# بنك قطر الوطني

## نمو مستمر

### ميزة تنافسية قوية

يتمتع «بنك قطر الوطني» QNB بميزات تنافسية قوية في القطاع المصرفي القطري. إنّه اللاعب الأكبر في القطاع المصرفي في قطر، حيث استحوذ على 57,7% من ودائع القطاع و 50,1% من قروض القطاع حتى كانون الأول/ديسمبر 2009. ان القاعدة العريضة للودائع مكنت «بنك قطر الوطني» من التوسع في اطلاق خدمات مصرفية متنوعة وأعطته الافضلية للافادة من النمو الكبير في قطر. ويُعتبر في المنطقة من بين المصارف الأسرع نمواً وهو حالياً رابع أكبر مصرف من ناحية إجمالي الموجودات حتى نهاية الربع الأول من العام 2010، بعد «بنك الإمارات دبي الوطني» Emirates NBD و «البنك الاهلي التجاري»، و «بنك أبو ظبي الوطني».

بفضل ملكية قدرها 50% في البنك من قِبل دولة قطر، ونظراً إلى الحجم الكبير للمصرف، يملك «بنك قطر الوطني» ميزة تنافسية في أعمال تمويل المشاريع المرتبطة بالحكومة، حيث يسمح رأسمال المصرف له بالإشتراك في العمليات التمويلية ذات الحجم الكبير التي تعجز عن تمويلها المصارف الأخرى الأصغر حجماً في البلاد

### التوسُّع إقليمياً

إلى جانب نموه المحلي في قطر، يوسِّع «بنك قطر الوطني» أعماله إقليمياً معزِّزاً بتوسُّع فروعه في المملكة المتحدة وفرنسا وسنغافورة والكويت وسلطنة عُمان واليمن، وعمليات الاستحواذ في كل من تونس والأردن والإمارات العربية المتحدة والعراق. وإضافة إلى ذلك، أسّس المصرف فروع تابعة في سوريا ولوكسمبورغ وسويسرا. وبالتالي، باتت نشاطات المصرف خارج قطر تشكّل نحو 29,4% من إجمالي الموجودات و 15,4% من صافي دخله. وتتوقع إدارة المصرف ارتفاع هذه النسب إلى نحو 50% من إجمالي الموجودات و 25% من صافي الدخل خلال السنوات المقبلة، عندما يجني المصرف أرباح جهوده التوسعيّة.

### تنويع خدماته

في ظل المنافسة الشديدة بين المصارف المحلية والأخرى العالمية العاملة في «مركز قطر المالي»، يقوم المصرف بتوسيع مجالات عمله عبر تنويع خدماته لعملاء التجزئة والشركات وعبر تعزيز الخدمات المصرفية الإسلامية لديه من خلال فروع «بنك قطر الوطني الإسلامي» QNB Al Islami التي تقدّم منتجات إسلامية على غرار «تورّق»، و «صكوك»، و «إستصناع» و «إجارة». ويوفر «بنك قطر الوطني الإسلامي» إمكانية نمو جيدة وقد زاد بالفعل إسهامه في أصول المصرف إلى 20,8 مليار ريال قطري حتى كانون الأول/ديسمبر 2009، بما يُشكِّل نسبة 11.6% من إجمالي موجودات «بنك قطر الوطني»، مقارنة مع نسبة 4.6% عند نهاية العام 2005. علاوة على ذلك، وحتى تاريخ كانون الأول/ديسمبر 2009، شكل قطاع الخدمات المصرفية الإسلامية نحو 9% من صافي دخل «بنك قطر الوطني».

### مخاوف أقل بشأن القروض المتعثّرة

على عكس المصارف الأخرى العاملة في المنطقة، بقيت جودة أصول «بنك قطر الوطني» عالية خلال الأزمة الأخيرة. فقد بلغت نسبة معدّل «القروض المتعثِّرة» 0,77% فيما بلغت نسبة تغطية «القروض المتعثِّرة» 108,8% في نهاية العام 2009. والسبب الرئيسي وراء جودة الأصول العالية هذه تمثّل في المخاطر المتدنّية المرتبطة بإقراض الحكومة والمؤسّسات الحكومية وشبه الحكومية. الا اننا نتوقع أن يزداد معدّل «القروض المتعثِّرة» إلى 1.12% في العام 2010 وإلى 1,15% في العام 2011 على التوالي.

## نمو متزايد للأرباح

في ظل المخاوف التي تعمّ الأسواق المالية العالمية هذه الأيام، حيث أصبحت أرباح المصارف أكثر تذبذباً بفعل المستويات العالية من «مخصّصات خسائر الإئتمان»، يتمتع «بنك قطر الوطني» بمكانة جيدة إذ أنّه يتميّز بشفافية أعلى مقارنة بباقي المصارف العاملة في المنطقة. وبالرغم من ارتفاع متوقع في «المخصّصات الإئتمانية» خلال العام 2010، نتوقع أن يسجّل صافي دخل البنك نمواً قوياً، محققاً زيادة سنوية قدرها 26,7% في العام 2010 تليها زيادة قدرها 21,3% خلال العام 2011. ونتوقع أيضاً أن يُحقق المصرف نسبة «معدّل عائد على متوسط حقوق المساهمين» تبلغ 24,7% ونسبة «معدّل عائد على متوسط الموجودات» تبلغ 2,8% في العام 2010، مقارنة بـ 22,9% و 2,5% في العام 2009، مستفيداً بشكل أساسي من الإنتعاش في «محفظة القروض».

## إمكانية الإفادة من النمو المتوقع في قطر

في العام 2009، كانت قطر من بين الاقتصادات الأسرع توسُّعاً في العالم، مسجّلة نمواً قدره 9,04% مقابل معدّل نمو 2,4% في الشرق الأوسط وإنكماش بنسبة 0,6% للاقتصاد العالمي. وتُرجم ذلك بتوسُّع بنسبة 18,0% في إجمالي موجودات المصرف وبنمو بلغ 15,0% في «الدخل الصافي» للمصرف في السنة المالية 2009.

وفي العام 2010، يُقدَّر أن يصل نمو «إجمالي الناتج المحلي الحقيقي» في قطر إلى ذروته مع نسبة 18,5% ومن ثم يتباطأ إلى 14,3% في العام 2011، يعقب ذلك متوسط نمو بنسبة 6,3% بين عامي 2012 و 2014. وبالتالي، نتوقع تحسُّناً في نمو محفظة القروض إلى 20,0% و 19,2% في السنة المالية 2010 والسنة المالية 2011 على التوالي قبل التراجع إلى متوسط نمو بنسبة 13,4% بين عامي 2012 و 2014.

## رأسمال وافر

مع ارتفاع إجمالي حقوق المساهمين إلى نحو 19,97 مليار ريال قطري في نهاية العام 2009، بارتفاع قدره 20,0% مقارنة بالعام السابق، ومع معدّل «رأس مال أساسي» بلغ 13,2% ومعدّل «إجمالي حقوق المساهمين/إجمالي الموجودات» بلغ 11,14%، يملك «بنك قطر الوطني» رأسمالاً وافراً لدعم أعماله ولتمويل تلك المشاريع الكبيرة التي تعجز المصارف القطرية الأخرى عن تمويلها بسبب حجمها الصغير.

## التمويل والسيولة

تكوّن الودائع المصدر الاساسي للتمويل في «بنك قطر الوطني» حيث يتوزع العملاء بين زبائن المصرف في الفروع وبين القطاع العام. وهذا ساعد المصرف على الحفاظ على سيولة وافية على الرغم من تقلُّص السيولة الذي شهدته السوق الإقليمية.

## دعم حكومي كبير

خلال الازمة المالية العالمية شكل الدعم الحكومي الرافعة الاساس للقطاع المصرفي في قطر وبدا ذلك واضحا» من خلال سلسلة اجراءات عملية في عام 2009، حيث ضخّت «هيئة الاستثمار القطرية» (QIA) رأسمالاً جديداً في القطاع المصرفي عبر شراء ما بين 10% إلى 20% من رأسمال أسهم بعض المصارف المدرجة في البورصة. وأعقب ذلك شراء الحكومة للمحفظة الإستثمارية للمصارف (المقدّرة قيمتها بنحو ملياري دولار أميركي). وإضافة إلى ذلك، وخلال العام 2009، اشترت حكومة قطر ما يعادل 15 مليار ريال قطري من المحافظ العقارية للمصارف القطرية.

هذا المستوى العالي من الدعم الملحوظ قد عزّز ثقة المستثمرين في النظام المصرفي القطري وهذا ما حدّ من سحوبات الودائع من المصرف مقارنة مع أي مكان آخر في الخليج.

## الجوائز

حاز البنك على جوائز عديدة على مر السنين، بما في ذلك جائزة «أفضل بنك في قطر» من قِبل مجلة «Euromoney» في حزيران/يونيو 2010، وجائزة «مصرف العام في قطر للعام 2009» من قِبل مجلة «The Banker» وجائزة «أفضل بنك في قطر» من مجلة «Global Finance» .

## تقييم جذّاب

على الرغم من الارتفاع بنسبة 14.7% في سعر السهم منذ بداية العام الحالي، نرى أنّ السهم يتداول بمستويات تقييم جذابة، متداولاً عند مكرر ربحية 9.93 للعام 2010 و8.18 للعام 2011. وفي ضوء تقييمه الجذّاب، وتوقعاتنا الإيجابية لأرباحه، فإننا نبدأ تغطية «بنك قطر الوطني» بمنحه توصية «تجميع» بناء على قيمة عادلة تبلغ 163.31 ريال قطري لكل سهم، مما يعطي المستثمر إمكانية الإفادة من ارتفاع محتمل بنسبة 21.33% عن سعر السوق الحالي البالغ 134.60 ريال قطري لكل سهم.

### التقديرات المالية

| التصنيف | السعر الحالي | السعر المستهدف | الارتفاع المتوقع | السعر على القيمة الدفترية |
|---|---|---|---|---|
| تجميع | 134.60 ر.ق. | 163.31 ر.ق. | 21.33 % | 2.66 |

| السنة | 2009 | 2010 م | 2011 م | 2012 م | 2013 م | 2014 م |
|---|---|---|---|---|---|---|
| صافي الدخل (مليون ر.ق.) | 4,188 | 5,309 | 6,439 | 7,471 | 8,384 | 9,355 |
| ربحية السهم (ر.ق.) | 10.70 | 13.56 | 16.45 | 19.09 | 21.42 | 23.90 |
| معدل العائد على متوسط حقوق المساهمين (٪) | 22.95 | 24.67 | 25.45 | 24.97 | 23.90 | 22.94 |

# QATAR NATIONAL BANK

| | |
|---|---|
| CURRENT PRICE | **QAR 134.60** |
| FAIR VALUE | **QAR 163.31** |
| RECOMMENDATION | **ACCUMULATE** |

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# A CONSISTENT PERFORMER

## SOLID AND GROWING FRANCHISE

Qatar National Bank has a very strong banking franchise. It is the largest player in the Qatari banking sector, controlling around half of the country's banking assets. In the region, it is among the fastest growing banks and is currently the fourth largest in terms of total assets as of the end of Q1 2010, following Emirates NBD, The National Commercial Bank and National Bank of Abu Dhabi.

## COMPETITIVE ADVANTAGE IN THE STATE-RELATED BUSINESS

Due to the 50% ownership by the State of Qatar and to the bank's large size, QNB has a competitive advantage in the government-related project finance business, where the capital base of the bank allows it to take part in big-ticket transactions that other smaller banks in the country cannot undertake.

## EXPANDING REGIONALLY AND DIVERSIFYING ITS PRODUCT RANGE

Besides its organic growth in Qatar, QNB has continued to build its international network, with one of its main strategic initiatives being the expansion into new markets. In this regard, the bank has extended its branch network in the UK, France, Singapore, Kuwait, Oman and Yemen, and has acquired varying stakes in banks operating in Tunisia, Jordan, UAE and Iraq. In addition, the bank has established subsidiaries in Syria, Luxembourg and Switzerland. Also, to keep up with the growing competition, the bank is expanding its business lines, mainly by diversifying its product range for retail and corporate clients and by strengthening its Islamic Banking activities through its QNB Al Islami branches.

## LOWER ASSET QUALITY CONCERNS

Unlike other banks operating in the region, QNB's asset quality has remained sound during the latest crisis. Its NPL ratio stood at 0.77% and its NPL coverage at 108.8% at the end of 2009. Going forward, we expect the NPL ratio to increase to 1.12% and 1.15% in 2010 and 2011 respectively, and to average 1.07% between 2012 and 2014.

## ROBUST EARNINGS GROWTH

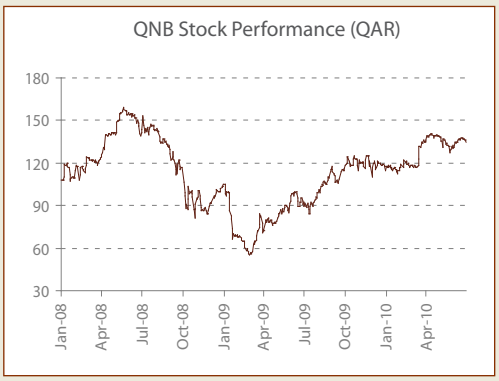
During these times of uncertainty in the global financial markets, when banks' earnings are made more volatile by the high levels of loan-loss provisioning, Qatar National Bank is well placed as it has better earnings visibility than its peer group. Despite an anticipated rise in credit provisioning during 2010, we expect its net income to grow strongly, achieving a yearly increase of 26.7% in 2010 followed by 21.3% during 2011.

## ATTRACTIVE VALUATION

Despite the rise of 14.7% year-to-date in the share price, we believe the stock is still attractively valued, trading at 9.93 times our estimated 2010 EPS and 8.18 times EPS 2011 E. Consequently, we initiate coverage on Qatar National Bank with an "Accumulate" recommendation based on a 12-month fair value of QAR 163.31 per share, providing investors with 21.33% upside potential.

## STOCK DATA

| | |
|---|---|
| Market Cap (QAR) | 55,690,112,200 |
| Number of Shares | 391,457,000 |
| Free Float | 49% |
| Av. Monthly Liquidity (USD) | 122,638,551 |
| 52-week High (QAR) | 140.90 |
| 52-week Low (QAR) | 55.54 |
| Trailing PE | 11.82 |
| PE 10 E | 9.93 |
| PB | 2.66 |




| Year | 2009 | 2010 E | 2011 E | 2012 E | 2013 E | 2014 E |
|---|---|---|---|---|---|---|
| Net Income (QAR million) | 4,188 | 5,309 | 6,439 | 7,471 | 8,384 | 9,355 |
| EPS (QAR) | 10.70 | 13.56 | 16.45 | 19.09 | 21.42 | 23.90 |
| ROAE (%) | 22.95 | 24.67 | 25.45 | 24.97 | 23.90 | 22.94 |

## INVESTMENT RATIONALE

*Solid and growing franchise*

Qatar National Bank has a very strong banking franchise. It is the largest player in the Qatari banking sector, controlling 57.7% of the sector's deposits and 50.1% of the sector's loans as of December 2009. This solid basis provides the bank with a sustainable platform for corporate and consumer lending and a comfortable lead over its peers to benefit from the expansion of banking in Qatar. In the region, it is among the fastest growing banks and is currently the fourth largest in terms of total assets as of the end of Q1 2010, following Emirates NBD, The National Commercial Bank and National Bank of Abu Dhabi.

*Competitive advantage in the state-related business*

Due to the 50% ownership by the State of Qatar and to the bank's large size, QNB has a competitive advantage in the government-related project finance business, where the capital base of the bank allows it to take part in big-ticket transactions that other smaller banks in the country cannot undertake.

