Investment Update

Qatar

Qatar Islamic Bank

Tickers:
QISB.QA (Reuters)
QIBK QD (Bloomberg)

Listing:
Qatar Exchange

Fair Value:
QR93.8

CMP:
QR84.7 (as of Aug. 02, 2009)

August, 2009

BUY

Investment Summary

- **Qatar Islamic Bank's (QIB)** total assets grew by 57.2% in 2008 to QR33.5bn. Among the major asset components, due from financing activities (gross) grew by 59.7% to QR21.2bn. Funds with banks & FIs increased by 89.3% to QR6.4bn. Net financing activities accounted for 56.2% of the total assets.

- Among the components of liabilities, the share of customer deposits (including unrestricted investment accounts) in total liabilities declined from 57.2% in 2007 to 49.5% in 2008. It registered a y-o-y growth of 36.0% to QR16.6bn. Unrestricted investment accounts increased during the year by 47.1% to stood at QR11.5bn and customers' accounts grew by 16.3% to QR5.1bn. The amount due to banks & other FIs increased by 141.3% to QR8.7bn. During 2008, income from financing activities grew by 58.3% to QR1.3bn. The bank's non-interest income grew by 43.4% in 2008 to QR1,226.5mn as compared to QR855.4mn in 2007.

- In 2008, QIB registered a y-o-y growth of 30.8% in its net profit to QR1,642.5mn over QR1,255.4mn reported in 2007. During 2008, the bank realized some of its bad debts which led to net reversal of provisions for receivables and financing activities to the extent of QR47.8mn whereas in 2007 the bank made a provision of QR1.4mn. The provisions for other investments was at QR65.0mn as compared to QR12.1mn provided in 2007.

- At the end of Q2-2009, on a y-t-d basis, total assets grew 6.4% to QR35.7bn, due from financing activities (net) grew by 4.5% to QR19.7bn and customer deposits (including unrestricted investment accounts) increased by 21.8% to QR20.2bn.

- During 1H-2009, income from financing activities grew by 52.3% y-o-y to QR845.2mn whereas income from investing activities registered a steep y-o-y decline of 64.8% to QR235.1mn. Total income from financing & investing activities declined by 11.6% on y-

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o-y basis to QR1,080.3mn and total operating income also witnessed a decline of 10.4% to QR1,224.1mn.

- In Q1-2009, the bank made a provision for doubtful financing activities to the extent of QR17.5mn whereas there was a reversal of provision of QR2.1mn in Q1-2008. In Q2-2009, QIB reversed this provision making it a nil provision for the 1H-2009. The bank reported a y-o-y fall of 4.8% in its net profit to QR812.6mn in 1H-2009 as compared to profit of QR853.5mn reported in 1H-2008.

- Based on the current market price of QR84.7 per share (as on Aug. 02, 2009), QIB is trading at (2009E) P/E and P/BV multiples of 10.9x and 2.5x, respectively. Our estimated value for Qatar Islamic Bank worked out to be QR93.8 based on DDM (80%) and adaptation of the Gordon Growth Model (20%). According to our fair value the scrip offers an upside of 10.8% at the current price (Aug. 02, 2009) of QR84.7 per share. We, therefore, reiterate a "**BUY**" on the bank at the current price level.

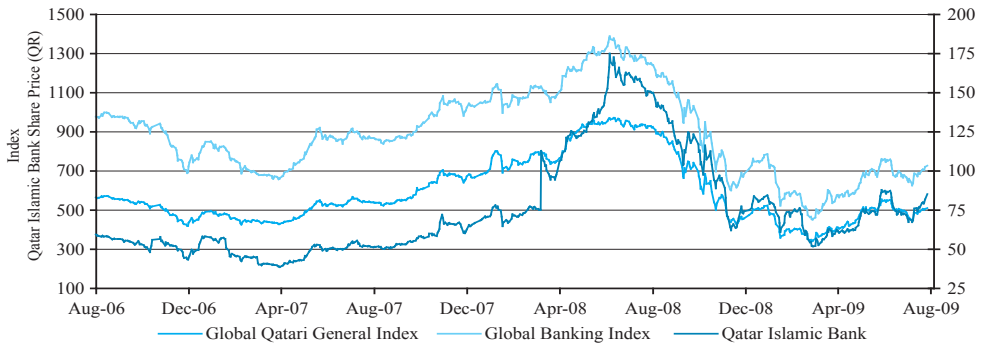
Table 01: Investment Indicators

Price (as on Aug. 02, 2009)	Shares in issue (mn)	Market Cap (QR mn)	52-week price range (QR)
QR 84.70	206.8	17,512.3	158.3 / 51.4

Year	Operating Income (QR '000)	Net Profit (QR '000)	EPS in QR	BVPS in QR	ROAE (%)	P/E*	P/BV*
2010 F	2,647,720	1,987,019	9.6	35.4	29.1%	8.8	2.4
2009 F	2,114,102	1,612,254	7.8	33.3	26.2%	10.9	2.5
2008 A	2,148,650	1,642,541	8.3	29.3	33.6%	14.6	4.2
2007 A	1,334,127	1,255,404	10.5	36.8	32.2%	9.9	2.8

** Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on market price in the Doha Securities Market as on Aug. 02, 2009*
*Source: QIB and **Global** Research*

Chart 1: Share Price Performance



*Source: Zawya and **Global** Research*

Recent Developments

- In October 2008, the government announced to buy 10% - 20% of the capital of listed banks through issuance of new shares. Toward this end, the state owned sovereign wealth fund, Qatar Investment Authority, has already subscribed to the extent of 5% of the capital of some of the banks and another 5% is being planned for December 2009. The subscription for the shares has been done as per the closing price of the bank's share on DSM as of October 12, 2008.

