, it reflects sound performance of the bank's management and its success in building a variety of investments channels and assets, which limits exposure to risks and increases profitability. Such goals are realized through:

- Sound asset management.
- High and stable revenues.
- Diversification of revenue.

Financial system stability implies the absence of financial crises, or minimizing their emergence and mitigating their effects when they arise. Maintaining confidence in the viability and operational efficiency of the financial system is an essential element of financial stability. To achieve this, there are three important elements (Bank of England, 2004):

- *Transparency*: Transparency acts as an effective tool to discipline policy makers and market participants.
- *Credibility*: It is important to maintain the credibility of the system as a whole.
- *Surveillance*: Surveillance is of crucial importance in augmenting the ability of authorities to avert a crisis.

QCB has a clear mandate to contribute to financial stability in Qatar. In its endeavor to promote and maintain financial stability, QCB adopts a two-pronged policy. One set of policies is geared towards preventing distress situations in the financial system and the second set of policies are remedial in nature and seek to contain crisis at the earliest possible and prevent contagion.

Apart from the regulatory and supervisory roles played by QCB, it also plays a major role in maintaining financial stability through its contribution to price stability, and to maintaining low levels of inflation.

Credit Control

Credit for real estate financing and shares purchasing have been restrained by QCB, although by IMF standards, credit expansion in Qatar in general, is still viewed as high.

QCB strives to maintain balance between the development needs of the country at this stage, and financial stability. The objectives of these measures are to protect the interests of depositors and promote stability of the banking system as a primary goal. These measures also contribute to combating inflationary pressure and promote financial and macroeconomic stability, and therefore, sustainable economic growth

Banking System Liquidity and Solvency

QCB Establishing Law (1993) empowers it to perform certain functions in order to ensure the liquidity and solvency of the banking system in Qatar.

Financial Results and Analysis

Balance Sheet

26.6% growth in 2005 total assets over previous, H1 2006 increased by 16.2% over YE 2005

- **Total assets** reached QR 50 billion by year-end 2005, posting a 26.6% increment over the 2004 year-end closing balance QR 39.5 billion. This figure grew by a further 16.2% to reach QR 58.2 billion by June 30, 2006.

    - Loans and advances formed 62.8% of total assets at the end of 2005 with an increase of QR4.89 billion to reach QR 31.5 billion, nearly all of the growth in loans was related to the industrial, services, and real estate sectors, in addition to the personal loans. By the end of the first six months of 2006, loans, advances and financing activities for clients had risen to reach QR 36.5 billion.

    - Cash & balances as well as balances with banks and financial institutions increased by 41.5% and 219.7%, in turn, during 2005 compared to 2004 year-end, to reach QR 2.41 billion and 7.49 billion, respectively. The corresponding figures for H1 2006 came in at QR 3.42 billion and QR 8.29 billion. The substantial increment in cash during the first half of 2006 can be related to the severe correctional direction undertaken by stock markets in the region, including the DSM, a move which prompted many investors to shift their funds out of equity markets and into the lower risk bank accounts.

    - The investment in associates represents QNB's investment in Mansour Bank with a share of 25%, and another 30% stake in Investing House Company; the total amount of these investments was QR 52.5 million by year-end 2005, going down slightly to QR 52.1 million by the end of the first half of 2006.

    - Property, furniture and equipment decreased in 2005 by 11.5% due to the depreciation and disposal of some assets. This asset item later increased by 20% during the first six months of 2006 to arrive at QR 561 thousand.

25.1% growth in 2005 total liabilities over 2004, 10.6% growth for H1 2006 over YE 2005

- **Total Liabilities** rose by a sizeable 25.1% during 2005 reaching QR 41.1 billion compared to QR 32.8 billion in 2004. By then end of June 2006, total liabilities had risen by 10.6% to reach QR 45.5 billion. The growth in 2005 and H1 2006 was an outcome of:

    - 23.1% (QR 6.8 billion) increase in customers' deposits during 2005 reaching QR 36.5 billion. 27.4% of this increase (QR 1.87 billion) was a result of launching the Islamic branch. This liability grew by another QR 5.02 billion (13.8%) by the end of the first half of 2006.

    - IPO Proceeds amounted to QR 1.2 billion as other liabilities; there was an increase of 86.8% in this item compared with 2004, totaling QR 2.04 billion. This amount later dropped 37.6% during the first six months of 2006 to arrive at QR 1.28 billion and partially offset the increase in customers' deposits.

- **Unrestricted Investment Accounts** as the Islamic branch commenced in April 2005, the unrestricted investment account holders' balance reached QR 249 million by year-end 2005 and then catapulted by 18.7 fold to reach QR 4.66 billion by June-end 2006.

30.3% growth in shareholders equity for 2005 over 2004, H1 2006 figure dropped by 7.3%

- **Shareholders Equity** increased substantially from the end of the 2004, coming in at QR 8.71 billion by the end of 2005 and marking a 30.3% increase over the previous year's figure of QR 6.68 billion. This amount dropped by 7.3% by the end of June 2006 to reach QR 8.07 billion due to a 37.3% drop in the fair value reserves and the absence of the dividends payable reserve line item.