*Expanding regionally*

Besides its organic growth in Qatar, QNB is expanding its business regionally aided by branch expansion in the UK, France, Singapore, Kuwait, Oman and Yemen, and acquisitions in Tunisia, Jordan, UAE and Iraq. In addition, the bank has established subsidiaries in Syria, Luxembourg and Switzerland. A closer look at the bank's operating segments reveals that international banking, which represents the bank's business activities in its international locations, currently account for 29.4% of the bank's total assets and 15.4% of its net income. Contributions from international operations are set to rise as the bank reaps the profits of its expansion efforts. Management has guided towards an increased contribution of international operations, but limited at 50% of total assets and 25% of net income.

*Diversifying its product range*

With the growing competition from local and multinational banks opening in the Qatar Financial Center, the bank is expanding its business lines mainly by diversifying its product range for retail and corporate clients and by strengthening its Islamic Banking activities through its QNB Al Islami branches which offer Islamic products such as Tawarruk, Sukuk, Istisnaa, and Ijara. QNB Al Islami offers good growth potential and has already increased its contribution to the bank's assets to QAR 20.8 billion by December 2009 representing 11.6% of QNB's total assets, up from 4.6% at the end of 2005. Moreover, as of December 2009, around 9% of QNB's net income came from the Islamic banking segment.

*Lower asset quality concerns*

Unlike other banks operating in the region, QNB's asset quality has remained sound during the latest crisis. Its NPL ratio stood at 0.77% and its NPL coverage at 108.8% at the end of 2009. The main reason for this high asset quality was the low risk associated with QNB's government and government agency lending. Going forward, we expect the NPL ratio to increase to 1.12% and 1.15% in 2010 and 2011 respectively, and to average 1.07% between 2012 and 2014.

*Robust earnings growth*

During these times of uncertainty in the global financial markets, when banks' earnings are made more volatile by the high levels of loan-loss provisioning, Qatar National Bank is well placed as it has better earnings visibility than its peer group. Despite an anticipated rise in credit provisioning during 2010, we expect its net income to grow strongly, achieving a yearly increase of 26.7% in 2010 followed by 21.3% during 2011. This growth in income will be underpinned by Qatar's healthy GDP growth, forecasted at 19.6% and 17.4% for 2010 and 2011 respectively. Also, we expect the bank to achieve an ROAE of 24.7% and an ROAA of 2.8% in 2010, up from 22.9% and 2.5% a year earlier, primarily driven by a revival in loan book growth.

*Well positioned to benefit from the strong operating environment in Qatar*

Qatar National Bank operates in an industry that is among the main beneficiaries of the economic development in Qatar, as the country is undertaking large-scale infrastructure and industrial investments.

In 2009, Qatar was one of the fastest expanding economies in the world, growing by 9.04% versus a growth rate of 2.4% in the Middle East and a contraction of 0.6% in the world economy. This has translated into an expansion of 18.0% in the bank's total assets and growth of 15.0% in the bank's bottom line in FY 09.

In 2010, it is estimated that Qatar's real GDP growth will peak at 18.5%, and then slow to 14.3% in 2011, followed by 6.3% average growth between 2012 and 2014. Consequently, we forecast loan book growth to improve to 20.0% and 19.2% in FY 10 and FY 11 before dropping to an average of 13.4% between 2012 and 2014.

*Ample Capital*

With shareholders' equity amounting to QAR 19.97 billion as of the end of 2009, up by 20.0% y-o-y, and with a Tier 1 capital ratio of 13.2% and TE/TA ratio of 11.14%, Qatar National Bank has ample capital to support its business and to undertake those large financing projects that other Qatari banks cannot handle due to their smaller size.

*Funding and liquidity*

QNB's funding base consists primarily of stable customer deposits and unrestricted investment accounts sourced from its branch network and from the Government of Qatar. This has helped the bank to maintain an adequate liquidity position despite the liquidity squeeze witnessed in the regional market.

*Significant government support*

The level of government support has been illustrated by the swift and material government actions throughout the latest crisis. Specifically, the Qatar Investment Authority (QIA) injected some fresh capital into the banking sector by buying 10% to 20% of the share capital of some listed banks. This was followed by the government purchase of the banks' equity investment portfolio (valued at up to USD 2 billon). In addition, during 2009, the government of Qatar bought around QAR 15 billion worth of Qatari banks' real estate portfolios.

This high level of explicit support has boosted investors' confidence in the Qatari banking system and has resulted in less severe withdrawals from the banks' deposits than elsewhere in the Gulf.

*Awards*

The bank has received multiple awards over the years, including "The Best Bank in Qatar" by Euromoney in June 2010, "The Bank of the year in Qatar for 2009" by The Banker and "Best Bank in Qatar" from Global Finance magazine.

*Attractive valuation*

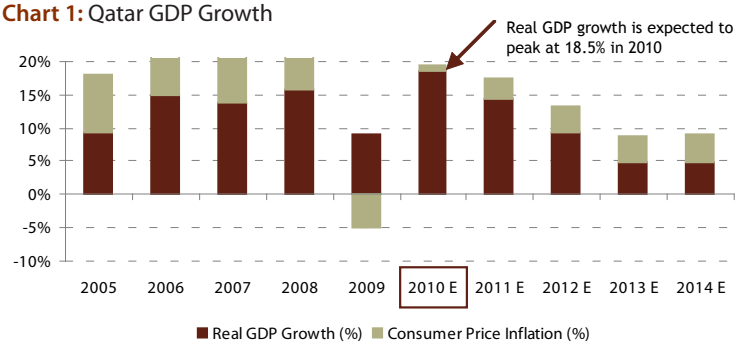
Despite the rise of 14.7% year-to-date in the share price, we believe the stock is still attractively valued, trading at 9.93 times our estimated 2010 EPS and 8.18 times EPS 2011 E. In light of its attractive valuation and its positive earnings outlook, we initiate coverage on Qatar National Bank with an "Accumulate" recommendation based on a 12-month fair value of QAR 163.31 per share, implying a 21.33% upside potential to the current market price of QAR 134.60 per share.

# QATARI BANKING SECTOR GROWTH DRIVERS

## Qatar Economy: Bright Outlook for 2010

Despite its small size, Qatar is a wealthy country, with one of the highest levels of GDP per capita in the world, approaching USD 68,900 in 2009. It is estimated by the IMF that in 2010, Qatar will rank third in the world in terms of GDP per capita, reaching a level of around USD 87,800. Over the past five years, it has consistently grown at impressive rates, with real GDP growth averaging 12.6%, mainly due to the expansion in the hydrocarbon resource sector.

**Chart 1:** Qatar GDP Growth




*Source: IMF, World Economic Outlook, October 2009*

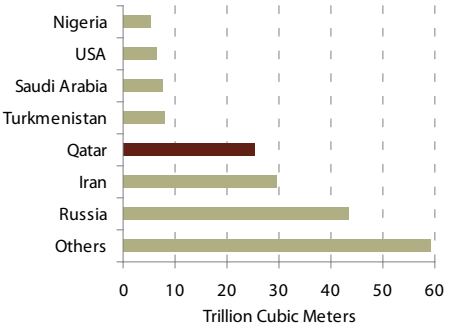
In 2009, Qatar was one of the fastest expanding economies in the world, growing by 9.04% versus a growth rate of 2.4% in the Middle East and a contraction of 0.6% in the world economy. Qatar has fared well through the current cycle, largely due to a relatively diverse economy, a prudent monetary and fiscal policy, and a lack of leverage compared to other countries in the region. Consequently, based on IMF figures, real GDP growth is expected to peak at 18.5% in 2010, then to slow to 14.3% in 2011, followed by 6.3% average growth between 2012 and 2014.

### *Economic Background*

Qatar's economy is heavily dependent on the oil and gas industries. Its huge base of gas is definitely of large benefit to the country especially at a time when global demand for natural gas is growing rapidly as natural gas is used as an alternative source of energy. The country possesses the third largest gas reserves in the world behind Russia and Iran, amounting to 25.46 trillion cubic meters and representing over 13.8% of the earth's proven natural gas reserves. In addition, it has proven reserves of around 27.3 billion barrels of oil, representing 2.2% of the world's proven oil reserves.

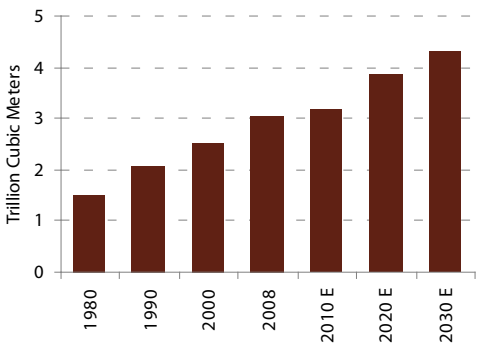
*Qatar has the third largest proven gas reserves in the world*

**Chart 2:** Global Proven Gas Reserves




*Source: BP Statistical Review, June 2009*

**Chart 3:** Global Demand for Natural Gas




*Source: International Energy Outlook*

## Economic Diversification

Qatar is planning to diversify its economy away from hydrocarbon resources. Although the gas sector has been growing in the past years, the non-hydrocarbon sector has been expanding at a faster rate, and the government is aiming to increase its contribution to the overall economy over the coming period.

***Real Estate:*** Qatar is opening up different sectors in the economy, in particular real estate and construction, which are stimulated mainly by the influx of expatriates and the government laws allowing foreigners to own their properties. The residential market grew enormously in the past four years; however, we believe that in 2010 supply will meet demand, which will put downward pressure on prices. Commercial real estate is also developing, with hundreds of towers planned or under construction. The Qatar Financial Centre was introduced in 2005 to kick-start the advancement in commercial real estate.

***Tourism:*** The country is developing its tourism and hospitality sector by holding more conferences and business meetings, as well as sports events and exhibitions. It is working on widening its sectors to include science, education and health. The government has sponsored projects such as Hamad Medical City and the well known Education City that has already attracted some major US universities. The government is also working on enhancing cultural tourism and it launched these efforts with the inauguration of the Museum of Islamic Art in December 2008. Currently, the government is preparing the constructing of the Cultural Village in the West Bay area. The hospitality sector development is high on the government agenda.

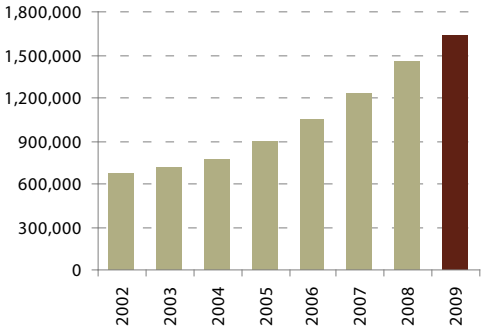
***Infrastructure:*** A major expansion in infrastructure is being undertaken. USD 5.5 billion is being spent on Doha International Airport and another USD 5.5 billion was granted for the construction of Doha Port. Furthermore, a new causeway linking Qatar and Bahrain has been allocated another USD 3 billion.

In addition, the government is encouraging the private sector to take a bigger role and to move beyond the real estate and trade sectors into financial services. It is also giving support to SMEs by convincing the banks to lend these companies. Continued investment and strong performance in the areas of real estate, financial services, industry, tourism, education and health is leading to more demand for banking products to finance projects in these sectors, and this in turn is increasing confidence in the Qatari market.

## Population Growth

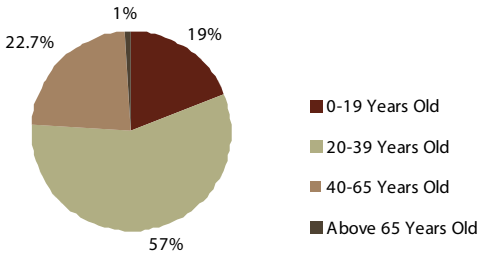
Over the past five years, the Qatari population has grown rapidly, at a CAGR of 16.6%, to reach 1.64 million at the end of 2009, as per the Qatar Statistics Authority (QSA). According to a recent report by TalentRepublic.net, expatriates in Qatar account for 87% of the total population.

**Chart 4:** Population Growth in Qatar




*Source: QSA, May 10*

**Chart 5:** Qatari Population Distribution



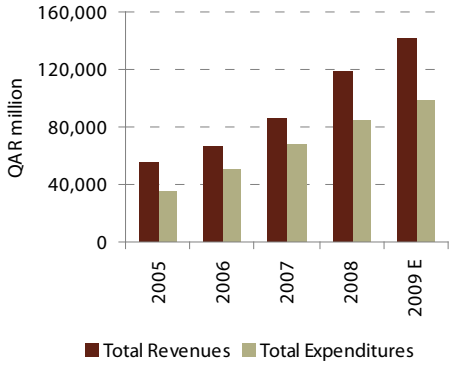

*Source: QSA, 2008*

As shown in chart 5, around 19% of the population is under the age of 20 and only 1% is above 65 years old. This young demographic profile points to a growing bankable population, a factor that would increase the demand for banking products and services.

## Fiscal Surplus

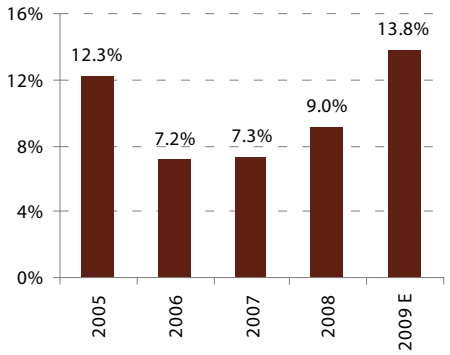
Despite negative global economic conditions during the past two years, Qatar has recorded a surplus of QAR 42.09 billion in its 2008-2009 state budget, representing 13.8% of GDP, compared to a surplus of QAR 33.06 billion a year earlier. This has resulted from an increase of 19.7% (QAR 23.16 billion) in total revenues compared to a 16.7% (QAR 14.13 billion) increase in public expenditures.

**Chart 6:** Qatar Government Revenues and Expenditures




*Source: IMF Country Report, Mar 10*

**Chart 7:** Qatari Budget Balance to GDP Ratio




*Source: IMF Country Report, Mar 10*

### *Government Revenues*

The increase in public revenues is mainly due to the sustained increase in oil prices in the international markets. Even during the setback in prices, the average oil price was still higher than the expectation stated in the state budget of 2008-2009. Oil and gas revenues are considered to be the main source of public revenues and they increased by QAR 9.26 billion or 13.0% to a total of QAR 80 billion, compared to QAR 70.7 billion in the preceding year. But their share of total revenue has declined to 56.7% in the 2008-2009 state budget from 60% in 2007-2008. This demonstrates the success of the government in diversifying income revenues from hydrocarbon into other sectors of the economy.

### *Government Expenditures*

Government expenditures have been increasing in the past few years, along with the increase in public revenues and with the accelerated pace of economic development. Capital expenditure, which is mainly represented by infrastructure projects including roads, communications, utilities, and land reclamation, in addition to education and other spending, was maintained at last year's level of QAR 33.1 billion and accounted for 33.5% of total expenditures. On the other hand, current expenditures, mostly allocated to general administration expenses, as well as health, defense and security spending, increased by 29.0% up to QAR 65.7 billion in the state budget of 2008-2009, from QAR 50.93 billion in the previous year. The growth in current and capital expenditures combined led to an increase of 16.7% in total expenditures to a total of QAR 98.9 billion compared to QAR 84.7 billion in the state budget of 2007-2008.