- In March 2009, Qatar launched a new measure to support its banking sector with a government plan to buy banks' investment portfolios in a bid to revive lending and support the economy. The government offered to buy part or all of the DSM investment portfolios of local banks with a provision of any dividends received on such equity portfolios for the year 2008 to be provided to the banks and for subsequent years to be provided to QIA. The investment portfolios were priced at cost less impairment booked for these securities. The conventional banks received about 45% in cash and 55% in bonds maturing in 5 years carrying a coupon of 5.5% per annum. The Islamic bank have received entire amount in cash. The banks have the right to repurchase the entire portfolio, or any part of it, after a 12-month period from the date of sale and within a maximum period of five years at the original sale price. The government bought QR6.5bn worth of banks' investments as part of the plan. The banks involved in the deal are Qatar National Bank, Commercial Bank of Qatar, Doha Bank, Qatar International Islamic Bank, Qatar Islamic Bank, Ahli Bank and Al Khaliji Commercial Bank.

- In May 2009, Qatar government announced that it will spend QR15bn (US$4.1bn) on acquiring the real-estate portfolios of nine local banks to boost the domestic real-estate sector. The move involves the government taking over the real-estate investment portfolios of Qatar National Bank, Commercial Bank of Qatar, Doha Bank, International Bank of Qatar, Qatar International Islamic Bank, Qatar Islamic Bank, Masraf Al Rayan, Ahli Bank and Al Khaliji Bank. Therefore, as part of this QIB has sold part of the real estate portfolio to the government at an agreed book value as of 31 May 2009, which were included in Due from financing activities for real estate financing and in financial investments for real estate investments. The risk and rewards related to these assets has been transferred to the government, hence all related revenue and expenses were not included in the bank's revenue and expenses effective from that date.

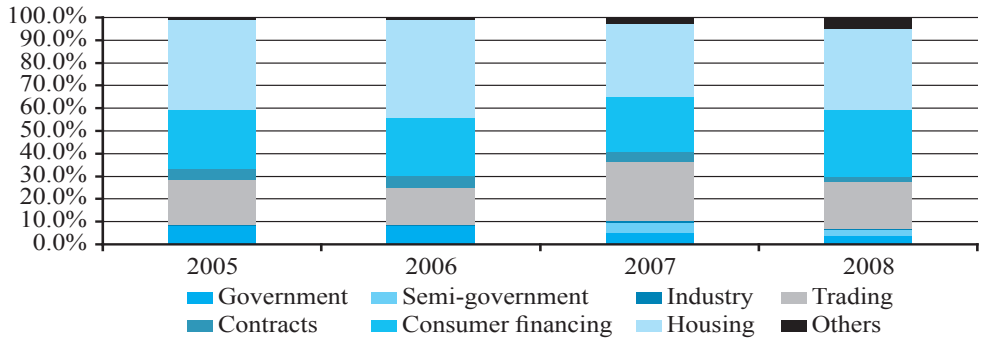
Analysis of 2008 and 1H-2009 Financial Results

- The total assets of the bank grew by 57.2% in 2008 to QR33.5bn. Among the major asset components, due from financing activities (gross) grew by 59.7% to QR21.2bn. Funds with banks & FIs increased by 89.3% to QR6.4bn. Net financing activities accounted for 56.2% of the total assets.

- Among the components of liabilities, the share of customer deposits (including unrestricted investment accounts) in total liabilities declined from 57.2% in 2007 to 49.5% in 2008. It registered a y-o-y growth of 36.0% to QR16.6bn. Unrestricted investment accounts increased during the year by 47.1% to stood at QR11.5bn and customers' accounts grew by 16.3% to QR5.1bn. The amount due to banks & other FIs increased by 141.3% to QR8.7bn. The contribution of shareholders' equity in total liabilities declined to 17.2% from 20.6% to QR5.8bn.

- The bank's loan portfolio is highly concentrated to three sectors, namely Housing, Consumer Financing and Trading. Housing loans segment has highest contribution to the total loan portfolio, its share was at 35.5% in 2008. The y-o-y growth in the segment was 76.5% to QR7.5bn. The share of this segment in total loan portfolio increased from 32.1% in 2007 to 35.5% in 2008. The bank's exposure to Consumer financing segment accounted for 29.5% of the total loan portfolio and it grew by 96.0% to QR7.5bn. Its exposure to Trading segment stood at QR4.3bn, witnessed a growth of 23.5% and accounted for 20.4% of the total loan portfolio.