- The cash dividend for the year ended December 31, 2005 amounted to QR 778.7 million or QR 7.5 per share in addition to a bonus share of 25% of the share capital. Here it should be noted that cash dividends for the previous year was QR 6 per share amounting to a total of QR 622.9 million. No dividends had been declared by June 30, 2006.

Qatar National Bank Consolidated Balance Sheet 2004/05 – H1 2006

Consolidated Balance Sheet					
(QR 000s)	2004	2005	2005/2004 Variance %	H1 2006	H106 /2005 Variance %
Assets					
Cash & Deposits with Central Banks	1,700,369	2,406,327	41.52%	3,419,899	42.1%
Due from banks & other financial institutions	2,345,936	7,499,202	219.67%	8,292,423	10.6%
Loans,advances and financing activities to customers	26,590,983	31,477,500	18.38%	36,512,272	16.0%
Investments	7,624,824	7,585,486	-0.52%	8,453,079	11.4%
Investment in Associates	-	52,460	-	52,087	-0.7%
Properties, furniture and equipment	528,435	467,419	-11.55%	560,872	20.0%
Other Assets	756,996	571,762	-24.47%	895,790	56.7%
Total assets	**39,547,543**	**50,060,156**	**26.58%**	**58,186,422**	**16.2%**
Liabilities And Shareholders Equity					
Due to banks and financial institutions	2,153,383	2,598,708	20.68%	2,699,952	3.9%
Customer deposits	29,613,833	36,457,014	23.11%	41,480,552	13.8%
Other Liabilities	1,095,555	2,046,368	86.79%	1,276,692	-37.6%
Total Liabilities	**32,862,771**	**41,102,090**	**25.1%**	**45,457,196**	**10.6%**
Unrestricted investment Accounts	**-**	**249,151**	**-**	**4,658,597**	**1769.8%**
Total shareholders equity					
Fully paid share capital	1,038,208	1,038,208	0.00%	1,297,760	25.0%
Statutory reserve	1,038,208	1,038,208	0.00%	1,297,760	25.0%
Other reserves	1,770,034	1,775,457	0.31%	1,768,790	-0.4%
Risk reserve	149,422	169,422	13.38%	238,000	40.5%
Fair value reserve	1,439,387	2,549,232	77.11%	1,597,560	-37.3%
Proposed dividends	622,925	778,656	25.00%	0	-
Proposed bonus shares	-	259,552	-	0	-
Proposed transfer to statutory reserve	-	259,552	-	0	-
Retained earnings	626,588	840,628	34.16%	1,870,759	122.5%
Total Shareholders' Equity	**6,684,772**	**8,708,915**	**30.28%**	**8,070,629**	**-7.3%**
Total Liabilities & Shareholders' Equity	**39,547,543**	**50,060,156**	**26.58%**	**58,186,422**	**16.2%**

Source:Qatar National Bank annual and semi-annual reports

Income Statement

Total consolidated revenues reached QR 2.18 billion for 2005 and QR1.38 billion for H1 2006, respective growths of 83.6% and 37.6% over 2004 and H1 2005

- Qatar National Bank reported **Total Revenues** of QR 2.18 billion at the end of 2005 pointing to a remarkable 83.6% increase as compared to the revenues for the previous 12-month period. Moreover, Revenues for the first half of 2006 reached QR 1.38 billion; up 37.6% from the QR 1.01 billion recorded for the corresponding six-month period of 2005.

  The growth witnessed in the bank's revenues during the year 2005 can be attributed to the significant 53.5% increase in interest income where this revenue stream reached QR 2.17 billion. It is also related to the increase in fees and commission income, which came in at QR 416.8 million by the end of 2005, up for 132.7% or QR 237.5 million over the 2004 figure of 178.9 million. The non-interest and non-commission income marked a 334.5% increase over 2004, in turn contributing to the growth witnessed during 2005.

  Moving on to the 2006 first half results, we note interest income and fees and commission income grew by a respective 36.5% (QR 410.5 million) and 22.9% (QR 47.8 million), marking substantial increments over the results of the corresponding period of 2005. Non-interest and non-commission income also faired well during the first half of 2006 posting a 93.7% (QR 179.8 million) increase over the first half of 2005, mainly due to income generated from Islamic financing and investing activities.

- **Interest expense and fees and commission expense** arrived at QR 887 million and QR 28.4 million respectively marking 75.8% and 98.1% increments over the 2004 figures. The expense amounts came in at QR 765.6 million and 15.6 million respectively during the first half of 2006, pointing to respective increments of 50.2% and 43.4% over the 2005 first half results.

81.8% increase in other operating expenses during 2005, switching to a 6.7% drop in H1 2006 compared to H1 2005

- **Other Expenses** came in at QR 645.0 million by the end of 2005 denoting an increase of 81.8% over the previous year. The main influences are General and Administrative expenses, which arrived at QR 634.9 million; a 106.0% increment over the 2004 figure. It also includes provision for impairment loans and advances, investment revaluation gains, depreciation which also grew by 106.4%. Other expenses incurred during the first half of 2006 amounted to QR 273.9 million, representing a healthy 6.7% drop over the expenses sustained during the corresponding period of 2005.