### *State Budget Estimate for FY 2009-2010*

In March 2010, the Qatari Emir endorsed the government budget for 2009-2010 with an average oil price of USD 40 per barrel as a basis for the calculation of revenue, which is lower than the basis used in 2008-2009, mostly due to the implications of the world financial crisis. In 2010, government revenues are estimated to be QAR 88.7 billion compared to estimated expenditures of QAR 94.5 billion, translating into an estimated budget deficit of QAR 5.8 billion or 1.4% of estimated GDP.

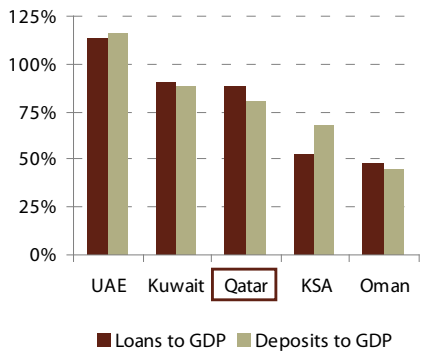
## Deep Pocket

Through its investment arm QIA, the Government of Qatar holds sizeable international assets in the form of a diversified portfolio of equities, bonds, real estate, private equity, alternative investments, etc. As per the Sovereign Wealth Fund Institute, QIA has around USD 65 billion worth of assets under management. On top of that, Qatar Central Bank held QAR 65 billion as of the end of 2009 in the form of deposits with foreign banks and foreign securities. These foreign assets can be resorted to in case of any financial problem and serve as a back-up for the banking sector during tough times.

## Moderate Banking Penetration

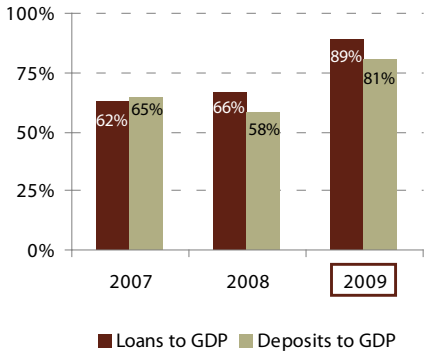
Between 2007 and 2009, Qatari banking penetration improved notably as a result of rapid economic expansion. Consequently, the loans-to-GDP ratio increased from 62.2% in 2007 to 88.7% in 2009, while the deposits-to-GDP ratio increased from 64.7% to 80.8%.

**Chart 8:** Loans to GDP and Deposits to GDP as of Dec. 2009




*Source: Central Banks Data*

**Chart 9:** Banking Penetration in Qatar




*Sources: Central Bank of Qatar and IMF*

As noted in the above chart, the penetration of the Qatari banking sector is lower than some of its regional peers. This is represented by its loans-to-GDP ratio of 88.7% as of the end of 2009, compared to 90.6% in Kuwait and 113.5% in the UAE. However, the banking penetration in Qatar is higher than in KSA and Oman, which have loans to deposits ratios of 53.2% and 47.9%, respectively. This moderate level of credit penetration in Qatar indicates continued growth potential for the banks operating in this market.

## Government Support

The actions taken by the Government of Qatar during the recent crisis demonstrated its constant support for the banking sector. More specifically, QIA injected some fresh capital into the banks which requested this type of support, at a level ranging between 10% and 20% of their share capital. And in March 2009, the Government of Qatar announced its planned purchase of all or part of the banks' investment portfolio. The Government paid the original purchase price, less any impairment provision taken at the end of the year. Each bank was offered the choice of selling all or part of its book, and the right to buy back part or all of it at the same price at which it was sold. Following this announcement, QNB, CBQ and other banks sold their equity portfolios to the Government, thereby limiting their downside risk while keeping the upside potential. Also in May 2009, the government of Qatar bought around QAR 15 billion of the Qatari banks' real estate assets.

We believe this government initiative boosted the confidence in the Qatari banks' financial stability, as all potential losses in the investment and loan portfolios were fully absorbed by the state.

# OVERVIEW OF QATAR NATIONAL BANK

## BANK OVERVIEW

*The largest bank in Qatar and the fourth in the GCC*

Founded in 1964, Qatar National Bank (QNB) is the first Qatari-owned commercial bank and the largest bank in Qatar in terms of total assets, with a 50% market share of the country's total banking assets. The bank's strong presence in its local market is reflected in its 55% share of customer deposits and unrestricted investment accounts and its 50% share of loans and advances.

*Largest distribution network*

QNB has the largest distribution network in Qatar as it operates 41 branches and 3 mobile branches, in addition to 11 Islamic branches and more than 160 ATMs.

*The first conventional bank to offer Islamic banking*

QNB has benefited from being the first conventional bank in Qatar to offer Shariah-compliant banking products and services through QNB Al Islami and the first Qatari bank to offer investment funds on the Doha Securities market (Al Watani Fund I, II, III, and IV).

## GEOGRAPHIC DIVERSIFICATION

QNB has done a good job in growing organically, aided by branch expansions and small acquisitions. On an international level, QNB has a presence in many countries with branches in the United Kingdom, France, Singapore, Kuwait, the Sultanate of Oman, and Yemen. In addition, it recently launched an Islamic bank in Sudan offering all Islamic banking services. The bank also has representative offices in Libya and Iran.

**Table 1:** QNB Associates

| Name of Associate | Country | Ownership % |
|---|---|---|
| Mansoor Bank | Iraq | 23.1 |
| Housing Bank for Trade and Finance | Jordan | 34.0 |
| Commercial Bank International | UAE | 23.8 |
| Aljazeera Islamic Company | Qatar | 20.0 |
| Tunisian Qatari Bank | Tunisia | 50.0 |

*Source: QNB Financial Statements*

In 2008, the bank acquired 23.1% of Mansoor Bank in Iraq. The bank also holds a 34.0% stake of Housing Bank for Trade and Finance in Jordan, 23.8% of UAE-based Commercial Bank International, and 20.0% of Aljazeera Islamic Company, whose respective total assets are QAR 29,029 million, QAR 11,422 million and QAR 2,554 million as of the end of December 2009.

**Table 2:** QNB Subsidiaries

| Name of Subsidiary | Country | Ownership (%) | Share Capital (QAR million) | Year of Incorporation |
|---|---|---|---|---|
| QNB International Holdings Limited | Luxembourg | 100 | 413.0 | 2004 |
| QNB Capital LLC | Qatar | 100 | 54.6 | 2008 |
| QNB Banque Privée (Suisse) S.A. | Switzerland | 100 | 181.5 | 2009 |
| QNB - Syria | Syria | 49 | 400.0 | 2009 |

*Source: QNB Financial Statements*

QNB operates four subsidiaries (QNB International Holdings Limited, QNB Capital, QNB Banque Privée and QNB – Syria), most of which were incorporated in the past two years.

- QNB International Holdings Limited: Through this Luxembourg-based holding company, QNB owns 100% of the share capital of Ansbacher Group Holdings Limited, a wealth management financial institution with operations in the UK, Switzerland and the Channel Islands.
- QNB Capital LLC: A corporate advisory firm registered in the Qatar Financial Center.
- QNB Banque Privée (Suisse) S.A: In an effort to grow its wealth management business, QNB established QNB Banque (Suisse), which is a full private banking subsidiary of QNB. It was incorporated in November 2009 in Geneva, Switzerland and is an extension of QNB private banking services already established in Europe, specifically in London and Paris.
- QNB Syria: In July 2009, QNB announced the opening of its new branch in Syria, QNB-Syria in Damascus. The plan is to expand the presence in the country from one head office and one branch to 20 branches in the coming two years. QNB-Syria has a total authorized capital of USD 100 million, 49% of which is currently owned by QNB. In May 2010, QNB Syria received the approval from its shareholders to increase its capital from USD 100 million to USD 300 million. The bank also obtained the clearance from the Syrian Central Bank and from the regulatory bodies to increase QNB's stake to 55% from the current 49%. QNB has a management contract which is the reason behind consolidation.

## MARKET POSITION

The Qatari banking sector is dominated by Qatar National Bank, which controls nearly 50% of the market in terms of assets and loans and 64% in terms of customer deposits as of the end of December 2009.

**Table 3:** Qatari Banks' Market Shares in 2009

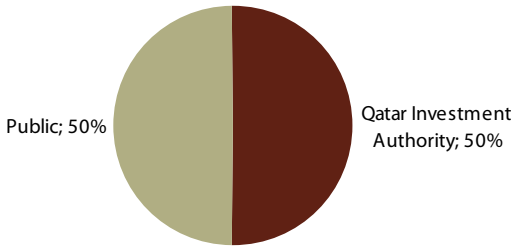
| | Assets (QAR million) | Market Share | Loans (QAR million) | Market Share | Deposits (QAR million) | Market Share |
|---|---|---|---|---|---|---|
| Qatar National Bank | 179,329 | 49.46% | 108,783 | 50.09% | 108,772 | 64.13% |
| Commercial Bank of Qatar | 57,317 | 15.81% | 31,929 | 14.70% | 24,021 | 14.16% |
| Doha Bank | 46,010 | 12.69% | 25,896 | 11.92% | 26,178 | 15.43% |
| Qatar Islamic Bank | 39,273 | 10.83% | 22,663 | 10.44% | 6,719 | 3.96% |
| Qatar International Islamic Bank | 16,551 | 4.56% | 10,136 | 4.67% | 2,452 | 1.45% |
| Masraf Al Rayan | 24,124 | 6.65% | 17,750 | 8.17% | 1,470 | 0.87% |
| Total Assets | 362,604 | 100% | 217,159 | 100% | 169,612 | 100% |

*Source: Qatari Banks Financial Statements*

## SHAREHOLDING STRUCTURE

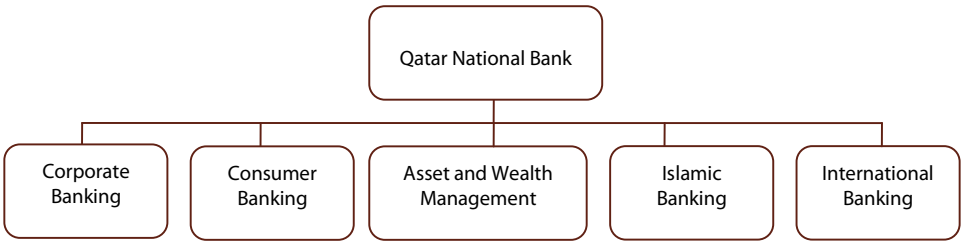
QNB's shareholding structure is characterized by having the Government of Qatar owning 50% of the share capital through Qatar Investment Authority and the public holding the other 50%. Foreign and GCC investors cannot hold more than 25% stake each. Also, private investors can only hold up to 2%.

**Chart 10:** QNB Shareholder Structure



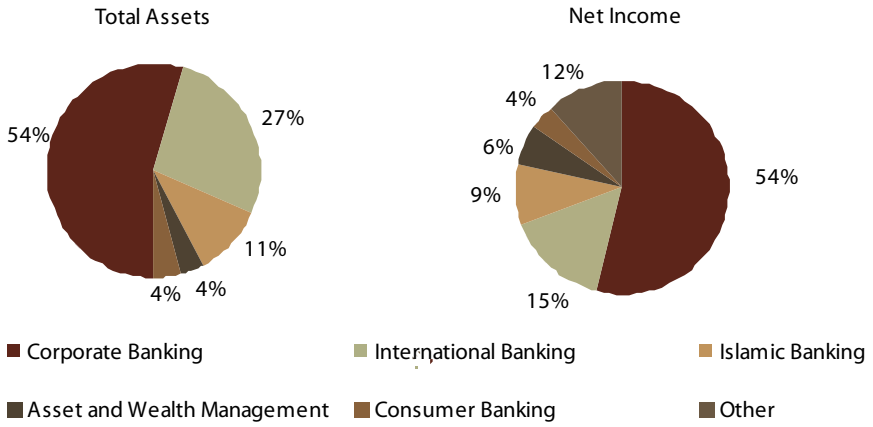

*Source: QNB*

## BUSINESS SEGMENTS




Qatar National Bank engages in a wide range of activities, including corporate banking, consumer banking, Islamic banking, asset and wealth management, and international banking. These are offered by different business units that are managed separately as they require different strategies.

**Chart 11:** Breakdown by Business Line (2009)




*Source: QNB Financial Statements*

### Corporate Banking

This activity is carried out under the umbrella of conventional banking and includes loans, deposits, investment and advisory services and other products and services provided to corporate clients. In addition, this segment includes capital market activities such as the issuance of debt securities, the use of derivatives for risk management purposes, and the investment in liquid assets such as short term placements and corporate and government debt securities.

The corporate banking division is by far the largest contributor to the bank's bottom line. In FY 09, it booked a net profit of QAR 2,268 million and accounted for 54.0% of QNB's net profit. As of December 2009, this segment reported total assets of QAR 105.8 billion.

### Consumer Banking

This segment also falls under conventional banking and comprises a diverse range of banking products and services offered to retail customers. This includes loans, deposits, credit cards, internet banking, among others. These products and services are being offered through the bank's growing branch network. As of December 2009, this segment reported total assets of QAR 8,249 million and contributed only 3.8% to QNB's net profit in FY 09.

### Asset and Wealth Management

QNB's asset and wealth management activities are undertaken by its 100% owned subsidiary Ansbacher Group Holding Limited, a wealth management institution with operations in the UK, Switzerland and the Channel Islands. It is worth noting that this subsidiary is owned through a Luxembourg-based holding company, QNB International Holdings Limited. This segment offers asset management services, including fund and portfolio management, local and international brokerage services, custody services, private banking and other services to high net worth customers. Despite the crisis, the financial performance of this division remained relatively resilient and it delivered a net profit of QAR 256 million in FY 09, advancing by 14.0% from QAR 221 million booked in FY 08, and contributing 6.1% to the bank's net profit in FY 09. This segment reported total assets of QAR 7,117 million in 2009.

In 2008, a new investment company, QNB Capital, was established by the bank to provide investment banking services to corporate, government and institutional clients within Qatar and globally.

### Islamic Banking

QNB's Islamic banking activities are carried out through its Islamic banking arm QNB Al Islami and are conducted in accordance with the Islamic Shariah. The Islamic banking activities include Islamic financing, unrestricted investment accounts, current accounts, and other products and services offered to retail and corporate clients under Shariah principles. Over the past four years, the contribution of this segment has increased and it currently represents 11.6% of the bank's total assets as of the end of 2009, up from 4.6% at the end of FY 2005. Moreover, as of the end of 2009 around 9% of QNB's net income came from the Islamic banking segment.

### International Banking

Through its international operations, QNB offers loans, deposits and other products and services to the bank's corporate and individual clients abroad. As of the end of 2009, international operations contributed to 15.4% of the bank's bottom line, up from 10.5% a year earlier.