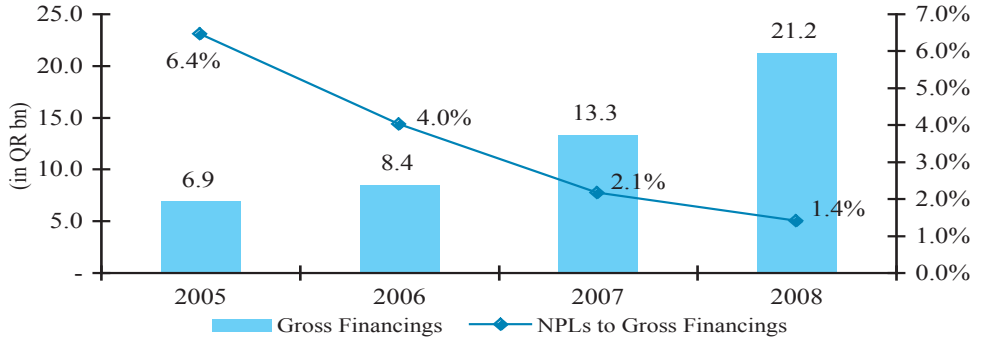
Chart 2: Sectoral Distribution of QIB's Loan Portfolio



*Source: QIB Annual Reports and **Global** Research*

- The bank's NPLs as a percentage of gross financings have declined significantly in 2008 from 2.1% in 2007 to 1.4%. Its NPLs increased by 3.2% to QR294mn in 2008 from QR285mn in 2007. The bank's coverage ratio declined from 99.1% in 2007 to 79.6% in 2008.

Chart 3: Quality of Loan Portfolio

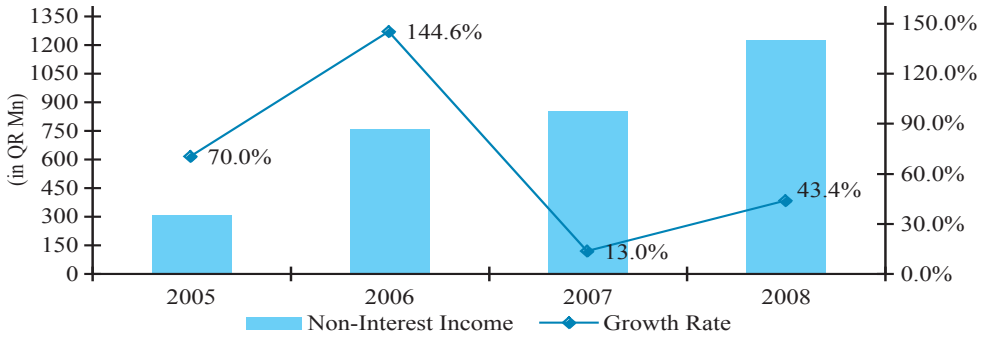


*Source: QIB Annual Reports and **Global** Research*

- During 2008, income from financing activities grew by 58.3% to QR1.3bn. Among the major components of this, Murabaha & Musawama grew by 54.4% to QR770.7mn, Istisna increased by 71.9% to QR2.3mn, Mudaraba income increased by 18.2% to QR100.0mn and income from Ijara financing grew by 85.8% to QR245.6mn. The depositors' profit sharing grew by 13.4% to QR388.7mn from QR342.8mn in 2007.

- The bank's non-interest income grew by 43.4% in 2008 to QR1,226.5mn as compared to QR855.4mn in 2007. Among the major components of non-interest revenue, fees & commission income grew by 154.3% to QR223.2mn and income from investments grew by 44.6% to QR1,071.3mn.

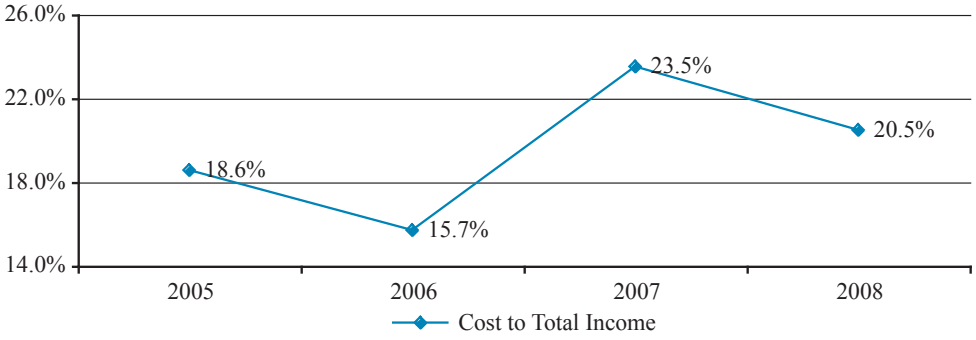
Chart 4: Growth in Non-Interest Income



*Source: QIB Annual Reports and **Global** Research*

- Total operating expenses of the bank grew by 39.7% in 2008 to QR443.9mn over QR317.8mn reported in 2007. The bank's cost to total income ratio declined from 23.5% in 2007 to 20.5% in 2008. Among the major cost components in 2008, staff cost went up by 47.1% to QR271.5mn, other expenses grew by 25.4% to QR152.8mn and depreciation charges increased by 72.7% to QR19.6mn.