- **Net Income** for 2005 reached QR 1.54 billion as opposed to QR 827.5 million the previous year. This figure came in at 1.10 billion for the first half of 2006; a healthy 56.8% increase over the first half of 2005.

H1 2006 EPS came in at QR 8.5, which is greater than the QR 8 achieved through the entirety of 2004

- **Earnings Per Share (EPS)** reached QR 11.8 for 2005, up 48.6% from QR 8 achieved the previous year. H1 2006 EPS came in at QR 8.5 compared to QR 5.4 for the corresponding period of 2005.

Qatar National Bank Consolidated Income Statement 2004/2005

Consolidated Income Statement			
(QR 000s)	2004	2005	Variance %
Revenue			
Interest income	1,413,793	2,172,318	53.65%
Interest Expense	-504,730	-887,507	75.84%
Net interest income	**909,063**	**1,284,811**	**41.33%**
Fees and commission income	178,971	416,470	132.70%
Fees and commission expense	-14,374	-28,477	98.11%
Net fees and commissions	**164,597**	**387,993**	**135.72%**
Non-Interest & non commission income:			
Dividend income	52,658	68,709	30.48%
Net gains from dealing in foreign currencies	38,555	64,646	67.67%
Gain from investments	19,092	340,940	1685.77%
Gain on investment in associates	0	3,750	-
Income from financing and investing activities	0	14,304	-
Other operating income	8,461	23,698	180.09%
Total Revenue other than Interest & Com.	**118,766**	**516,047**	**334.51%**
Total Operating Income	**1,192,426**	**2,188,851**	**83.56%**
Expenses			
General & Administrative expenses	-308,198	-634,910	106.01%
Depreciation	-27,159	-56,071	106.45%
Recoveries/ (Provision) for impairment of loans and advances	-30,339	76,457	-352.01%
Investment revaluation gains	7,749	9,071	17.06%
Other provisions	-3,435	-2,407	-29.93%
Recovery of provision for properties acquired against settlement of debts	6,585	4,020	-38.95%
Goodwill impairment	0	-40,378	-
Unrestricted investment account holders' share of profit	0	-798	-
Total operating expenses	**-354,797**	**-645,016**	**81.80%**
Net profit before tax	**837,629**	**1,543,835**	**84.31%**
Taxes	-10,132	-7,023	-30.68%
Net profit for the year	**827,497**	**1,536,812**	**85.72%**

Source: Qatar National Bank Annual Report

Qatar National Bank Income Statement H1 2005/H1 2006

Consolidated Income Statement (QR 000s)	H1-2005	H1-2006	Variance %
Revenue			
Interest income	1,125,506	1,536,049	36.48%
Interest Expense	-509,812	-765,601	50.17%
Net Interest Income	**615,694**	**770,448**	**25.13%**
Fees and commission income	208,890	256,665	22.87%
Fees and commission expense	-10,871	-15,587	43.38%
Net fees and commission income	**198,019**	**241,078**	**21.74%**
Non-Interest & non commission income:			
Dividend income	48,279	72,608	50.39%
Net gains from dealing in foreign currencies	28,076	58,418	108.07%
Gain from investments	105,132	105,696	0.54%
Gain from investments in Associates	0	433	-
Income from Islamic financing and investing activities	1,783	118,742	6560%
Other operating revenues	8,665	15,891	83.39%
Total Revenues other than Interest & Com.	**191,935**	**371,788**	**93.71%**
Total Revenue	**1,005,648**	**1,383,314**	**37.6%**
Expenses			
General & Administrative expenses	-315,963	-343,106	8.59%
Depreciation & amortization	-30,345	-24,070	-20.68%
Recoveries/(Provision) for impairment of loans and advances	54,846	157,584	187.3%
Investment revaluation profit/losses	-2,068	5,951	387.77%
Other recoveries, net of provision	0	14,158	-
Unrestricted investment account holders' share of profit	-85	-84,422	-
Total operating expenses	**-293,615**	**-273,905**	**-6.71%**
Net profit before tax	**712,033**	**1,109,409**	**55.81%**
Taxes	-7,017	-4,250	-39.43%
Net Profit	**705,016**	**1,105,159**	**56.76%**

Source: Qatar National Bank Interim Results

Cash Flow Statement

Cash and cash equivalents grew by US$ 75 million in 2005

- **Cash and cash equivalents** grew at a remarkable rate of 201.4% during 2005 increasing by QR 5.7 billion to reach QR 8.6 billion by December 31, 2005. This came as a result of the 592.4% (QR 5.9 billion) increase in operating activities that was slightly offset by the 12.6% increase in financing activities. Cash and cash equivalents amounted to 98.7% of shareholders equity and 17.2% of total assets by year-end 2005.

- **Return On Average Assets (ROaA)** came in at 3.43% by the end of 2005; a significant 54.1% increase from the previous year's figure of 2.23%. This was the result of net revenues growing at a faster pace than that witnessed by assets.