## CREDIT RATING

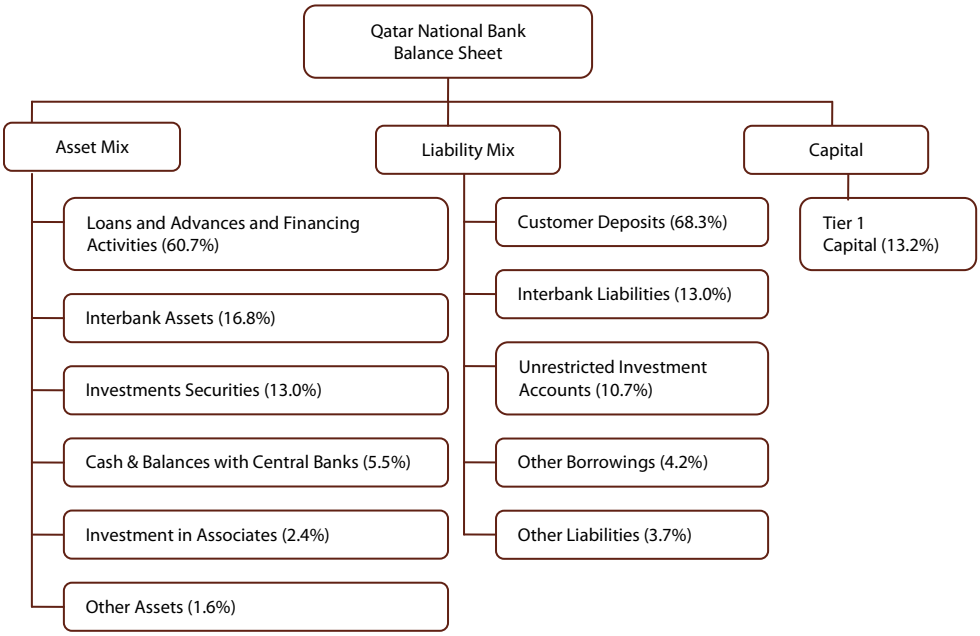
Qatar National Bank has the highest ratings among Qatari banks by all the leading rating agencies including Moody's (Aa3), Standard & Poor's (A+), and Fitch (A+). The bank short-term foreign currency deposit rating stands at P1.

## AWARDS

- Qatar National Bank was recently selected as "The Best Bank in Qatar" at the Euromoney Awards for Excellence in June 2010.
- The Banker, an affiliate publication of The Financial Times, named QNB as the bank of the year in Qatar for 2009. This award is granted according to the best overall performance in the country.
- In October 2009, QNB was also named the Best Bank in Qatar by Global Finance magazine for its performance in 2008.

# FINANCIAL ANALYSIS FOR FISCAL YEAR 2009

## BALANCE SHEET ANALYSIS



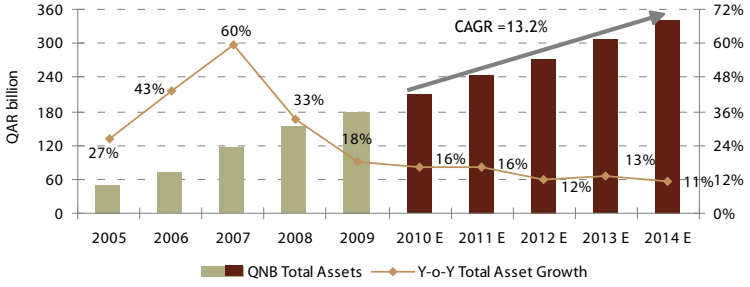

*Source: QNB Financial Statements*

The balance sheet structure of QNB is remarkably conservative. Loans account for around 61% of total assets, and customer deposits and unrestricted investment accounts cover almost 79% of the bank's funding needs.

### ASSETS

Between 2005 and 2009, QNB's total assets grew by a CAGR of 37.6% from QAR 50 billion to QAR 179 billion, making it a large player in the Qatari as well as in the regional banking sector. This expansion was mainly driven by substantial increases in loans and advances and financing activities to customers. Between 2005 and 2009, these grew by over QAR 77 billion to the current level of QAR 108.8 billion, representing a CAGR of 36.4%.

**Chart 12:** QNB Total Asset Growth




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

Asset growth has fallen over the past two years, from a high 59.6% in 2007 to 32.9% in 2008, then to 18.0% last year. Going forward, we expect the total balance sheet size of QNB to grow at a more moderate pace of 13.2% CAGR during FY 10-14. This is due to the already large size of the balance sheet, as well as the slowdown in economic growth expected for 2013 and 2014. We forecast total asset growth of 16.2% in 2010 followed by 16.4% in 2011, supported by solid loan growth of 20.0% and 19.2% in 2010 and 2011 respectively.

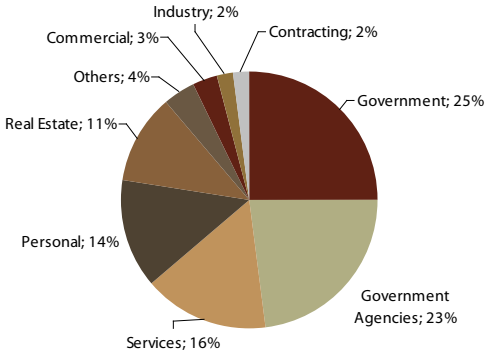
## Loans and Advances and Financing Activities to Customers

### *By Economic Sector*

QNB is primarily a government lender, with nearly half of total loans granted to the government and government agencies. Aside from these two large exposures, the loan book includes a 15.8% exposure to the services sector and another 11.2% to the real estate sector. Personal loans make up 13.8% of the portfolio.

*Around half of loan exposure is to government and government agencies*

**Chart 13:** QNB Loan Exposure by Business Sector



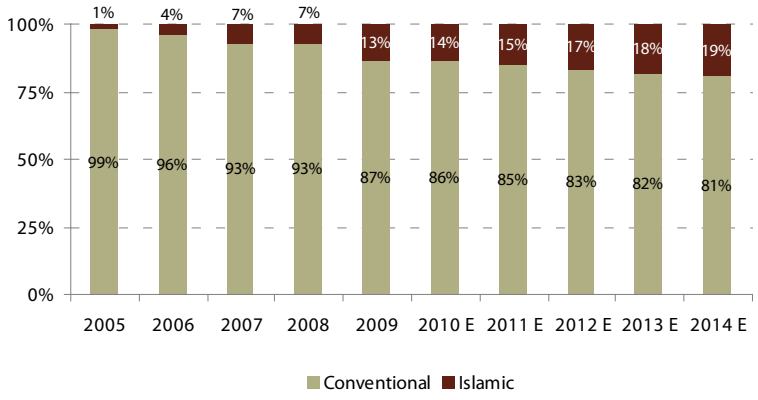

*Source: QNB Financial Statements*

The real estate portfolio totaled QAR 9.7 billion at the end of 2009, up from QAR 8.9 billion in 2008. However, we are not concerned about this exposure for two reasons, the first being a relatively limited exposure and the second, and the more important, being government support in case of major problems.

### *By Type: Increased Focus on Islamic Financing*

Qatar National Bank is extending its focus on Islamic financing including Murabaha and Musawama (74.8%), Musharaka (3.6%), Mudaraba (0.5%), Istisna (0.3%), Ijara (20.5%) and others. Consequently, the share of Islamic financing and investing activities in total loans increased from 1.3% in 2005 to 7% in 2007, and then to 13% in 2009.

**Chart 14:** Islamic Financing Contribution to Total Loans Portfolio



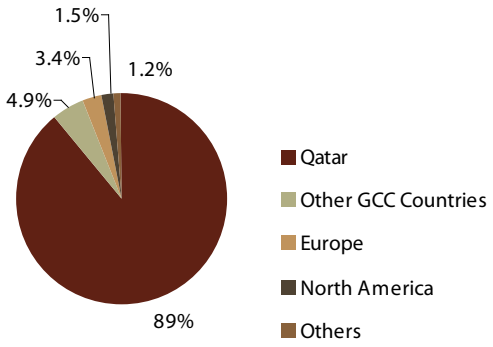

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

We expect Islamic financing to increase in the future and forecast the share of Islamic loans to total loans to grow to 19.1% in 2014, supported by the bank's increased focus on Islamic banking activities.

***By Location***

QNB's loan book is geographically concentrated, with 89.0% of the portfolio located in Qatar. However, we do not view this geographic concentration in a negative light, as the Qatari economy is in a better shape than the other countries in the region.

**Chart 15:** Loan Mix by Location




*Source: QNB Financial Statements*

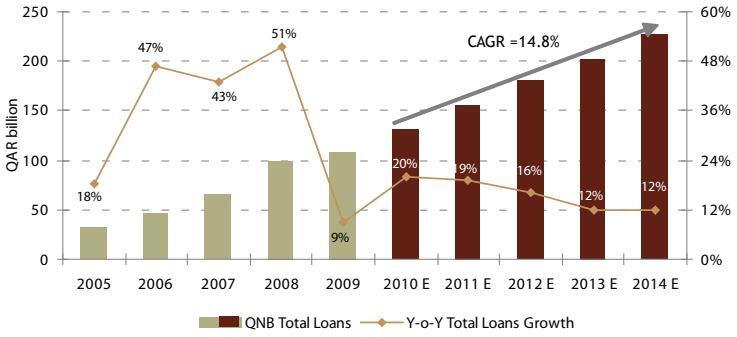
***High Loan Growth Expectations for 2010 and 2011***

*We forecast solid loan growth of 20% in 2010 and 19% in 2011*

After a year of tight credit in 2009, we expect a robust recovery in loan book growth during 2010 and 2011, underpinned by healthy GDP growth forecast at 19.6% and 17.4% for 2010 and 2011 respectively. While management guided toward 15% loan growth for 2010, we forecast 20.03% growth in our model and we believe the bank can sustain 20% annual loan growth levels in 2010 and 2011 before dropping to an average of 13.4% between 2012 and 2014. Our case is supported by the continued government-supported expansion in different sectors of the economy, including the hydrocarbon and the non-hydrocarbon sectors. This will benefit the banking sector in Qatar in general and Qatar National Bank in particular, due to its superior size, higher market share, strong ties with the government and other factors discussed above.

**Chart 16:** Qatar National Bank Growth in Loans and Advances and Financing Activities to Customers

*Loans are expected to grow at a CAGR of 14.8% during 2010-2014*




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

As illustrated in the above chart, the loan book grew by a CAGR of 36.4% during 2005-2009 compared to a sector average of 37.9%. Going forward, we expect the loan book to grow at a CAGR of 14.8% during 2010-2014. We favor such moderate growth in the loan book, since unwarranted high growth could carry more risk and therefore come at a higher cost.

## Asset Quality: Not a Concern

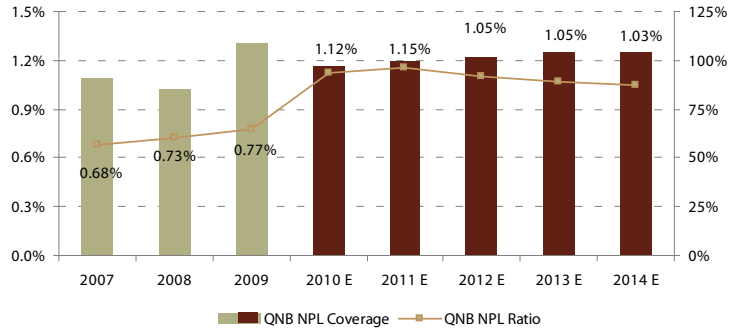
Qatar National Bank's loan book quality is much better than that of its local and regional peers. The very low risk associated with government and government agency lending is of course the main reason for this high asset quality. As of the end of 2009, the bank reported an NPL ratio (Non-Performing Loans to Gross Loans) of 0.77% and an NPL coverage ratio (Provisions to NPL) of 108.8%. Total non-performing loans reached QAR 849.0 million at the end of 2009, up from QAR 731.5 million reported in FY 08.

Looking forward into 2010, we expect asset quality to deteriorate slightly as the bank's steady expansion continues. We expect the NPL ratio to be at the 1.12% level in 2010 and 1.15% in 2011 and to average 1.07% between 2012 and 2014. We anticipate the coverage ratio to remain above 100% between 2011 and 2014.

It is worth noting that the bank did not have any exposure to the troubled Saudi Group, nor to other distressed firms in the region.

**Chart 17:** QNB Asset Quality Trends

*NPL ratio expected to hover around 1.1% between 2010 and 2014*



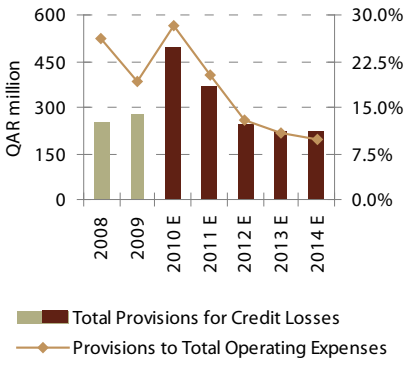

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

### *Provisioning Levels*

*Provisions for credit losses are expected to peak in 2010 at QAR 495 million*

We expect credit provisioning to peak in 2010 at QAR 495 million or 28% of total operating expenses, up from QAR 281 million or 19% of total operating expenses in FY 09. This increase is mainly due to the fast growth in the loan portfolio in the previous years, coupled with the slowdown in the property market and the negative capital markets performance that resulted in erosion of wealth, mainly for retail clients. However, we believe we are being conservative in our credit provisioning expectations for 2010. Starting 2011, we forecast provisions for credit losses to decline gradually to reach QAR 223 million in 2014 representing 10% of total operating expenses.

**Chart 18:** QNB Loan Loss Provisions



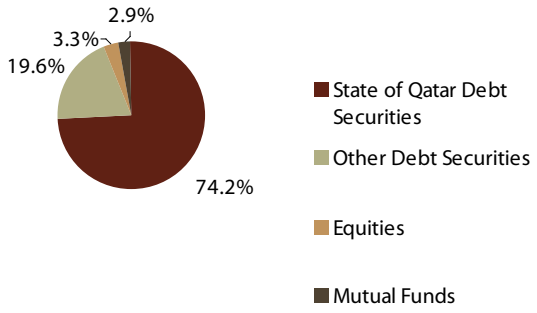

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

### Investment Book

QNB's securities book is a conservative, fairly low-risk portfolio. As of the end of 2009, the book totaled QAR 23,333 million, up from QAR 11,815 million in the preceding year, and representing 13.0% of the bank's total assets. Nearly 74% of the securities are State of Qatar debt securities, 79% of which are held-to-maturity financial investments.

*The securities portfolio has minimal risk*

**Chart 19:** Portfolio Breakdown by Type (2009)




*Source: QNB Financial Statements*

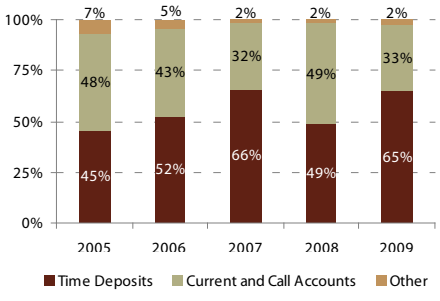
While many banks experienced losses in their securities portfolios, QNB's portfolio is conservative from a potential risk perspective. During 2009, the bank disposed of some QAR 4,013 million in equity investments in the Qatari stock market which were taken over by the Government of Qatar in return for QAR 1,788 million cash and a five-year bond of QAR 2,225 million at an interest of 5.5% per year. Looking forward, we believe QNB will continue in its safe investment approach, and we expect the investment portfolio to constitute around 10%-12% of total assets during 2010-2014.

## LIABILITIES

### Customer Deposits and Unrestricted Investment Accounts

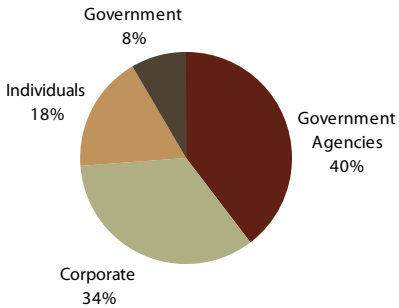
Customer deposits* continue to be the largest funding source for Qatar National Bank, accounting for 68.2% of the bank's total funding requirements as of the end of 2009. In addition, unrestricted investment accounts, which represent the Islamic deposits, are another major source of funding for QNB, covering around 10.7% of the bank's funding needs in 2009.