Chart 5: Cost to Total Income



*Source: QIB Annual Reports and **Global** Research*

- In 2008, QIB registered a y-o-y growth of 30.8% in its net profit to QR1,642.5mn over QR1,255.4mn reported in 2007. During 2008, the bank realized some of its bad debts which led to net reversal of provisions for receivables and financing activities to the extent of QR47.8mn whereas in 2007 the bank made a provision of QR1.4mn. The provisions for other investments was at QR65.0mn as compared to QR12.1mn provided

in 2007. The bank's Return on Average Equity (RoAE) increased from 32.2% in 2007 to 33.6% in 2008 whereas its Return on Average Assets (RoAA) declined from 6.9% in 2007 to 6.2% in 2008.

- At the end of 2008, the bank reported Tier 1 capital ratio of 16.35% and total capital ratio of 17.04% as against 18.34% and 18.76%, respectively, reported for the year 2007.

- At the end of Q2-2009, on a y-t-d basis, total assets grew 6.4% to QR35.7bn, due from financing activities (net) grew by 4.5% to QR19.7bn and customer deposits (including unrestricted investment accounts) increased by 21.8% to QR20.2bn.

Table 01: QIB - Interim Results

	Q2-2009	YTD chg.		Q2-2008	Q2-2009	Q1-2009	1H-2008	1H-2009
Total Assets	35,684.8	6.4%	Total income from fin. & inv. activities	614,975	582,563	497,748	1,222,761	1,080,311
Due from financing activities	19,710.8	4.5%	Prov. for doubtful financing activities	(51,603)	17,498	(17,498)	(49,472)	-
Customer Deposits	20,202.1	21.8%	Net profit	397,991	462,418	350,227	853,549	812,645

Source: QIB Interim Results

- During Q1-2009, the bank issued 5% of the share capital (equivalent to 9.84mn shares) to Qatar Investment Authority at a price of QR97.1 per share. This is as per the shareholders approval to issue additional share capital to QIA to the extent of 20% of the total issued capital of the bank as of Dec. 2008.

- During 1H-2009, income from financing activities grew by 52.3% y-o-y to QR845.2mn whereas income from investing activities registered a steep y-o-y decline of 64.8% to QR235.1mn. Total income from financing & investing activities declined by 11.6% on y-o-y basis to QR1,080.3mn and total operating income also witnessed a decline of 10.4% to QR1,224.1mn. In Q1-2009, the bank made a provision for doubtful financing activities to the extent of QR17.5mn whereas there was a reversal of provision of QR2.1mn in Q1-2008. In Q2-2009, QIB reversed this provision making it a nil provision for the 1H-2009. The bank reported a y-o-y fall of 4.8% in its net profit to QR812.6mn in 1H-2009 as compared to profit of QR853.5mn reported in 1H-2008.

Outlook

- The factors pertaining to Qatar economy appears bright supported by increased government as well as private sector investments. Qatar is the least affected country in the Gulf from the global financial crisis. The country has significant expansion plans to increase the production of LNG over the next 3 years. Apart from this, in its 2009-2010 budget, Qatar has allocated 40% of expenditure for strategic development, which will ensure that the economy will remain upbeat. At the same time timely action by the government to improve liquidity and confidence building measures will definitely help the economy to remain on track.

- The liquidity infusing measures such as recapitalization of the bank, buying of investment portfolio and acquisition of Real Estate portfolio are confidence building measures enacted by the government. The raising of capital through various modes allowed the bank to leverage its balance sheet. This ensures that it is adequately capitalized at all times to meet the diverse needs of its expanding business. Though, QIB has been comfortably meeting CAR requirements, further capital infusion by QIA by the end of 2009 will take care of additional funding requirement.

- We believe that, going forward, quality of the loan book are likely to remain sound, however, looking at the operating environment it may witness some short term decline in its assets quality. At the same time, in the last two quarters the bank has also raised its provisioning levels to take care of any unexpected deterioration in asset quality, apart from this, buying of DSM equity portfolio and real estate loan portfolio by the government will further support the bank's asset quality.

Valuation & Recommendation

For arriving at the fair value of the banks under review, we have used two valuation methods:

1. Cash flow approach represented by the Dividend Discount Model.
2. P/BV target multiple approach using an adaptation of the Gordon Growth Model.

Dividend Discounting Model - DDM

The DDM model constructed is based on a 4-year forecast of dividends as cash flows (2009-12E). The dividends for the forecasted period and the terminal value are then discounted back at the cost of equity to arrive at the total NPV of the company. In our calculations, we have made the following assumptions in order to arrive at the equity value of individual banks:

1. Risk free rate of 6.03%.
2. Equity risk premium of 6%
3. We have taken Beta of 1.04 from Bloomberg.
4. Cost of equity for QIB works out to 12.3%.
5. Terminal growth rate of 3%.

Based on our future earnings projections and the above assumptions, the DDM value of QIB is QR92.6 per share.