- **Return On Average Equity (ROaE)** also revealed a 48.3% increase coming in at 19.97% in 2005 in contrast to 13.46% recorded in 2004. Again, this was the result of the higher net income achieved in 2005 and the greater shareholder's equity figure (attributable to an increase in retained earnings and the larger risk and fair value reserves).

Qatar National Bank Consolidated Cash Flow Statement 2004/2005

Cash Flow Statement (QR 000s)	2004	2005
Cash flows from Operating Activities		
Net profit for the year before taxes	837,629	1,543,835
Adjustments for:		
Depreciation	27,159	56,071
(Recoveries)/ Provisions for impairment of loans and advances	30,339	-76,457
Investment revaluation gains	-7,749	-9,071
Other provisions	11,262	12,388
Recoveries for other provisions	-18,291	-5,441
Profit on sale of properties, furniture and equipment	-6,738	-12,443
Profit on sales of Investments	-19,092	-340,940
Goodwill impairment	0	40,378
Tax Paid	-13,327	-7,412
Amortization of premium or discount investment	2,960	3,205
Gain from investment in associates	0	-3,750
Recovery of provision for property acquired against settlement of debts	-6,585	-4,020
	837,567	**1,196,343**
Net (increase)/ decrease in assets		
Due from Banks	-259,704	-112,702
Loans and advances and financing activities	-840,096	-4,810,060
Other Assets	-229,009	150,639
Net increase/ (decrease) in liabilities		
Due to banks	-1,615,619	445,325
Customer deposits	1,900,865	7,092,332
Other Liabilities	-794,686	965,324
Net cash Inflow/ (Outflow) from Operating Activities	**-1,000,682**	**4,927,201**
Cash flow from Investing Activities		
Purchase of Investments	-993,851	-1,007,361
Sale/ redemption of Investments	2,097,743	2,334,829
Purchase of associates		-48,710
Acquisition of Subsidiary, Net of cash Acquired	203,744	0
Purchase of properties, furniture and equipment	-37,432	-42,352
Sale of properties, furniture and equipment	21,639	24,326
Net cash Inflow from Investing Activities	**1,291,843**	**1,260,732**
Cash flow from Financing Activities		
Dividends paid	-548,178	-617,384
Net cash Outflow from Financing Activities	**-548,178**	**-617,384**
Net cash Inflow/ (Outflow) during the year	**-257,017**	**5,570,549**
Changes in foreign exchange rates	-30,444	175,973
Balance at 1st January	3,140,533	2,853,072
Balance at 31st December	**2,853,072**	**8,599,594**

Source: Qatar National Bank Annual report

Key Performance Indicators and Ratios

Below are the key performance indicators for QNB's shares in addition to a number of relative financial and operational ratios for the years 2004 and 2005. A brief description of the main ratios is presented in ANNEX A.

Share KPIs	2004	2005	Growth %
EPS (TTM, QR)	8.0	14.8	85.7%
P/E (TTM)	20.48	20.10	-1.8%
Share book value (QR)	64.39	83.88	30.3%
Share price/Book Value	2.53	3.55	40.0%
Share price/Sales	14.21	14.12	-0.7%
Dividends/Share (QR)	6.00	10.00	66.7%
Dividend yield	3.68%	3.36%	-8.6%
Payout ratio	75.3%	50.7%	-32.7%
Share closing price (QR)	163.2	297.60	82.4%
Number of shares outstanding	103,821	103,821	0.0%
Highest share closing price (TTM,QR)*	163.2	348.0	113.2%
Lowest share closing price (TTM, QR)*	104.8	146.4	39.7%
Value traded (QR 000s)	756,727	2,262,387	199.0%
Number of shares traded (000s)*	5,542	9,163	65.3%

Profitability Ratios	2004	2005	Growth %
Interest income/Interest expense (times)	2.80	2.45	-12.6%
EBT Margin	70.2%	70.5%	0.4%
Net profit margin	69.4%	70.2%	1.2%
Return on average equity (ROaE)	13.46%	19.97%	48.3%
Return on average assets (ROaA)	2.23%	3.43%	54.1%
Operating Cash flow/Sales	-	225.1%	-
Operating Cash flow/Equity	-	56.6%	-
Operating Cash flow/Total liabilities	-	12.0%	-

Free Cash Flow	2004	2005	Growth %
Free cash flow before dividends	(1,016,475)	4,909,175	583.0%
Free cash flow before dividends/Share (QR)	(9.8)	47.3	583.0%
Free cash Flow after dividends	(1,564,653)	4,291,791	374.3%
Free cash flow after dividends/Share (QR)	(15.1)	41.3	374.3%
Free cash flow after dividends/Revenue	-	196.1%	-

Asset/Gearing Ratios	2004	2005	Growth %
Total assets/Equity	5.92	5.75	-2.8%
Total liabilities/Equity	4.92	4.72	-4.0%
Total liabilities/Total assets	0.83	0.82	-1.2%
Sales/Average total assets	3.2%	4.9%	52.3%
Total assets/Employee	N/A	N/A	-

Efficiency Ratios	2004	2005	Growth %
Revenue/Employee (QR)	N/A	N/A	-
Net Income/Employee (QR)	N/A	N/A	-

Source: Company Reports, Arab Advisors Group

* The figures starting from the period 1.4.2004 till end of year as available from Reuters.