**Chart 20:** QNB Deposits Decomposition by Type




*Source: QNB Financial Statements*

**Chart 21:** QNB Deposits Decomposition by Sector (2009)




*Source: QNB Financial Statements*

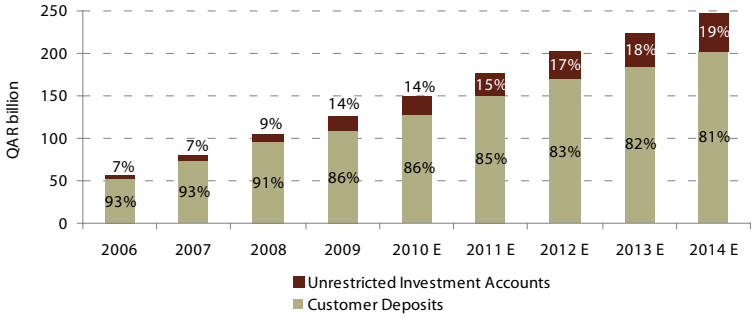
About 65% of customer deposits are time deposits, followed by current and call accounts that accounted for about 33% of deposits at the end of 2009. As shown in the above chart, the ratio of interest-bearing time deposits is increasing, up from 49% in 2008 to 65% in 2009. Going forward, we believe that the ratio of time deposits to total deposits will increase modestly to around 68% in FY 2014, as clients are seeking higher returns on their deposits.

FOOTNOTE

** In the Customer Deposits and Unrestricted Investment Accounts section, customer deposits include unrestricted investment accounts even when not mentioned.*

The bank's strong liquidity position is backed by the stable government and government agency deposits, which make up 48% of the bank's conventional deposit base. This provides QNB with a certain amount of funding stability and makes it less susceptible to major market shocks.

**Chart 22:** Share of Unrestricted Investment Accounts in Total Deposits



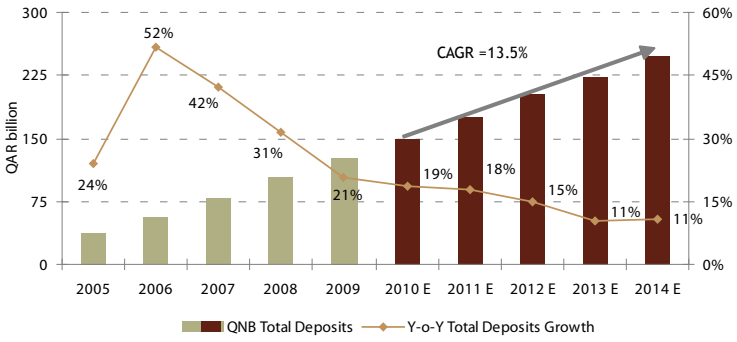

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

Over the past years, the ratio of unrestricted investment accounts to total deposits has increased from 7% in 2006 to 14% in 2009. We believe this trend will continue in the future and forecast this ratio to rise progressively to reach 19% in 2014.

***Overall View***

**Chart 23:** Qatar National Bank Growth in Customer Deposits and Unrestricted Investment Accounts

*Customer deposits and unrestricted investment accounts are expected to grow at a CAGR of 13.5% during 2010-2014*




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

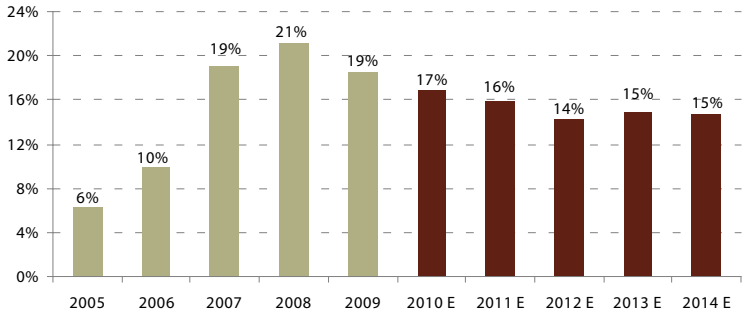
For the last few years, Qatar National Bank has been growing its deposit franchise, with customer deposits and unrestricted investment accounts increasing by 31.6% between 2005 and 2009. However, with a slowdown in economic growth anticipated for the coming five years, especially from 2013 onwards, and the size impact starting to bear on the growth rate as the base becomes high, deposit growth is likely to decelerate. We forecast customer deposits to grow by 18.8% year-on-year to reach QAR 149.5 billion in 2010, and to grow at a CAGR of 13.5% between 2010 and 2014 to reach QAR 247.9 billion by the end of 2014.

## Wholesale Funding

Wholesale funding, including interbank liabilities, repurchase agreements and other borrowings, represented the second largest source of income for QNB and constituted 18.6% of QNB's funding needs during 2009. Funding from other banks totaled QAR 20,794 million in FY 09 and accounted for 70.2% of the wholesale liquidity needs of the bank. A heavy reliance on interbank funds for covering short-term liquidity needs may be risky, as funds provided by other banks tend to be volatile.

However, QNB acted as a net lender in the interbank market in FY 09, with the ratio of due from banks to due to banks standing at 145% at the end of 2009, up from 137% as of the end of 2008.

**Chart 24:** QNB Wholesale Funding to Total Liabilities



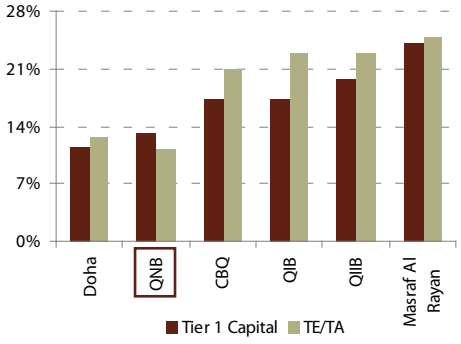

*Source: QNB Financial Statements and Audi Capital - KSA Estimates*

Other borrowings, in the form of syndicated term loan of QAR 6,715 million, constituted another source of liquidity for QNB. This term loan is a bullet repayment loan facility due in July 2012. Looking ahead, with wholesale funding becoming tighter, and with the expansion in customer deposits and unrestricted investment accounts outpacing the growth in wholesale funding, we expect wholesale funding to contribute an average of 15.3% of the bank's funding needs between 2010 and 2014.

## CAPITAL ADEQUACY

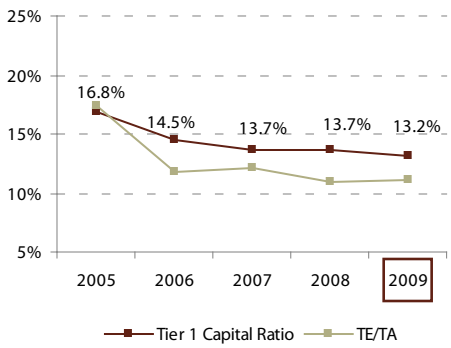
QNB's shareholders' equity increased by 20.0% during FY 09, amounting to QAR 19.97 billion as of the end of 2009. On the other hand, total assets rose by 18.0% to total QAR 179.33 billion at the end of 2009. This has resulted in a total equity to total assets (TE/TA) ratio of 11.14% as of December 2009, up from 10.95% as at the end of 2008, but below the sector's weighted average of 15.61% at the end of 2009. We expect TE/TA to improve going forward and average 11.9% between 2010 and 2014, as the growth in assets will be in the low double-digit range, and improved profitability will feed into total equity.

**Chart 25:** Capital Ratios across Qatari Banks (2009)




*Source: QNB Financial Statements*

**Chart 26:** QNB's Capital Ratio Evolution

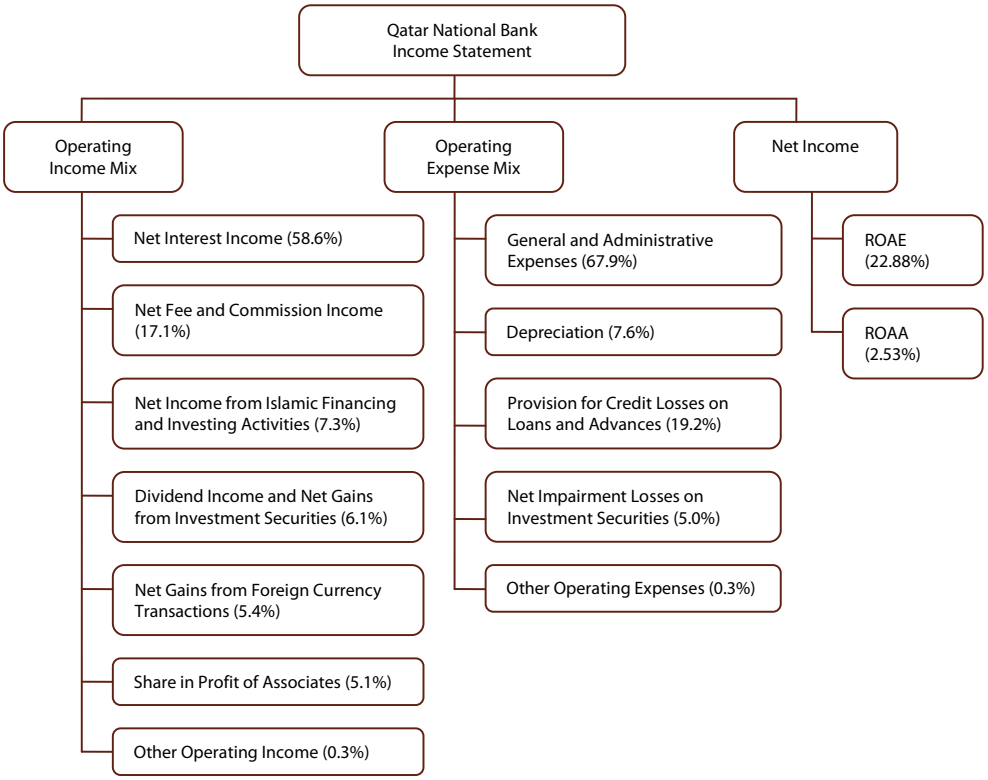



*Source: QNB Financial Statements*

*Comfortable capital position*

Despite the fact that Qatar National Bank's capital level is low compared to that of its peers, the bank's capital position is comfortable with a Tier 1 capital ratio of 13.2% as of the end of 2009. This level is well above the minimum regulatory requirement of 10% set by Qatar Central Bank, and the 8% set by the Basel Committee. We believe that this level of capitalization is sufficient to absorb any unexpected losses and to fund the bank's organic growth. But any decent-sized acquisition, which remains a future possibility, would stretch the capital and would require the bank to increase its level of capitalization.

## INCOME STATEMENT ANALYSIS

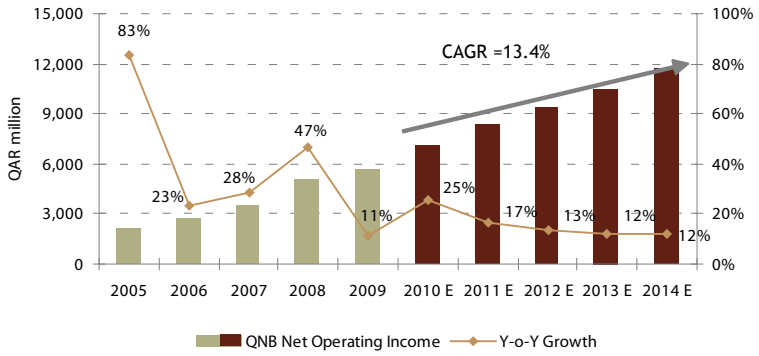



*Source: QNB Financial Statements*

## OPERATING INCOME

QNB's net operating income grew considerably between 2005 and 2009, from QAR 2,185 million to QAR 5,657 million. The operating income CAGR of 26.8% was largely driven by the bank's net interest income and income from Islamic financing and investing activities that grew by a CAGR of 30.2% over the same period.

**Chart 27:** QNB Net Operating Income Growth

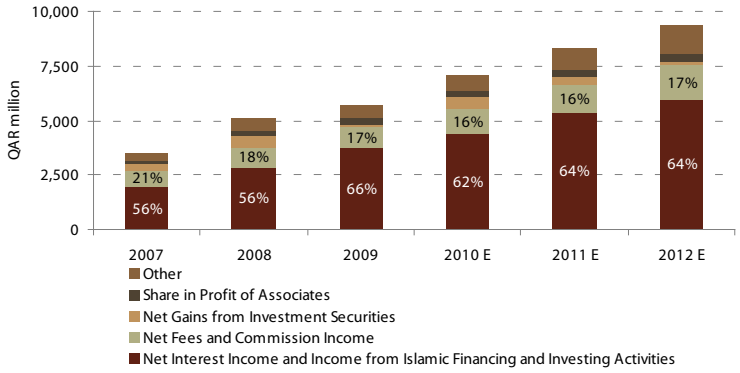



*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

In 2010, we expect net operating income growth to accelerate to 25.4% followed by 17% in 2011 and a range of 12-13% between 2012 and 2014, translating into a CAGR of 13.4% over our forecasting horizon. The growth impetus will come mainly from a 12.6% CAGR in net interest income and income from Islamic financing and investing activities and a 13.2% CAGR in net fee and commission income.

Net interest income and net income from Islamic financing and investing activities maintained their dominant position in QNB's operating income, generating around two-third of the bank's revenues. As for the net fees and commission income, its share has been moderate, representing 17% of net operating income.

**Chart 28:** QNB Operating Income Breakdown




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

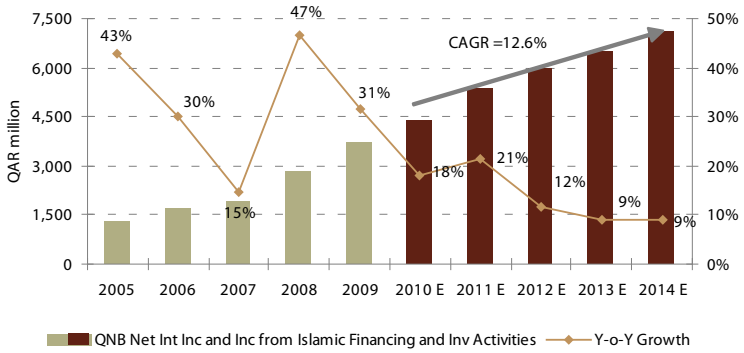
Over the next three years, we see net interest income and net income from Islamic financing and investing activities as a share of net operating income declining to an average of 63.3%, down from 66% in 2009. On the other hand, we expect net fee and commission income to continue to contribute around 16.5% to operating income, roughly in line with 2008 and 2009 levels, but below the peak of 21% in 2007.

### Net Interest Income and Income from Islamic Financing and Investing Activities

Over the 2005-2009 period, QNB's net interest income* grew at a CAGR of 30.2% due to the steady rise in average earning assets. This rise is driven mainly by increases in loans and advances and financing activities to customers, which grew at a CAGR of 36.4% over the same period, coupled with improving margins.

**Chart 29:** QNB Net Interest Income and Income from Islamic Financing and Investing Activities Growth

*NII to grow at a CAGR (10-14) of 12.6%*




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

We believe that over the next two years, sustained healthy margins, coupled with moderate credit growth, can result in reasonable growth in net interest income. As a result, we expect net interest income to grow by 18.2% and 21.3% in 2010 and 2011, respectively. However, starting 2011 and onwards, net interest income growth will decline to an average of 10% as a result of slower loan growth and diminishing margins.