Table 02: DDM Valuation

(QR'000)	2009F	2010F	2011F	2012F	Terminal Value
Dividends Expected	1,451,029	1,549,874	1,644,974	1,859,517	20,697,019
PV of Dividends Expected	5,195,394				
PV of Terminal Value	13,943,915				
Estimated Fair Value of Equity	19,139,309				
No. of Shares Outstanding ('000)	206,757				
Fair Value as per DDM (QR)	92.6				

*Source: **Global** Research*

Sensitivity Analysis

A sensitivity analysis for different estimated long-run future growth rates and cost of equity is provided. The table provides estimated fair values for QIB shares based on a range of varying inputs. The shaded area at the centre shows the most probable range of alternatives.

Table 03: DDM Valuation Sensitivity Analysis

		Terminal Growth Rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Cost Of Capital	10.3%	96.3	105.6	117.5	133.1	154.8
	11.3%	87.1	94.4	103.5	115.1	130.4
	12.3%	79.5	85.4	**92.6**	101.5	112.8
	13.3%	73.2	78.0	83.8	90.8	99.5
	14.3%	67.8	71.8	76.5	82.2	89.0
	15.3%	63.2	66.5	70.5	75.1	80.6

*Source: **Global** Research*

Gordon Growth Model (GGM)

The adaptation of the Gordon Growth Model uses the sustainable return on average equity (ROAE), cost of equity (COE) and expected growth in earnings (g) to calculate the target P/BV of the bank using the formula:

$$P/BV = (ROE - g) / (COE - g)$$

This P/BV is then multiplied with the BVPS of the bank at the next full year, in our case the BVPS at December 31, 2009 to arrive at the fair value of the bank over a medium term investment horizon.

In our calculations, we have made the following assumptions in order to arrive at the equity value of individual banks:

1. Sustainable ROE calculated as the average ROAE of the forecasted 4 years.
2. Cost of Equity derived using the same assumptions as in the DDM.
3. Terminal growth rate of 3%, similar to the DDM.

On the basis of Gordon Growth Model, the bank's stock value comes to QR98.9 per share.

Table 04: Gordon Growth Model

Average ROAE	30.5%
COE	12.25%
g	3.0%
2009: P/BV target multiple	3.0
2009: BV/share	33.3
GGM Value per share	**98.9**

*Source: **Global** Research*

Weighted Average Share Value

To arrive at the weighted average share value, we have provided a higher 80% weightage to the value arrived at using the DDM method and 20% weightage to the value arrived at using the GGM method.

Table 05: Valuation Summary

Valuation Methods	Fair Value/ Share (QR)	Weightage	Wighted Value (QR)
DDM	92.6	80%	74.1
GGM	98.9	20%	19.8
Estimated Fair Value			**93.8**

*Source: **Global** Research*

Our estimated value for Qatar Islamic Bank worked out to be QR93.8 based on DDM (80%) and adaptation of the Gordon Growth Model (20%). According to our fair value the scrip offers an upside of 10.8% at the current price (Aug 02, 2009) of QR84.7 per share. At the current market price QIB is trading at (2009E) P/E and P/BV multiples of 10.9x and 2.5x, respectively. We, therefore, reiterate a "**BUY**" on the bank at the current price level.

BALANCE SHEET

	Qatar Islamic Bank						
Amount in QR'000	**2006**	**2007**	**2008**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Assets							
Cash & balances with Central banks	400,449	1,256,826	1,023,181	1,630,466	1,091,744	1,058,837	1,188,544
Due from and investments with banks and FIs	3,843,401	3,364,522	6,367,721	8,914,809	11,143,512	13,483,649	16,045,543
Due from financing activities	7,156,007	11,679,082	18,865,895	23,619,275	28,115,558	32,056,590	36,567,838
Financial investments	1,506,326	2,116,803	2,947,154	3,153,455	3,531,869	3,920,375	4,312,412
Investment in associates	420,972	862,887	1,650,436	1,732,958	1,819,606	1,910,586	2,006,115
Other investments	1,016,424	1,222,315	1,691,696	1,996,201	2,275,669	2,548,750	2,803,625
Net fixed assets	107,880	101,757	260,347	362,354	451,460	534,410	633,949
Other assets	437,057	731,576	736,728	803,034	875,307	936,578	1,002,138
Total Assets	**14,888,516**	**21,335,768**	**33,543,158**	**42,212,551**	**49,304,725**	**56,449,774**	**64,560,165**
Liabilities							
Due to banks & FIs	1,147,242	3,604,378	8,696,716	9,914,256	11,897,107	13,681,674	15,665,516
Customers' accounts	2,363,719	4,384,352	5,097,251	6,626,426	7,819,183	9,070,252	10,430,790
Other liabilities	630,366	783,428	885,792	983,229	1,071,720	1,168,175	1,273,310
Proposed dividend	835,380	238,680	1,378,377	1,451,029	1,549,874	1,644,974	1,859,517
Total Liabilities	**4,976,707**	**9,010,838**	**16,058,136**	**18,974,940**	**22,337,885**	**25,565,074**	**29,229,133**
Unrestricted investment accounts	6,422,049	7,816,480	11,494,597	16,092,436	19,310,923	22,400,671	25,760,771
Monority interest	79,602	118,168	225,910	267,250	344,666	437,550	548,159
Equity							
Paid-up equity capital	1,193,400	1,193,400	1,969,110	2,067,566	2,067,566	2,067,566	2,067,566
Legal reserve	1,870,707	1,858,850	2,932,910	3,790,457	3,790,457	3,790,457	3,790,457
General reserve	90,215	109,964	547,652	547,652	547,652	547,652	547,652
Risk reserve	51,073	92,246	358,856	472,385	562,311	641,132	731,357
Retained earnings	152,590	523,549	42,588	86,466	429,866	1,086,274	1,971,671
Fair value reserve	52,173	15,573	(76,009)	(76,009)	(76,009)	(76,009)	(76,009)
Translation reserve	-	-	(51,656)	(51,656)	(51,656)	(51,656)	(51,656)
Proposed bonus shares	-	596,700	-	-	-	-	-
Social contribution reserve	-	-	41,064	41,064	41,064	41,064	41,064
Total Shareholder's Equity	**3,410,158**	**4,390,282**	**5,764,515**	**6,877,925**	**7,311,251**	**8,046,479**	**9,022,102**
Total Liabilities & Shareholders' Equity	**14,888,516**	**21,335,768**	**33,543,158**	**42,212,551**	**49,304,725**	**56,449,774**	**64,560,165**