KPIs First Half 2006

Based on June 30, 2006 results

Share KPIs	H1-2005	H1-2006	Growth %
EPS (TTM, QR)	10.7	14.9	39.97%
P/E (TTM)	18.85	14.40	-23.57%
Share book value (QR)	83.88	62.19	-25.86%
Share price/Book Value	2.99	3.46	15.45%
Share price/Sales	25.93	20.17	-22.22%
Share closing price (QR)	251.2	215.00	-14.41%
Number of shares outstanding	103,821	129,776	25.00%
Highest share closing price (TTM, QR)	274.4	348.0	26.82%
Lowest share closing price (TTM, QR)	118.4	200.1	69.00%
Value traded (QR 000s)	1,170,411	920,894	-21.32%
Number of shares traded (000s)	5,434	3,868	-28.82%

Profitability Ratios	H1-2005	H1-2006	Growth %
Interest income/Interest expense (times)	2.80	2.45	-12.62%
EBT Margin	70.8%	80.2%	13.27%
Net profit margin	70.1%	79.9%	13.96%
Return on average equity (ROaE)	9.71%	13.17%	35.71%
Return on average assets (ROaA)	1.68%	2.04%	21.25%
Operating Cash flow/Sales	-	-	-
Operating Cash flow/Equity	-	-	-
Operating Cash flow/Total liabilities	-	-	-

Asset/Gearing Ratios	H1-2005	H1-2006	Growth %
Total assets/Equity	5.63	7.21	27.98%
Total liabilities/Equity	4.63	5.63	21.56%
Total liabilities/Total assets	0.82	0.78	-5.02%
Sales/Average total assets	2.40%	2.56%	6.39%
Total assets/Employee	N/A	N/A	-

Efficiency Ratios	H1-2005	H1-2006	Growth %
Revenue/Employee (QR)	N/A	N/A	-
Net Income/Employee (QR)	N/A	N/A	-

Source: Company Reports, Arab Advisors Group

Qatar National Bank vs. Local Peers Key Performance Indicators and Ratios

Below are the key performance indicators for QNB's shares as compared to its local peers for the year 2005; a brief description of the main ratios is presented in ANNEX A.

Share KPIs	Qatar National Bank	Al Ahli Bank	Doha Bank	Qatar Commercial Bank	Qatar Islamic Bank	Qatar Int'l Islamic Bank
EPS (TTM, QR)	14.80	4.65	6.33	8.77	10.39	22.92
P/E (TTM)	20.10	18.56	27.56	17.48	21.28	10.72
Share Book Value (QR)	83.88	35.29	34.62	60.76	31.61	43.44
Share Price/Book Value	3.55	2.44	5.04	2.52	6.99	5.66
Share Price/Sales	14.12	11.39	21.51	12.92	16.98	6.64
Dividends/Share (QR)	10.00	3.33	4.44	9.84	7.50	10.00
Dividend Yield	3.36%	3.86%	4.59%	5.87%	3.39%	4.07%
Payout Ratio	67.56%	-	70.23%	112.20%	72.19%	43.62%
Number of shares outstanding (000s)	103,821	30,469	69,343	93,439	66,300	20,313
Share closing price (QR)	297.60	86.25	174.40	153.30	221.10	245.70
Highest share closing price (TTM, QR)	348.00	124.65	188.90	206.78	306.70	290.50
Lowest share closing price (TTM, QR)	146.40	66.00	72.20	88.01	85.90	90.40
Value traded (QR 000s)	2,262,387	671,330	5,617,238	6,277,077	10,372,905	3,085,852
Number of shares traded (000s)	9,163	7,093	42,881	43,691	56,855	17,442

Profitability Ratios	Qatar National Bank	Al Ahli Bank	Doha Bank	Qatar commercial bank	Qatar Islamic Bank	Qatar Int'l Islamic Bank
Interest income/Interest expense (times)	2.45	2.03	2.64	2.42	-	-
EBT Margin	70.53%	61.40%	78.14%	69.81%	79.58%	61.94%
Net Profit Margin	70.21%	61.40%	78.06%	73.91%	79.78%	61.94%
Return on average Equity (ROaE)	19.97%	14.41%	39.54%	18.07%	38.35%	69.92%
Return on average Assets (ROaA)	3.43%	2.71%	6.02%	4.27%	7.97%	8.22%
Operating Cashflow/Sales	225.10%	-	83.18%	100.11%	-	16.84%
Operating Cashflow/Equity	56.58%	-	35.06%	17.88%	-	14.35%
Operating Cashflow/Total Liabilities	11.99%	-	6.57%	6.22%	-	6.23%