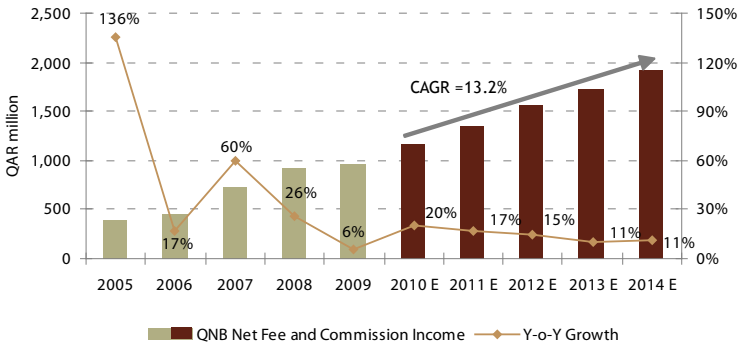
**FOOTNOTE**

** In the above section, net interest income includes income from Islamic financing and investing activities even when not mentioned.*

### Net Fee and Commission Income

Net fee and commission income is the second largest contributor to operating income, accounting for around 17.1% of the bank's net operating income in FY 09.

**Chart 30:** QNB Net Fee and Commission Income Growth



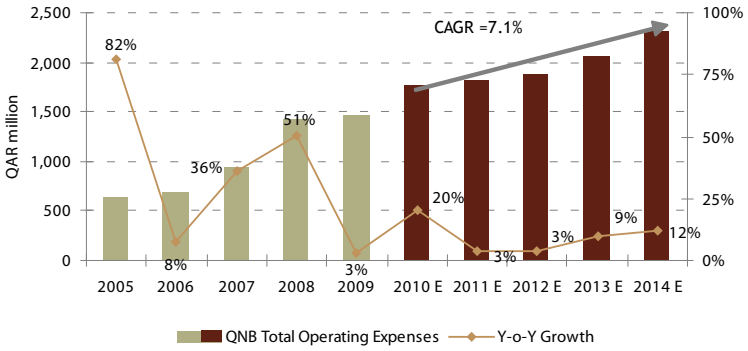

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

Net fee and commission income grew at a CAGR of 25.7% between 2005 and 2009. During this period, lending activities were the major determinant of growth, with fees from loans and advances increasing at a CAGR of 32.1%. However, during 2009, fee income growth slowed to 5.6% as a result of sluggish business growth and a fall in fee income from loans and advances.Going forward, we believe that the increases in the bank's fee income will be more moderate compared to historical rates, and that fees will grow in line with the balance sheet, more specifically the loan book. Hence, we are projecting QNB's fee income to grow at a CAGR of 13.2% over FY 10-FY 14, led by a revival in the credit offtake during 2010 and 2011.

## OPERATING EXPENSES

Between 2005 and 2009, QNB's total operating expenses rose sharply, at a CAGR of 22.8%, from QAR 644 million in 2005 to QAR 1,466 million in 2009. This was mainly attributable to the bank's expanding branch network and new hiring in a rising cost environment, which translated into higher general and administrative costs. The spike in credit provisioning and financial impairments over the last two years also contributed to this increase.

**Chart 31:** QNB Growth in Total Operating Expenses

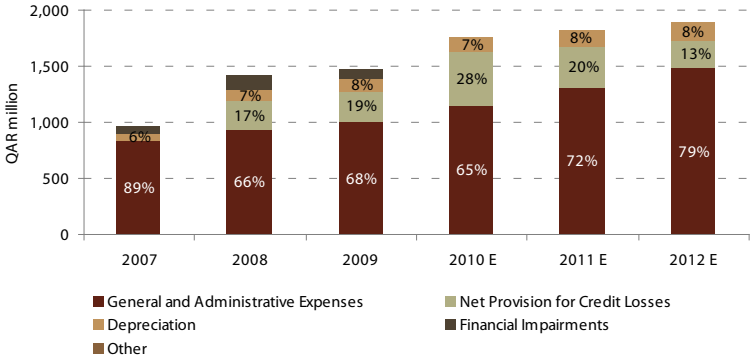



*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

Given the expected sharp pick-up in provisions for credit losses in FY 10, we forecast operating expenses to surge by 20.2% in 2010. However, between 2011 and 2014, operating expenses are expected to grow very modestly at a CAGR of 8.34% to reach QAR 2,317 million at the end of 2014.

General and administrative expenses, which are mostly staff–related costs, are the biggest operating cost, accounting for 67.9% of total operating expenses in FY 09, followed by provisions for credit losses on loans and advances (19.1%) and depreciation (7.5%).

**Chart 32:** QNB Operating Expense Breakdown



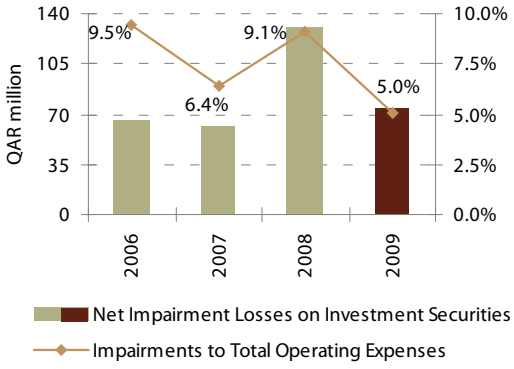

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

Going forward, we expect general and administrative expenses as a share of total operating expenses to rise to an average of 72% over the next three years, up from 68% in 2009. We also expect the credit provisioning contribution to total operating expenses to continue its rise, to peak at 28% in FY 10, and to decrease progressively over the following years.

### Impairment Losses on Investment Securities

In 2008, impairment losses on investment securities surged to QAR 130 million, representing 9.1% of total operating expenses. That was due to the major decline witnessed in the stock markets.

**Chart 33:** QNB Financial Impairments




*Source: QNB Financial Statements*

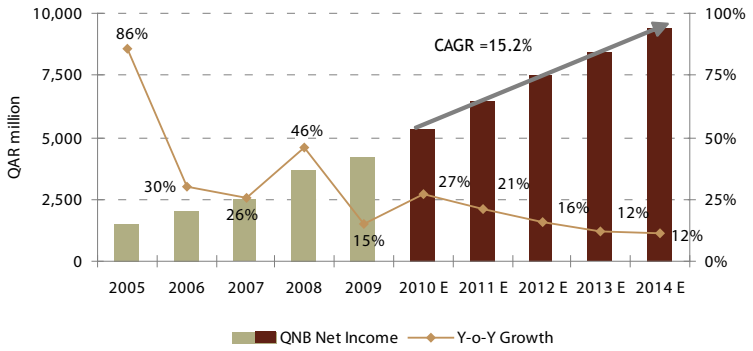
In 2009, with most of the securities-related losses having already been addressed and with the bank's transfer of most of its equity investments to the Government of Qatar for a total of QAR 4,013 million, impairments for financial investments dropped to QAR 74 million, or 5.0% of total operating expenses. Going forward, with 74% of the investment portfolio being State of Qatar debt securities, the risk of potential impairments is minimal.

## PROFITABILITY OUTLOOK

During these times of uncertainty in the global financial markets, when the banks' earnings are made more volatile by the high levels of loan-loss provisioning, Qatar National Bank is well placed as it has better earnings visibility than its peer group. Despite the estimated 76% rise in credit provisioning during 2010, we expect the bank to grow its net income by 26.7% y-o-y in 2010, to QAR 5,324 million. This will be achieved mostly by increases in net interest income and net income on Islamic financing and investing activities, as well as improvements in the cost ratios.

*Earnings to grow at a 15.2% CAGR during FY10-14*

**Chart 34:** QNB Growth in Net Income




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

In our view, QNB's net income will grow at a projected CAGR of 15.2% between 2010 and 2014, compared to a CAGR of 28.6% between 2005 and 2009. This slowdown is mainly the result of an anticipated pullback in earnings growth in 2013 and 2014 to an average of 11.9%.

# RATIO ANALYSIS

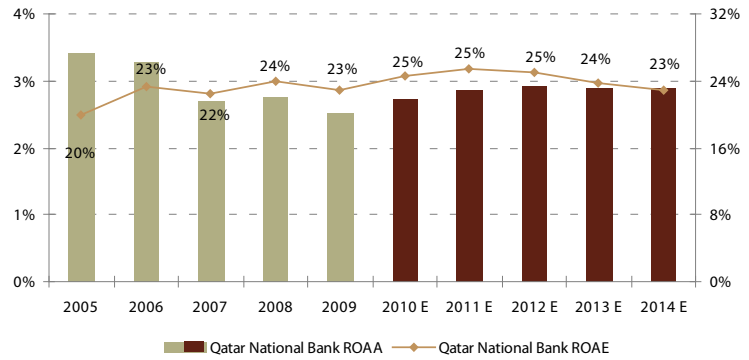
## PROFITABILITY INDICATORS

### ROAE and ROAA

In 2009, QNB was the most profitable bank in Qatar in terms of return on average equity (ROAE). Benefiting from growing business volumes, the bank delivered a 22.9% ROAE compared to a sector average of 18.12%. The bank's return on average assets (ROAA) stood at 2.53% at the end of 2009 against a sector average of 2.77%.

*We forecast an average ROAE of 24.3% during 2010-2014*

**Chart 35:** QNB ROAE and ROAA




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

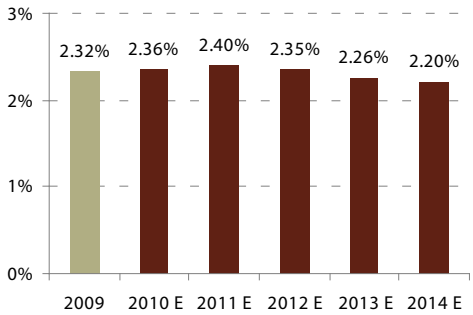
Going forward, we forecast ROAE to inch up to 24.67% in 2010 and to average 24.3% between 2010 and 2014. Also, we project ROAA to increase to 2.75% and to 2.86% in years 2010 and 2011 respectively and to average 2.86% during 2010-2014, on the back of higher operating income and lower credit provisioning starting 2011.

### Net Interest Margin

Qatar National Bank has been able to boost its margins, with the net interest margin (NIM) increasing to 2.32% in 2009 from 2.22% in FY 08, due to the cost of time deposits improving from around 5.2% in 2008 to approximately 3.5% in 2009.

*NIMs expected to average 2.31% between 2010 and 2014*

**Chart 36:** QNB Net Interest Margin




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

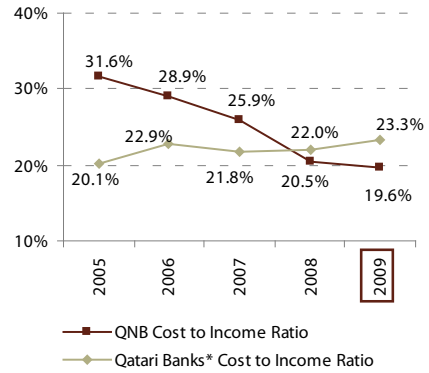
We expect a slight widening in the net interest margin by 4 bps to 2.36% in 2010 and to 2.40% in 2011 as a consequence of a sustained higher pricing of risk combined with lower cost of funds. Starting 2012, we expect yields to decline as a result of slower loan growth and of price wars brought about by increased competition. Consequently, we forecast spreads to narrow and estimate NIMs to average 2.27% during the 2012-2014 period.

## EFFICIENCY

QNB is among the most efficient players in the Qatari banking sector, with a lower cost to income ratio than its competitors. The bank has been able to leverage its branches and workforce to generate business at a much higher rate than its local peers, especially in the last two years. In 2009, QNB reported a cost to income ratio of 19.6%, compared to a sector average of 23.3% (excluding QNB).

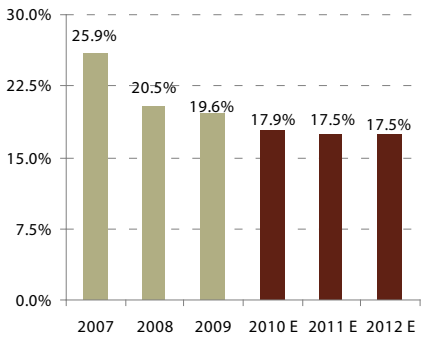
*QNB's efficiency ratio is trending downward*

**Chart 37:** Qatari Banks Cost to Income Ratio




*Source: Qatari Banks Financial Statements*

**Chart 38:** QNB Cost to Income Ratio




*Source: QNB Financial Statements and Audi Capital - KSA Estimates*

*The Qatari banks cost to income ratio is the weighted average for the Qatari banking sector excluding Qatar National Bank*

QNB's efficiency ratio has been improving for the last four years due to the growth in net operating income outpacing that of operating expenses before provisions. In 2010, we expect the cost to income ratio to decline further to 17.9% and to remain around this level for the next couple of years.

## FUNDING AND LIQUIDITY

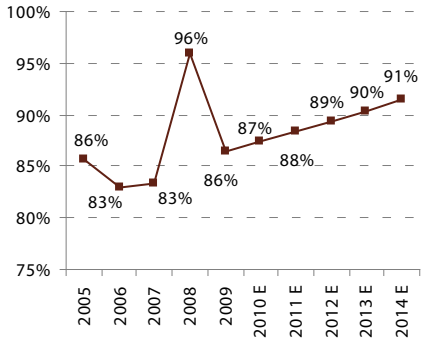
*Low reliance on market funding*

QNB's strong domestic franchise provides a stable funding base, and is one of its core strengths. Despite considerable loan growth in the past five years, customer deposits and unrestricted investment accounts remain sufficient to fund the bank's entire loan portfolio, thus contributing to its relatively limited reliance on wholesale funding. More specifically, as of the end of 2009, total customer deposits funded 79.0% of QNB's total assets, up from 77.0% as of the end of 2008.

### Loans to Deposits and Unrestricted Investment Accounts

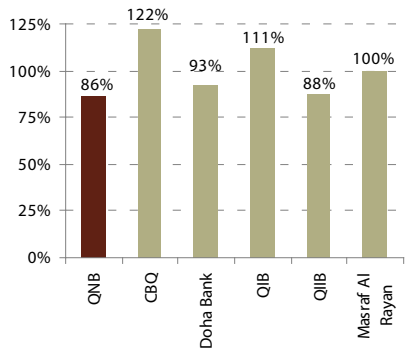
During the course of 2009, the loans to deposits* ratio (including unrestricted investment accounts) decreased from 96.0% to 86.4%, below the sector average of 94.5%. This improvement in the liquidity ratio was primarily the result of the deposit base expanding by 20.7% in 2009, exceeding the 8.7% growth recorded in the loan book.

**Chart 39:** QNB Loans to Deposits Ratio




*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

**Chart 40:** Loans to Deposits Ratio across Banks (2009)




*Source: Qatari Banks Financial Statements*

**FOOTNOTE**

* In the Loans to Deposits and Unrestricted Investment Accounts section the loans to deposits ratio includes unrestricted investment accounts.

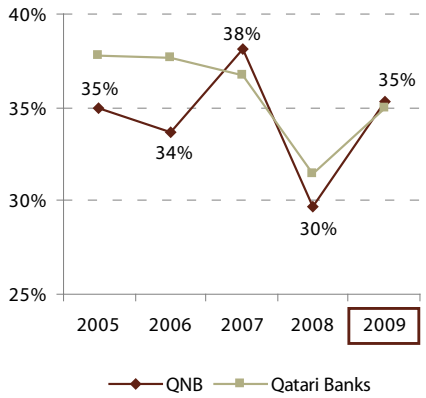
This healthy liquidity position is expected to continue in the coming years with the loans to deposits ratio forecasted to increase gradually to reach 91.0% at the end of 2014, driven by supportive economic conditions.

### Liquid Assets to Total Assets

*Adequate liquidity*

At the end of December 2009, QNB had 35.4% of is total assets in liquid instruments representing a satisfactory liquidity position. These liquid assets include cash and balances with Central banks, interbank assets and investment securities.