*Source: Company Reports & **Global** Research*

OPERATING STATEMENT

	Qatar Islamic Bank						
Amount in QR' 000	**2006**	**2007**	**2008**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Income from financing activities	775,993	839,109	1,328,065	1,697,021	2,027,647	2,348,457	2,737,082
Depositors profit sharing	(230,135)	(342,801)	(388,667)	(466,681)	(608,294)	(728,022)	(875,866)
Net profit sharing	**545,858**	**496,308**	**939,398**	**1,230,340**	**1,419,353**	**1,620,436**	**1,861,216**
Add: Income from investments	311,895	741,093	1,071,355	770,182	1,043,911	1,337,461	1,661,040
Add : Fees and commission	423,040	87,770	223,178	216,483	270,603	324,724	373,433
Add : Net Gains from Dealing in Foreign Currencies	2,205	5,030	(80,734)	(32,294)	(38,752)	(44,565)	(49,022)
Add: Other operating income	19,535	21,480	12,714	15,130	18,004	20,705	23,811
Total Non-Interest Income	756,675	855,373	1,226,513	969,501	1,293,766	1,638,325	2,009,262
Total Operating Income	**1,302,533**	**1,351,681**	**2,165,911**	**2,199,840**	**2,713,119**	**3,258,760**	**3,870,477**
Less: Provision for impairment of receivables and financing activities	(68,390)	(1,416)	47,750	(35,834)	(42,642)	(38,890)	(25,862)
Less: Porvision for financials investments	-	(4,000)	-	-	-	-	-
Less: Provision for other investments	-	(12,138)	(65,011)	(49,905)	(22,757)	(25,487)	(28,036)
Operating Income (net of provisions)	**1,234,143**	**1,334,127**	**2,148,650**	**2,114,102**	**2,647,720**	**3,194,383**	**3,816,580**
Less : Staff Expenses	(114,966)	(184,563)	(271,481)	(264,263)	(330,965)	(407,284)	(486,614)
Less: Other Expenses	(77,849)	(121,861)	(152,868)	(163,843)	(211,818)	(263,537)	(324,409)
Less: Depreciation & amoritzations	(11,707)	(11,341)	(19,590)	(32,402)	(40,503)	(46,659)	(55,991)
Add: Income from dilution of interest in a subsidiary	-	306,354	-	-	-	-	-
Profit Before Minority Interest	**1,029,621**	**1,322,716**	**1,704,711**	**1,653,594**	**2,064,435**	**2,476,904**	**2,949,565**
Minority Interest	**(26,582)**	**(67,312)**	**(62,170)**	**(41,340)**	**(77,416)**	**(92,884)**	**(110,609)**
Net Profit	**1,003,039**	**1,255,404**	**1,642,541**	**1,612,254**	**1,987,019**	**2,384,020**	**2,838,957**
P&L Appropriation Account:							
Retained Earnings Broght Forward	7,849	152,590	523,549	42,588	86,466	429,866	1,086,274
Net Profit for the year	1,003,039	1,255,404	1,554,671	1,612,254	1,987,019	2,384,020	2,838,957
Proposed Dividend	(835,380)	(238,680)	(1,378,377)	(1,451,029)	(1,549,874)	(1,644,974)	(1,859,517)
Director Fees	(5,400)	-	-	(3,818)	(3,818)	(3,818)	(3,818)
Proceeds from sale of share fractions of right and bonus shares	199	-	237	-	-	-	-
Proposed Issue of Bonus Shares	-	(596,700)	-	-	-	-	-
Trfr to legal reserve	-	-	(110,260)	-		-	-
Trfr to risk reserve	(17,717)	(41,173)	(266,610)	(113,529)	(89,926)	(78,821)	(90,225)
Share of profit from associate	-	(28,029)	(239,558)	-	-	-	-
Sale of Al Jazeera Islamic Co.	-	20,137	-	-	-	-	-
Social contribution reserve	-	-	(41,064)	-	-	-	-
Cl Balance of Retained Earnings	152,590	523,549	42,588	86,466	429,866	1,086,274	1,971,671