Free Cash Flow	Qatar National Bank	Al Ahli Bank	Doha Bank	Qatar commercial bank	Qatar Islamic Bank	Qatar Int'l Islamic Bank
Free cash flow before dividends (QR 000s)	4,909,175	-349,446	802,138	1,001,455	-471,778	123,579
Free cash flow before dividends/Share (QR)	47.29	-11.47	6.43	11.72	-7.12	6.08
Free cash Flow after dividends (QR 000s)	4,291,791	-406,575	802,138	787,881	-471,778	107,954
Free cash flow after dividends/Share (QR)	41.34	-13.34	6.43	9.22	-7.12	5.31
Free cash flow after dividends/Revenue	1.96	-	0.79	0.78	-	0.14

Asset/Gearing Ratios	Qatar National Bank	Al Ahli Bank	Doha Bank	Qatar commercial bank	Qatar Islamic Bank	Qatar Int'l Islamic Bank
Total assets/Equity	5.75	5.75	6.34	3.91	4.56	7.18
Total liabilities/Equity	4.72	4.75	5.33	2.88	1.31	2.30
Total liabilities/Total assets	0.82	0.83	0.84	0.74	0.29	0.32
Sales/Average total assets	4.89%	4.41%	7.72%	5.77%	9.99%	13.26%
Total assets/Employee	-	-	22,497	25,438	20,674	-

Efficiency Ratios	Qatar National Bank	Al Ahli Bank	Doha Bank	Qatar commercial bank	Qatar Islamic Bank	Qatar Int'l Islamic Bank
Revenue/Employee	-	-	1,495	1,163	1,869	-
Net Income/Employee	-	-	1,167	860	1,491	-

Source: Company Reports, Arab Advisors Group

Qatar National Bank vs. Regional Peers Key Performance Indicators and Ratios

Below are the key performance indicators for QNB's shares as compared to its regional peers for the year 2005; a brief description of the main ratios is presented in ANNEX A.

Share KPIs	Qatar National Bank	Arab Bank	National Bank of Kuwait	National Bank of Abu Dhabi	National Bank of Bahrain	National Commercial Bank (KSA)
EPS (TTM, US$)	4.1	2.81	0.36	0.57	0.15	N/A
P/E (TTM)	20.10	31.76	18.46	21.66	17.98	N/A
Share book value (US$)	23.04	21.80	1.36	1.63	1.07	48.07
Share price/Book Value	3.55	4.10	4.90	7.63	2.52	N/A
Share price/Sales	14.12	13.07	12.19	16.38	11.18	N/A
Dividends/Share (US$)	2.75	0.49	0.23	0.15	0.15	2.95
Dividend yield	3.36%	0.55%	3.40%	1.18%	5.57%	N/A
Payout ratio	67.6%	17.47%	54.89%	14.60%	70.70%	26.46%
Share closing price (US$)	81.74	89.28	6.64	12.43	2.71	N/A
Number of shares outstanding (000s)	103,821	176,000	1,956,853	1,224,080	540,000	120,000
Highest share closing price (TTM, US$)	95.6	456.14	7.40	13.89	3.71	N/A
Lowest share closing price (TTM, US$)	40.2	43.02	3.42	4.34	2.22	N/A
Value traded (US$ 000s)	621,415	4,169,538	1,412,926	938,309	25,133	N/A
Number of shares traded (000s)	9,163	47,665	294,275	106,502	8,827	N/A
Profitability Ratios	**Qatar National Bank**	**Arab Bank**	**National Bank of Kuwait**	**National Bank of Abu Dhabi**	**National Bank of Bahrain**	**National Commercial Bank (KSA)**
Interest income/Interest expense (times)	2.45	1.89	2.97	1.77	2.31	3.54
EBT Margin	70.5%	52.96%	68.97%	77.22%	62.19%	66.89%
Net profit margin	70.2%	41.16%	66.01%	75.64%	62.19%	66.89%
Return on average equity (ROaE)	19.97%	13.69%	28.74%	41.25%	14.83%	28.30%
Return on average assets (ROaA)	3.43%	1.80%	3.49%	3.69%	2.14%	3.63%
Operating Cashflow/Sales	225.1%	-	30.72%	372.20%	62.88%	-
Operating Cashflow/Equity	56.6%	-	12.34%	173.36%	14.16%	-
Operating Cashflow/Total liabilities	12.0%	-	1.76%	16.63%	2.41%	-
Free Cash Flow	**Qatar National Bank**	**Arab Bank**	**National Bank of Kuwait**	**National Bank of Abu Dhabi**	**National Bank of Bahrain**	**National Commercial Bank (KSA)**
Free cash flow before dividends (US$ 000s)	4,909,175	-342,398	187,448	3,436,638	81,260	-1,068,392
Free cash flow before dividends/Share (US$)	47.3	-1.95	0.10	2.81	0.15	-8.90
Free cash Flow after dividends (US$ 000s)	4,291,791	-402,162	10,113	3,334,079	33,390	-1,068,392
Free cash flow after dividends/Share (US$)	41.3	-2.29	0.01	2.72	0.06	-8.90
Free cash flow after dividends/Revenue	196.08%	-33.46%	0.95%	358.94%	25.55%	-53.50%
Asset/Gearing Ratios	**Qatar National Bank**	**Arab Bank**	**National Bank of Kuwait**	**National Bank of Abu Dhabi**	**National Bank of Bahrain**	**National Commercial Bank (KSA)**
Total assets/Equity	5.75	7.16	8.00	11.42	6.87	6.74
Total liabilities/Equity	4.72	47.71	7.00	10.42	5.87	5.74
Total liabilities/Total assets	0.82	0.86	0.88	0.91	0.85	0.85
Sales/Average total assets	4.9%	4.38%	5.29%	4.87%	3.44%	5.42%
Total assets/Employee	N/A	4,526	8,621	9,819	7,311	8,786
Efficiency Ratios	**Qatar National Bank**	**Arab Bank**	**National Bank of Kuwait**	**National Bank of Abu Dhabi**	**National Bank of Bahrain**	**National Commercial Bank (KSA)**
Revenue/Employee (US$)	N/A	198	433	400	240	451
Net Income/Employee (US$)	N/A	83	286	303	149	302