**Chart 41:** QNB Liquid Assets to TA (2009)




*Source: QNB Financial Statements*

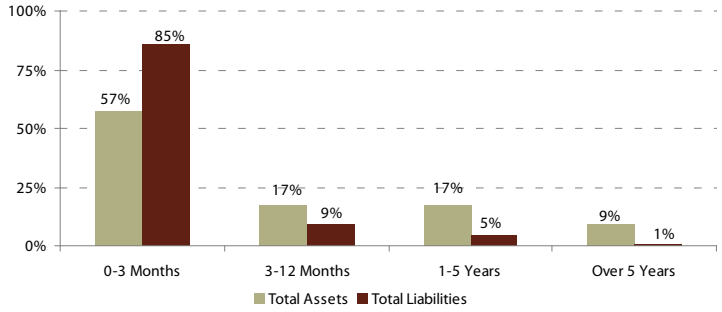
As indicated in the above chart, the bank's liquid assets to total assets ratio is as favorable as that of its local peers, with the sector's average liquid assets to total assets being 35.04% as of the end of 2009.

## ASSET LIABILITY MANAGEMENT

Asset-liability maturity mismatch is a common feature for the regional banks, though it varies in degrees between different banks in different countries. More specifically, liabilities, mainly represented by deposits, have a shorter-term maturity than assets, which are mostly composed of loans. In the case of Qatar National Bank, 85% of total liabilities and 57% of assets have a tenor of less than three months, creating a gap of 28%. Also, around 26% of assets have a maturity over one year as opposed to only 5% on the liabilities side. QNB's duration mismatch is illustrated by its average asset duration of 13.2 months, compared to 3.4 months for liabilities.

This maturity mismatch presented an opportunity for the bank to earn better spreads during declining interest rate environment, as shorter term liabilities are re-priced more quickly than the longer term assets.

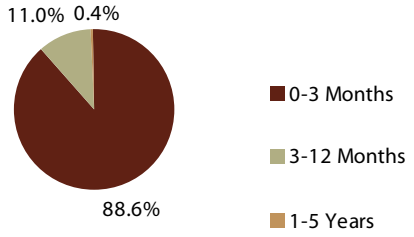
**Chart 42:** QNB Assets and Liabilities Maturity Mix (2009)




*Source: QNB Financial Statements*

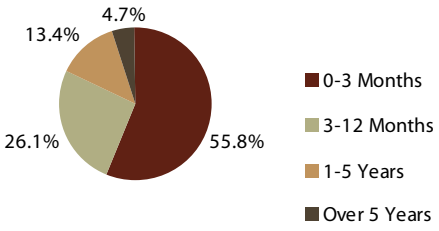
The breakdown of deposits and unrestricted investment accounts shows that 89% of total deposits have a maturity of less than three months and 11% have a maturity between 3 to 12 months, which means that almost 100% of QNB's deposits can be redeemed within one year. On the lending front, the below chart reveals that 56% of total loans have a maturity of less than three months and 26% have a maturity between three to 12 months. These findings further illustrate the maturity mismatch. However, the proven stickiness of these short-term deposits, together with the high share of government deposits, mitigates liquidity concerns.

**Chart 43:** QNB Deposit Mix by Maturity (2009)




*Source: QNB Financial Statements*

**Chart 44:** QNB Loan Mix by Maturity (2009)




*Source: QNB Financial Statements*

In a move to diversify and lengthen the maturity profile of its liabilities, QNB raised some funds in 2008 through a syndicated term loan amounting to USD 1.85 billion and maturing in July 2012.

***Our View***

We are not worried about the liquidity position of Qatar National Bank, as its funding is based on stable customer deposits, whether conventional or Islamic. Also, we do not view these deposits as entirely short-term, since most of them are rolled over. This view was confirmed by the resilience of the deposit base witnessed during the very recent times of crisis. However, we believe that in the longer run, the bank will need to resort to long term funding in order to help improve these maturities mismatches.

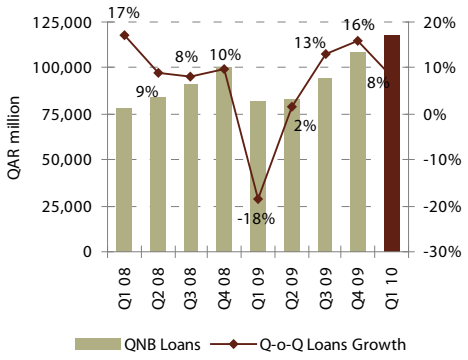
# Q1 10: A GOOD START

Qatar National Bank delivered better than expected Q1 10 results, marked by strong growth of 16.8% q-o-q (42.7% y-o-y) in net interest income and net income from Islamic financing and investing activities, NIMs of 2.44%, lower impairment losses on investment securities, improving asset quality ratios and better cost efficiencies.

## Moderate Loan Growth

After significant growth of 13.1% and 16.0% in the past two quarters, the expansion of QNB's loan portfolio has slowed. The bank added QAR 8.92 billion of net lending in Q1 10, resulting in loan growth of 8.2% q-o-q and 44.3% y-o-y. We believe the stage is set for improved growth in 2010 as the economy continues to expand and liquidity remains satisfactory. Among the four largest banks operating in Qatar including QNB, the bank displayed the highest credit growth on a quarterly basis, with the smaller banks growing their loan book by around 16% in Q1 10 as compared to the previous quarter.

**Chart 45:** QNB Loan Growth




*Source: QNB Financial Statements*

**Table 4:** Loan Growth across Banks

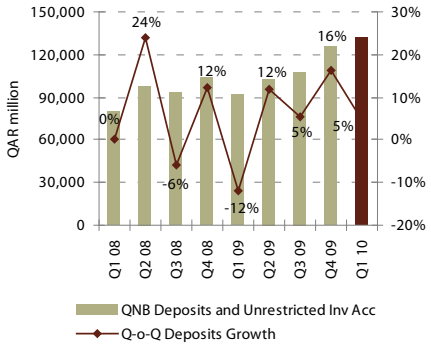
| Loans Growth | Q-o-Q | Y-o-Y |
|---|---|---|
| QNB | 8.2% | 44.3% |
| CBQ | -1.0% | -9.2% |
| QIB | 5.9% | 24.2% |
| Doha Bank | 1.0% | 7.9% |
| Masraf Al Rayan | 15.7% | 41.8% |
| QIIB | 16.9% | 27.7% |

*Source: Qatari Banks Financial Statements*

## Lower Deposit Growth

On the funding side, QNB's customer deposits, including unrestricted investment accounts, increased by 4.8% q-o-q to QAR 131.9 billion in Q1 10, following a 16.3% surge in the previous quarter. The numbers were boosted by the Islamic segment, in which unrestricted investment accounts added QAR 3.1 billion, representing a growth of 18.1% q-o-q, while conventional deposits expanded by QAR 2.93 billion, translating into a smaller quarterly increase of 2.7%. Taking a look at the rest of the Qatari banks, we notice that QNB displays the second highest deposit growth at 43.5% y-o-y, while other banks showed better growth figures on a quarterly basis.

**Chart 46:** QNB Deposit Growth




*Source: QNB Financial Statements*

**Table 5:** Deposit Growth across Banks

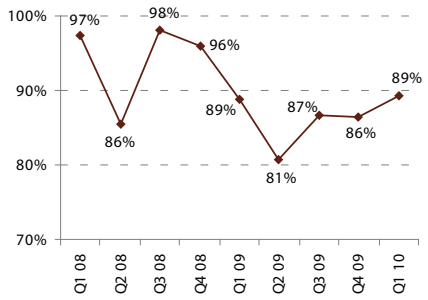
| Deposits Growth | Q-o-Q | Y-o-Y |
|---|---|---|
| QNB | 4.8% | 43.5% |
| CBQ | 9.7% | -6.0% |
| QIB | 24.3% | 32.7% |
| Doha Bank | -2.4% | 24.8% |
| Masraf Al Rayan | 20.9% | 56.7% |
| QIIB | 5.4% | 22.7% |

*Source: Qatari Banks Financial Statements*

## Comfortable Liquidity

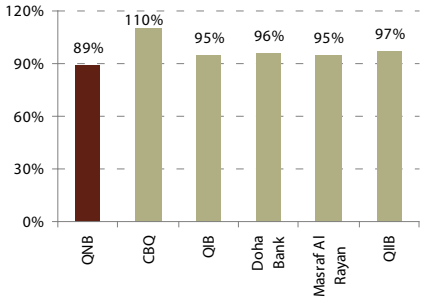
With loan growth outpacing the growth witnessed on the deposits and unrestricted investment accounts side, the bank's loans-to-deposits ratio increased to 89% in Q1 10, up from 86% in Q4 09. However, this figure compares well with other Qatari banks, which exhibit an average loans-to-deposits ratio of 98.7%.

**Chart 47:** QNB Loans to Deposits and Unrestricted Investment Accounts




*Source: QNB Financial Statements*

**Chart 48:** Loans to Deposits and Unrestricted Investment Accounts across Banks (Q1 10)

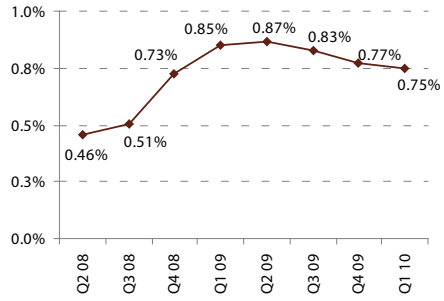



*Source: Qatari Banks Financial Statements*

## Healthy Asset Quality

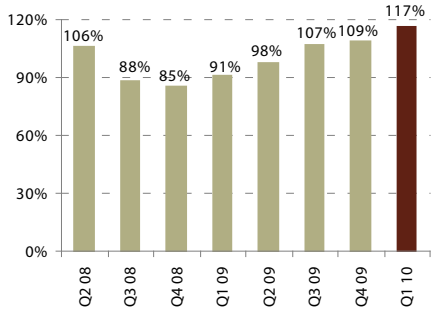
QNB's asset quality continues to improve, with the NPL ratio falling from 0.77% at the end of December 2009 to 0.75% at the end of Q1 10. Also in Q1 10, the NPL coverage rose to 117%, from 109% in Q4 09. The absolute level of gross NPLs picked up marginally, by QAR 40 million, versus a QAR 113 million increase in specific provisions for impairment of loans. This increase in provisions helped the bank to decrease its NPL ratio and improve its coverage ratio.

**Chart 49:** QNB NPL ratio




*Source: QNB Financial Statements*

**Chart 50:** QNB NPL Coverage

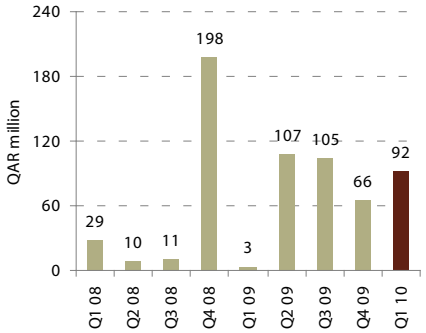



*Source: QNB Financial Statements*

## High Credit Provisioning to Persist

In Q1 10, QNB booked QAR 92 million as provisions for credit losses, up by 39.8% q-o-q from QAR 66 million in Q4 09. As per our estimates, the pace at which the bank is booking its provisions will continue in the coming three quarters, and we expect provisions for credit losses to total QAR 622 million in FY 10.

**Chart 51:** QNB Provisions for Credit Losses

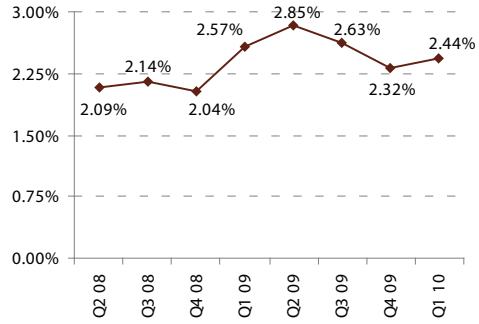



*Source: QNB Financial Statements*

## Positive Margin Trends

In Q1 10, the net interest margin increased to 2.44% from 2.32% in the prior quarter. The 12 bps increase was due to a reduction in the cost of interest bearing liabilities, coupled with an increase in the yield on interest earning assets. We believe this trend will continue during 2010 with NIMs expected to hover around 2.4%.

**Chart 52:** QNB Net Interest Margin

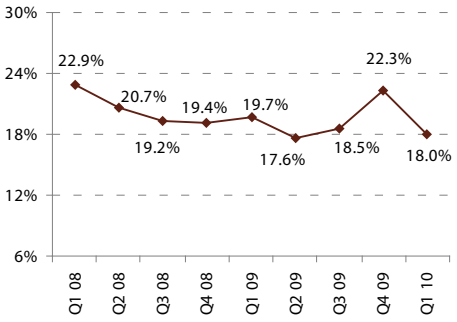



*Source: QNB Financial Statements*

## Good Cost Controls

General and administrative expenses fell by 10% q-o-q, helping to improve the cost to income ratio from 22.3% in Q4 09 to 18.0% in Q1 10. Going forward into 2010, we expect cost improvement to continue and forecast the cost to income ratio to stay around 18% over the coming quarters.

**Chart 53:** QNB Cost to Income Ratio

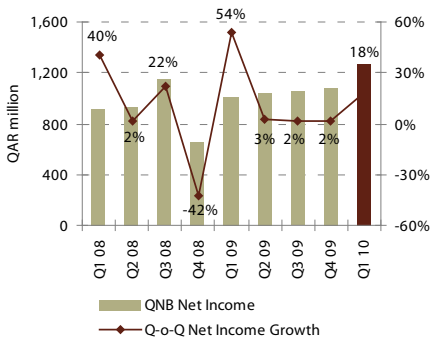



*Source: QNB Financial Statements*

## Solid Bottom Line Performance

After three consecutive quarters of slow growth averaging 2.1%, QNB reported strong net income growth of 17.6% in Q1 10, exceeding consensus estimates. These results were led by the 16.8% q-o-q expansion in net interest income and income from Islamic financing and investing activities, a 98.6% q-o-q drop in impairment losses on investment securities (which was however largely offset by the 39.8% increase in provisions for credit losses) and a 10.0% q-o-q drop in general and administrative expenses.

**Chart 54:** QNB Net Income Growth




*Source: QNB Financial Statements*

**Table 6:** Net Income Growth across Banks (Q1 10)

| Net Income Growth | Q-o-Q | Y-o-Y |
|---|---|---|
| QNB | 17.8% | 25.2% |
| CBQ | 120.7% | -32.8% |
| QIB | -6.5% | -14.3% |
| Doha Bank | 156.9% | -4.3% |
| Masraf Al Rayan | 7.8% | 43.9% |
| QIIB | 23.0% | 3.1% |

*Source: Qatari Banks Financial Statements*

# SWOT ANALYSIS

## STRENGTHS

- Leading banking franchise in Qatar with close links to the government and government agencies, and over 50% market share of the country's banking assets.
- Wide and diversified product range.
- Growing profitability supported by efficient cost management and good spreads combined with a sound capital base.
- Healthy asset quality demonstrated by an NPL ratio of 0.77% and a coverage ratio of 108.8% at the end of 2009.
- Adequate capital position which exceeds minimum regulatory requirements and provides an ample cushion for absorbing future unexpected shocks.
- Liquid balance sheet with a moderate loans-to-deposits ratio of 91.0% at the end of 2009, and high reliance on stable retail funding with customer deposits and unrestricted investment accounts representing around 79% of the bank's funding needs. This high level of liquidity will allow the bank to benefit from future opportunities in the marketplace.
- Demonstrated strong government support.

## WEAKNESSES

- The loan and deposit pools are limited compared to those of other large banks in the region, mainly due to the small size of the Qatari market, which counts around 1.6 million residents.
- Government dependent, one-client concentration.