*Source: Company Reports & **Global** Research*

CASH FLOW STATEMENT

	Qatar Islamic Bank						
Amount in QR'000	**2006**	**2007**	**2008**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Operating							
Operating Activities	1,081,203	966,348	1,471,670	2,188,510	2,755,874	3,290,474	3,907,284
Profit for the year before share of profit for unrestricted investment account holders and & minority interest	1,259,756	1,665,517	2,093,378	2,120,275	2,672,729	3,204,925	3,825,432
Adjustments For:							
Depreciation on fixed assets	11,707	11,342	19,590	32,402	40,503	46,659	55,991
Provision for financial investments	97,586	(1,151)	(4,524)	35,834	42,642	38,890	25,862
Provision for other investments	-	12,138	65,011	-	-	-	-
Share of profit from associate	(781)	(30,098)	(239,558)	-	-	-	-
Profit from investment revaluation	-	(6,984)	13,069	-	-	-	-
Profit on foreign exchange	-	(66,651)	20,915	-	-	-	-
Profit on sale of financial investments	(85,329)	(141,189)	(178,313)	-	-	-	-
Profit on dilution of interest in susbsidiary	-	(306,354)	-	-	-	-	-
Income from revaluation on investment property at fair value	-	-	(198,129)	-	-	-	-
Gain on sale of other investments	(201,616)	(170,208)	(119,769)	-	-	-	-
Gain on sale of fixed assets	(120)	(14)	-	-	-	-	-
Net increase (decrease) in Operating Assets	**(4,011,577)**	**(4,313,468)**	**(10,551,651)**	**(7,402,607)**	**(6,839,901)**	**(6,381,330)**	**(7,164,564)**
Balances with banks & FIs	(2,676,477)	478,879	(3,003,199)	(2,547,088)	(2,228,702)	(2,340,137)	(2,561,893)
Due from financing activities	(1,183,105)	(4,523,075)	(7,186,813)	(4,789,213)	(4,538,925)	(3,979,921)	(4,537,110)
Other assets	(151,995)	(269,272)	(361,639)	(66,306)	(72,273)	(61,271)	(65,560)
Net Increase (decrease) in liabilities	**1,437,707**	**4,584,765**	**5,962,735**	**2,844,153**	**3,264,099**	**3,132,090**	**3,449,516**
Current accounts from banks & FIs	1,121,218	2,457,136	5,092,337	1,217,540	1,982,851	1,784,566	1,983,843
Customers current accounts	151,297	2,020,633	712,899	1,529,175	1,192,757	1,251,069	1,360,538
Other liabilities	165,192	106,996	157,499	97,437	88,491	96,455	105,136
Total Operating	**(1,492,667)**	**1,237,645**	**(3,117,246)**	**(2,369,944)**	**(819,929)**	**41,234**	**192,237**
Payment to unrestricted investment account holders	(229,012)	(297,870)	(365,610)	(466,681)	(608,294)	(728,022)	(875,866)
Net Cash Used in Operating Activities	**(1,721,679)**	**939,775**	**(3,482,856)**	**(2,836,625)**	**(1,428,223)**	**(686,787)**	**(683,630)**
Cash flow from investing activities							
Purchase of financial investments	(1,368,133)	(1,437,490)	(2,166,690)	(206,301)	(378,415)	(388,506)	(392,037)
Additional investment in associate company	-	(364,000)	(612,517)	(82,522)	(86,648)	(90,980)	(95,529)
Proceeds from sale of financial investments	421,952	845,315	1,373,860	-	-	-	-
Proceeds from dilution of interest in subsdiary	-	390,000	-	-	-	-	-
Purchase of other investments	(973,899)	(925,848)	(545,984)	(304,505)	(279,468)	(273,080)	(254,875)
Proceeds from sale of other investments	642,515	852,177	686,065	-	-	-	-
Dividend received from associate company	-	2,000	-	-	-	-	-
Purchase of fixed assets	(58,209)	(28,164)	(178,030)	(134,409)	(129,609)	(129,609)	(155,531)
Proceeds from sale of fixed assets	232	23,561	-	-	-	-	-
Net cash (used in) investing activities	**(1,335,542)**	**(642,449)**	**(1,443,296)**	**(727,737)**	**(874,139)**	**(882,175)**	**(897,972)**
Cash flow from financing activities							
Increase in share capital	1,392,499	-	179,010	98,456	-	-	-
Increase in legal reserve	-	-	1,074,060	857,547	-	-	-
Increase in unrestricted investment accounts	1,716,396	1,394,431	3,678,117	4,597,839	3,218,487	3,089,748	3,360,101
Dividend distributed	(165,750)	(835,380)	(238,680)	(1,378,377)	(1,451,029)	(1,549,874)	(1,644,974)
Directors remuneration paid	-	-	-	(3,818)	(3,818)	(3,818)	(3,818)
Net cash from financing activities	**2,943,145**	**559,051**	**4,692,507**	**4,171,647**	**1,763,640**	**1,536,055**	**1,711,309**
Net increase / (decrease) in cash and cash equivalents	(114,076)	856,377	(233,645)	607,285	(538,722)	(32,907)	129,707
Cash and cash equivalents - Beginning of the year	514,525	400,449	1,256,826	1,023,181	1,630,466	1,091,744	1,058,837
Cash and cash equivalents - End of the year	**400,449**	**1,256,826**	**1,023,181**	**1,630,466**	**1,091,744**	**1,058,837**	**1,188,544**