Source: Company Reports, Arab Advisors Group

Strengths and Challenges

The history of QNB tells a story of continuous success that began in 1964 when the bank was first founded. Such ongoing achievements stem from the collective effect of a number of strengths and assets exemplary of any institution of QNB's caliber. However, and in addition to these strengths, we look at the challenges that lie ahead and that could possibly hinder QNB's strive for further accomplishments.

Strengths

- **First Qatari-owned commercial bank:** QNB's involvement in the day-to-day development of the Qatari banking sector and economy has placed it in a unique position among its national peers.
- **Critical Mass:** With more than 50% of the Qatari Banking Sector' assets under its direct control, QNB's unparallel presence in the Qatari market is of significant magnitude and value.
- **Well managed:** QNB has recently undergone a major organizational restructuring, which included augmenting its own senior management team with highly qualified international bankers.
- **Wide range of products:** QNB offers a full range of products and services, both corporate and retail. It continuously expands these products/services providing electronic versions of conventional services, and products targeting lucrative market segments as with Islamic Banking and the gender-specific products/services (ladies accounts and branches).
- **International presence:** The bank's presence in two of the world's financial hubs (London and Paris) help leverage its international standing in addition to playing a role in maintaining QNB's corporate and institutional relationships in Europe.
- **Expansion strategy:** QNB is continuously working towards expanding its operation outside the Atari market. It has already acted upon this policy by investing in Arab financial institutions (Mansour Bank), through strategic partnerships, and has future plans to expand into other countries.
- **Booming economy:** With its huge reserves of oil and gas, Qatar is ready to reap the benefits of the world's developing economies' unrelenting demand for energy. QNB, along with other constituents of the Qatari economy are set to be at the heart of such spiraling growth. Here we should note that an estimated US$ 100 billion are to be invested in various sectors of the Qatari economy over the coming 10 years.

Challenges

- **Low agility:** QNB is 50% owned by the government, and hence is subject to a fair share of bureaucratic red tape, which when coupled with its critical mass, limits its ability to respond rapidly to market changes.

- **Government dependency:** with the majority of the Qatari government's financing/banking needs being processed by QNB, the government has heavily subsidized the bank over the years. Any loss of the government's stake in QNB could result in a substantial loss in revenues.

- **Lagging performer:** when comparing QNB's results and performance indicators with those of its local and regional peers, one can note that the bank lags behind some of its peers in terms of asset and equity utilization.

- **Regional uncertainty/dependent economy:** Despite lack of any direct involvement in the recent Middle East crisis, and like other economies in the region, the Qatari economy is susceptible to unfavorable conditions in the region. Moreover, with proven oil and gas reserves drying up in the coming 25 years or so, the Qatari public and private needs to shift into high gear at turning around the economy and reducing reliance on energy generated income.

- **Regulatory environment:** Qatar Central Bank plans to be the first central bank in the region to apply the Basel II Accord directives. The new accord aims –among other objectives- to minimize all types of risks associated with the banking industry and promote greater consistency in the way banks and banking regulators approach risk management across national borders. Once implemented, the accord would set certain restrictions on the entire Qatari banking sector.

- **Heightened competition:** With the Qatar Financial Center (QFC) shifting into high gear, and several leading international banks and financial institutions settling in, QNB could witness some very stiff competition in the near future.

Company Valuation

Valuation uses two-stage P/E and Market/Book Value

The valuation is based on two separate methodologies using the same inputs and assumptions. Both of these methodologies, the Price/Earnings (P/E) multiple and the Market Capitalization/Book Value (or Price/Book Value) multiple, rely on a number of assumptions as well as actual historical information. Both methods return similar share fair values.

With both methods being based on the same set of assumptions and inputs, a single two-stage model was used to arrive at an objective opinion regarding the fair value of the Qatar National Bank's equity. This model was chosen seeing as it closely maps the QNB's forecasted growth; it is designed to value the equity in a firm with two stages of growth - an initial six-year period of high growth, and a subsequent and equal six-year period of stable medium growth.