## OPPORTUNITIES

- Continued economic expansion, resulting from high oil prices and the accompanying progress in the gas sector, should help the bank sustain its development in the short to medium term.
- Growing presence in the regional markets, including Syria, Jordan, Iraq, Sudan, UAE, and Tunisia.

## THREATS

- Major drop in the oil and/or gas prices.
- Weaker than expected loan growth from corporates.
- Adverse earnings impact from a higher than anticipated increase in credit costs as a result of significant deterioration in asset quality, though recent trends have been excellent and we believe it is highly unlikely, especially in the near term.
- Increased competition in Islamic banking resulting from the entry of conventional banks into this segment, mainly in the retail area.

# VALUATION

## DIVIDEND DISCOUNT MODEL

Our Dividend Discount Model (DDM) used for the valuation of QNB was based on a five-year earnings forecast period and has resulted in a 12-month fair value of QAR 171.2 per share. With a risk free rate of 3.32%, a risk premium of 7.88%, and a beta of 0.982, and using the Capital Asset Pricing Model (CAPM), we obtained a cost of equity of 11.20%. Based on a long-term forecasted return on average equity of 25% and a retention rate of 26%, we derived a perpetual growth rate of 6.5% per annum from 2015 onwards.

**Table 7:** Dividend Discount Model

| | 2009 | 2010 E | 2011 E | 2012 E | 2013 E | 2014 E |
|---|---|---|---|---|---|---|
| Net Income (QAR million) | 4,188 | 5,309 | 6,439 | 7,471 | 8,384 | 9,355 |
| Number of Shares Outstanding (million) | 391 | 391 | 391 | 391 | 391 | 391 |
| Earnings per Share (QAR) | 10.70 | 13.56 | 16.45 | 19.09 | 21.42 | 23.90 |
| Dividends per Share (QAR) | 4.00 | 5.42 | 6.58 | 7.63 | 8.57 | 10.75 |
| Present Value of Dividends per Share (QAR) | - | 4.88 | 5.32 | 5.55 | 5.60 | 6.33 |
| Present Value of Terminal Value (QAR) | 143.48 | | | | | |
| Cost of Equity | 11.20% | | | | | |
| Terminal Growth Rate | 6.50% | | | | | |
| Qatar National Bank Fair Value (QAR) | 171.16 | | | | | |

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

## RELATIVE VALUATION

Based on the comparative valuation methodology, we valued the bank on an equal basis with other local banks as well as major regional peers. Their average PE ratio for 2010 is estimated at 9.73. On this basis, we derived a fair value of QAR 131.89 for QNB.

**Table 8:** Regional Peer Valuation

| | Country | Price | PE 10 E | Trailing PE | PB | ROAE | ROAA |
|---|---|---|---|---|---|---|---|
| Qatar National Bank | Qatar | 134.60 | 9.93 | 11.82 | 2.66 | 22.95% | 2.54% |
| Commercial Bank of Qatar | Qatar | 66.50 | 8.59 | 10.88 | 1.20 | 13.86% | 2.57% |
| Doha Bank | Qatar | 45.40 | 8.41 | 8.97 | 1.40 | 18.09% | 2.29% |
| National Bank of Kuwait | Kuwait | 1.16 | 12.81 | 13.44 | 2.05 | 15.68% | 2.13% |
| National Bank of Abu Dhabi | UAE | 10.95 | 7.54 | 7.98 | 1.17 | 17.36% | 1.67% |
| First Gulf Bank | UAE | 15.00 | 5.82 | 5.93 | 0.93 | 16.75% | 2.84% |
| Commercial International Bank | Egypt | 67.67 | 10.53 | 11.22 | 2.83 | 26.47% | 2.81% |
| Samba Financial Group | KSA | 56.50 | 9.81 | 11.30 | 2.19 | 21.43% | 2.50% |
| Riyad Bank | KSA | 28.10 | 11.53 | 12.87 | 1.52 | 11.24% | 1.80% |
| Saudi British Bank | KSA | 42.30 | 11.64 | 16.76 | 2.31 | 16.47% | 1.57% |
| Banque Saudi Fransi | KSA | 43.30 | 10.80 | 12.82 | 1.99 | 16.57% | 2.01% |
| Arab National Bank | KSA | 40.60 | 9.57 | 11.43 | 1.82 | 17.53% | 2.05% |
| Average | | | 9.73 | 11.24 | 1.77 | 17.40% | 2.20% |

*Sources: Banks Financial Statements and Audi Capital - KSA Estimates*

## FAIR VALUE

We expect Qatar National Bank to continue delivering solid earnings through a combination of leveraging its position through continued local government spending and expanding its businesses regionally. Furthermore, we believe the stock to be attractively valued considering its long term earnings outlook. We therefore rate it "Accumulate" based on a fair value of QAR 163.31 per share, offering investors an upside potential of 21.33% over its current price of QAR 134.60.

We arrived at our final value by assigning a weight of 80% to the dividend discount model and a weight of 20% to the comparative valuation method.

**Table 9:** Combination of Valuation Methodologies

| Methodology | Fair Value (QAR) | Valuation Weight | Qatar National Bank Final Fair Value |
|---|---|---|---|
| DDM Valuation | 171.16 | 80% | QAR 163.31 |
| Comparative Valuation | 131.89 | 20% | |

*Source: Audi Capital - KSA Estimates*

# FINANCIAL STATEMENTS

## BALANCE SHEET

| | 2009 | 2010 E | 2011 E | 2012 E | 2013 E | 2014 E |
|---|---|---|---|---|---|---|
| (QAR million) | | | | | | |
| Cash and Balances with Central Banks | 9,880 | 11,983 | 14,395 | 17,080 | 19,969 | 23,082 |
| Due from Banks and Other Financial Institutions | 30,181 | 31,785 | 35,141 | 32,185 | 41,648 | 45,567 |
| Loans and Advances and Financing Activities to Customers | 108,783 | 130,568 | 155,586 | 180,965 | 202,294 | 226,525 |
| Investment Securities | 23,333 | 25,839 | 28,283 | 30,343 | 31,842 | 33,338 |
| Investments in Associates | 4,444 | 4,888 | 5,621 | 6,464 | 7,111 | 7,822 |
| Property and Equipment | 713 | 806 | 917 | 1,011 | 1,099 | 1,181 |
| Other Assets | 1,995 | 2,529 | 2,686 | 3,128 | 3,672 | 4,047 |
| Total Assets | 179,329 | 208,399 | 242,629 | 271,177 | 307,635 | 341,562 |
| | | | | | | |
| Due to Banks and Other Financial Institutions | 20,794 | 22,642 | 25,643 | 32,672 | 38,603 | 41,994 |
| Repurchase Agreements | 2,086 | 1,982 | 1,882 | 1,788 | 1,699 | 1,614 |
| Customer Deposits | 108,772 | 128,566 | 149,618 | 169,040 | 184,635 | 202,010 |
| Other Borrowings | 6,724 | 6,724 | 6,724 | - | - | - |
| Other Liabilities | 3,881 | 4,361 | 4,825 | 5,179 | 5,657 | 6,189 |
| Total Liabilities | 142,257 | 164,274 | 188,692 | 208,680 | 230,593 | 251,807 |
| Unrestricted Investment Accounts | 17,100 | 20,929 | 26,403 | 33,403 | 39,165 | 45,855 |
| Total Liabilities and Unrestricted Investment Accounts | 159,357 | 185,204 | 215,095 | 242,083 | 269,758 | 297,662 |
| | | | | | | |
| Issued Capital | 3,011 | 3,915 | 3,915 | 3,915 | 3,915 | 3,915 |
| Statutory Reserve | 7,651 | 8,554 | 8,554 | 8,554 | 8,554 | 8,554 |
| Other Reserves | 1,769 | 1,769 | 1,769 | 1,769 | 1,769 | 1,769 |
| Risk Reserve | 1,410 | 1,567 | 1,867 | 2,172 | 2,428 | 2,718 |
| Fair Value Reserve | 489 | 538 | 592 | 651 | 716 | 788 |
| Proposed Dividend | 1,204 | 2,130 | 2,582 | 2,996 | 3,362 | 4,220 |
| Proposed Bonus Shares | 903 | - | - | - | - | - |
| Proposed Transfer to Statutory Reserve | 903 | - | - | - | - | - |
| Retained Earnings | 2,439 | 4,510 | 8,013 | 12,124 | 16,825 | 21,597 |
| Total Equity Attributable to Equity Holders of Parent | 19,781 | 22,982 | 27,292 | 32,181 | 37,568 | 43,561 |
| Non-Controlling Interest | 191 | 214 | 241 | 275 | 308 | 339 |
| Total Equity | 19,972 | 23,196 | 27,533 | 32,456 | 37,877 | 43,900 |
| Total Liabilities, Unrestricted Investment Accounts and Equity | 179,329 | 208,399 | 242,629 | 274,539 | 307,635 | 341,562 |

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

## INCOME STATEMENT

| | 2009 | 2010 E | 2011 E | 2012 E | 2013 E | 2014 E |
|---|---|---|---|---|---|---|
| (QAR million) | | | | | | |
| Interest Income | 6,395 | 8,003 | 9,087 | 10,997 | 12,530 | 14,527 |
| Interest Expense | 3,081 | 4,067 | 4,410 | 5,780 | 6,897 | 8,376 |
| Net Interest Income | 3,314 | 3,936 | 4,677 | 5,216 | 5,633 | 6,151 |
| Income from Islamic Financing and Investing Activities | 901 | 1,142 | 1,438 | 1,906 | 2,374 | 2,897 |
| Unrestricted Investment Account Holders' Share of Profit | 489 | 674 | 774 | 1,159 | 1,495 | 1,959 |
| Net Income from Islamic Financing and Investing Activities | 412 | 468 | 664 | 746 | 879 | 939 |
| Net Interest Income and Income from Islamic Financing and Investing Activities | 3,726 | 4,404 | 5,341 | 5,963 | 6,511 | 7,090 |
| Fees and Commission Income | 1,031 | 1,228 | 1,426 | 1,627 | 1,796 | 1,988 |
| Fees and Commission Expense | 63 | 64 | 66 | 69 | 71 | 74 |
| Net Fees and Commission Income | 968 | 1,164 | 1,360 | 1,559 | 1,725 | 1,914 |
| Dividend Income | 205 | 221 | 239 | 258 | 279 | 301 |
| Net Gains from Foreign Currency Transactions | 305 | 475 | 713 | 1,035 | 1,409 | 1,816 |
| Net Gains from Investment Securities | 142 | 490 | 271 | 180 | 135 | 135 |
| Share in Profit of Associates | 293 | 316 | 342 | 369 | 398 | 430 |
| Other Operating Income | 18 | 24 | 25 | 26 | 27 | 28 |
| Net Operating Income | 5,657 | 7,095 | 8,290 | 9,390 | 10,485 | 11,714 |
| | | | | | | |
| General and Administrative Expenses | 996 | 1,141 | 1,309 | 1,486 | 1,671 | 1,861 |
| Depreciation | 111 | 125 | 143 | 157 | 171 | 184 |
| Provisions / (Recoveries) for Credit Losses on Loans and Advances | 281 | 495 | 371 | 241 | 221 | 223 |
| Net Impairment Losses (Gains) on Investment Securities | 74 | - | - | - | - | 49 |
| Other Provisions | 4 | - | - | - | - | - |
| Net Profit Before Taxes | 4,191 | 5,333 | 6,468 | 7,505 | 8,422 | 9,397 |
| Income Tax Expense | 17 | 24 | 29 | 34 | 38 | 42 |
| Net Profit for the Year from Continuing Operations | 4,174 | 5,309 | 6,439 | 7,471 | 8,384 | 9,355 |
| Profit from Discontinued Operations | 14 | - | - | - | - | - |
| Profit for the Year | 4,188 | 5,309 | 6,439 | 7,471 | 8,384 | 9,355 |
| | | | | | | |
| Attributable to: | | | | | | |
| Equity Holders of the Parent | 4,202 | 5,324 | 6,456 | 7,490 | 8,405 | 9,379 |
| Non-Controlling Interest | 13 | 15 | 17 | 19 | 21 | 24 |
| Net Profit | 4,188 | 5,309 | 6,439 | 7,471 | 8,384 | 9,355 |

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

## RATIO ANALYSIS

| | 2009 | 2010 E | 2011 E | 2012 E | 2013 E | 2014 E |
|---|---|---|---|---|---|---|
| Balance Sheet Growth | | | | | | |
| Loans and Advances and Financing Activities to Customers | 8.73% | 20.03% | 19.16% | 16.31% | 11.79% | 11.98% |
| Total Assets | 18.00% | 16.21% | 16.42% | 11.77% | 13.44% | 11.03% |
| Customer Deposits | 14.53% | 18.20% | 16.37% | 12.98% | 9.23% | 9.41% |
| Unrestricted Investment Accounts | 84.28% | 22.40% | 26.15% | 26.51% | 17.25% | 17.08% |
| Total Liabilities and Unrestricted Investment Accounts | 17.75% | 16.22% | 16.14% | 12.55% | 11.43% | 10.34% |
| Total Equity | 20.00% | 16.14% | 18.70% | 17.88% | 16.70% | 15.90% |
| Income Statement Growth | | | | | | |
| Net Interest Income | 32.07% | 18.76% | 18.82% | 11.54% | 7.99% | 9.20% |
| Net Income from Islamic Financing and Investing Activities | 26.24% | 13.55% | 41.95% | 12.39% | 17.72% | 6.85% |
| Net Fees and Commission Income | 5.59% | 20.29% | 16.85% | 14.58% | 10.66% | 10.96% |
| Net Operating Income | 11.12% | 25.41% | 16.85% | 13.26% | 11.66% | 11.73% |
| Net Income | 15.04% | 26.71% | 21.26% | 16.02% | 12.21% | 11.58% |
| Asset Quality | | | | | | |
| Non-Performing Loans to Gross Loans | 0.77% | 1.12% | 1.15% | 1.10% | 1.07% | 1.05% |
| Net Provisions for Credit Losses to Net Loans | 0.26% | 0.38% | 0.24% | 0.13% | 0.11% | 0.10% |
| NPL Coverage | 108.79% | 97.00% | 100.00% | 102.00% | 104.00% | 104.00% |
| Profitability | | | | | | |
| Net Interest Margin | 2.32% | 2.36% | 2.40% | 2.35% | 2.26% | 2.20% |
| ROAA | 2.54% | 2.75% | 2.86% | 2.92% | 2.90% | 2.89% |
| ROAE | 22.95% | 24.67% | 25.45% | 24.97% | 23.90% | 22.94% |
| Liquidity | | | | | | |
| Net Loans to Deposits Ratio (Including Unrestricted Investment Accounts) | 86.42% | 87.34% | 88.39% | 89.39% | 90.39% | 91.39% |
| Efficiency | | | | | | |
| Cost/Income | 19.57% | 17.85% | 17.50% | 17.50% | 17.57% | 17.46% |
| Capital Adequacy | | | | | | |
| Total Equity/Total Assets | 11.14% | 11.13% | 11.35% | 11.97% | 12.31% | 12.85% |

*Sources: QNB Financial Statements and Audi Capital - KSA Estimates*

**FAIR VALUE DEFINITION**

It is an unbiased estimate of the 12-month potential market price of the stock

**RECOMMENDATION GUIDE**




**BUY:** Upside potential in share price is more than 30%

**ACCUMULATE:** Upside potential in share price is between 10 and 30%

**HOLD:** Upside or downside potential in share price less than 10%

**REDUCE:** Downside potential in share price is between 10 and 30%

**SELL:** Downside potential in share price is more than 30%

**ADDRESS**

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