*Source: Company Reports & **Global** Research*

FACT SHEET

	Qatar Islamic Bank						
	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)
Profitability							
- Return on Average Assets	8.2%	6.9%	6.2%	4.4%	4.5%	4.7%	4.9%
- Return on Average Equity	37.6%	32.2%	33.6%	26.2%	29.1%	32.3%	34.6%
- Net profit sharing income/ Total Op. Income (net of provisions)	39%	37%	43.7%	58.2%	53.6%	50.7%	48.8%
- Non-profit sharing income/ Total Op. Income (net of provisions)	61%	64%	57%	44%	48%	50%	52%
Margins							
- Depositors Profit Sharing to Profit Sharing Income	29.7%	40.9%	29.3%	27.5%	30.0%	31.0%	32.0%
- Profit Sharing Income to Profit Sharing Income Earning Assets	7.2%	5.4%	6.1%	5.6%	5.4%	5.2%	5.3%
- Depositors Profit Sharing to Depositors Profit Sharing Liabilities	2.9%	3.3%	2.7%	2.4%	2.4%	2.5%	2.6%
- Net Spread	4.2%	2.2%	3.4%	3.2%	2.9%	2.8%	2.7%
- Net Interest Margin	5.2%	3.3%	4.1%	4.0%	3.7%	3.6%	3.6%
Efficiency							
- Cost to Total Income	15.7%	23.5%	20.5%	20.9%	21.5%	22.0%	22.4%
- Staff Expense to Total Income	8.8%	13.7%	12.5%	12.0%	12.2%	12.5%	12.6%
Liquidity							
- Loans to Customer Deposits	81.4%	95.7%	113.7%	104.0%	103.6%	101.9%	101.0%
- Customer Deposits to Equity	258%	278%	288%	330%	371%	391%	401%
Credit Quality							
- Non Performing Loans (QR'000)	338,000	285,000	294,000	477,782	540,132	599,547	665,011
- Loan Loss Reserve (QR'000)	295,920	282,522	233,973	269,807	312,449	351,338	377,200
- NPL's to Gross Loans	4.00%	2.14%	1.38%	2.00%	1.90%	1.85%	1.80%
- NPL's to (Equity+Loan loss reserve)	11%	7%	5%	7%	8%	8%	8%
- Loan Loss Reserve to Gross Loans	3.5%	2.1%	1.1%	1.1%	1.1%	1.1%	1.0%
- NPL Coverage	87.6%	99.1%	79.6%	56.5%	57.8%	58.6%	56.7%
Capital Adequacy							
- Equity to Total Assets	23%	21%	17%	16%	15%	14%	14%
- Equity to Gross Loans	40%	33%	27%	29%	26%	25%	24%
Constitution of Total Income							
- Net Profit Sharing Income to Total Op Income	38.7%	37.1%	45.9%	56.5%	52.0%	49.5%	48.1%
- Fees & Comm. to Total Op. Income	34.3%	6.6%	10.4%	10.2%	10.2%	10.2%	9.8%
- Investment Income to Total Op Income	25.3%	54.3%	0.6%	0.7%	0.7%	0.6%	0.6%
- FX Income to Total Op. Income	0.2%	0.4%	-3.8%	-1.5%	-1.5%	-1.4%	-1.3%
- Other Income to Total Op. Income	1.6%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Performance							
- Change in Net Profit Sharing Income	29%	4%	99%	21%	15%	15%	16%
- Change in Fees and Commission	914%	-79%	154%	-3%	25%	20%	15%
- Change in Investment Income	16%	132%	-41%	19%	19%	15%	15%
- Change in Fx Income	-182%	128%	-1705%	-60%	20%	15%	10%
RATIO'S USED FOR VALUATION							
- Shares in Issue	119,340,000	119,340,000	196,911,000	206,756,550	206,756,550	206,756,550	206,756,550
- EPS (QR)	8.4	10.5	8.3	7.8	9.6	11.5	13.7
- Book Value Per Share (QR)	28.6	36.8	29.3	33.3	35.4	38.9	43.6
- Market Price Year End (QR)	86.47	104.60	121.60	84.70	84.70	84.70	84.70
- P/E	10.3	9.9	14.6	10.9	8.8	7.3	6.2
- P/BV	3.0	2.8	4.2	2.5	2.4	2.2	1.9

** Market price for 2009 and subsequent years are as per closing prices on DSM on August 02, 2009.*

*Source: Company Reports & **Global** Research*

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Company	Recommendation	Ticker	Price	Disclosure
Qatar Islamic Bank	Buy	QISB.QA (Reuters) QIBK QD (Bloomberg)	QR84.7	1, 10

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