The logic behind using a model with such a timeline lies in the considerably high growth currently being witnessed by the Qatari economy in general with even higher growth in the banking industry in particular. A substantial amount of the business currently being generated lends itself to the excess liquidity generated from energy prices, with a substantial portion of this cash being reinvested locally. With oil and gas prices expected to maintain current levels into the immediate foreseeable future coupled with Qatar's stable economic and socio-political environments, the growth witnessed in the recent years is expected to continue for the coming period, to be later followed by a period of stable medium growth.

General valuation assumptions

- Initial high growth period of six years followed by a stable medium growth period of seven years.
- Earnings to increase at a yearly average of 30% during the initial period going down to 15% in the subsequent stable medium growth period based on our growth forecasts.
- The cost of equity for the initial period was calculated at 8.88% going up to 9.25% for the following period. These values were arrived at using the following:
    - A risk free rate of 5.5% which represents the yield of the Qatari Government Bond (including the country risk premium)
    - Equity risk premium of 3.75%, which represents the rate used by brokers for the Gulf Cooperation Council (GCC) markets.
    - Share Beta assumed at 0.9 during initial period and going up to a stable Beta (1) for the subsequent stable medium growth period.
- Dividend payout ratio was assumed to come in at 60% during the initial high growth period, and dropping to 50% during the subsequent stable medium growth period.

Using the 2006 first-half actual results, alongside with the above assumptions, we value Qatar National Bank's share fair price at **QR 327.94** which corresponds to a **Price/Earnings' multiple of 21.97 times** and a **Market/Book Value multiple of 5.27 times.**

Equity Multiple (P/E) & (P/BV) Valuation	
	H1 2006
Current EPS	14.93
Current Revenues/Share	19.78
Length of medium to high growth period (years)	6
Growth rate during period	30.0%
Payout ratio during period	60%
Cost of Equity during period	8.88%
Length of stable medium growth period (years)	6
Growth rate during period	15.0%
Payout ratio during period	50%
Cost of Equity during period	9.25%
Value of Equity per share (QR)	327.94
Price/Earnings Ratio	**21.97**
Price/Book Value Ratio	**5.27**
Value of the stock (QR)	**327.94**

Source: Arab Advisors Group

While a P/E and P/BV multiple of 21.97 and 5.27 times respectively, are somewhat high especially when considering prevailing conditions in the region and comparing to regional peers of similar attributes, these values do fall within the current range of valuations for Qatari Banks and are deemed fair.

ANNEX A: Glossary of Ratios

Ratio	Definition
Share KPIs	
EPS (TTM, QR)	The earnings per share is the net income of the company over the last 12 months divided by the average number of shares outstanding for the same period.
P/E (TTM)	"Earnings Multiple" used to measure how cheap or expensive share prices are. Obtained by dividing the market price of a single share by it's EPS.
Share Price/Book Value	Price to Book value relates a share price to its accounting value as represented on the firms' balance sheet. Book value is total assets minus intangible assets and liabilities.
Share Price/Sales	A ratio for valuing a share relative to its own past performance, other companies or the market itself. Price to sales is calculated by dividing a share's current price by its revenue per share.
Dividends/Share (QR)	Distribution of a portion of a company's earnings. Dividends may be in the form of cash, shares or property.
Dividend Yield	Dividend per share divided by the price per share. Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position.
Payout Ratio	The percentage of earnings paid out in dividends. It is calculated by dividing dividends per share by earnings per share.
Profitability Ratios	
Interest income/Interest expense	interest earned divided by interest paid. This gives an indication of the banks core activity profitability.
Net Profit Margin	Net Income divided by revenues. It is an indicator of a company's pricing policies and its ability to control costs.
Return on Equity (ROE)	Earnings divided by common shareholders' equity. Shows the rate of return on the investment for the company's common shareholders.
Return on average Assets (ROaA)	Percentage shows how profitable a company's assets are in generating revenue. Computed by dividing earnings by average total assets.
Return on Capital Employed (ROCE)	Used as a measure of the returns that a company is realizing from its capital employed (the efficiency with which capital is being utilized to generate revenue).
Operating Cashflow/Total Liabilities	A measure of how well liabilities are covered by the cash flow generated from a company's operations.
Free Cash Flow	
Free cash flow before dividends (QR 000s)	It signals a company's ability to pay debt, pay dividends, buy back shares and facilitate the growth of the business.
Free cash flow before dividends/Share (QR)	A measure of a company's financial flexibility. It is calculated as net income plus all non-cash expenses less dividends and capital expenditures. The total is then divided by the number of shares outstanding.
Asset / Gearing Ratios	
Liabilities/Total assets	Used to measure a company's financial risk by determining how much of the company's assets have been financed by debt.
Efficiency Ratios	
Revenue/Employee (TTM, US$ 000s)	This ratio is most useful when compared against other companies in the same industry. Ideally, a company wants the highest revenue per employee possible
Net Income/Employee (TTM, US$ 000s)	This ratio indicates the average profit generated per person employed.