Investment Update

Qatar

Qatar National Bank

May, 2009

BUY

Tickers:
QNBK.QA (Reuters)
QNBK QD (Bloomberg)

Listing:
Doha Securities Market

CMP:
QR109.0 (as of May 12, 2009)

Investment Summary

- The liquidity infusing measures such as recapitalization of banks and buying of investment portfolio are boosting confidence in Qatar's banking sector. Though, the banks in Qatar are sound in terms of meeting CAR requirements, further capital infusion by QIA by the end of 2009 will take care of further fund requirement.

- In terms of market share, Qatar National Bank (QNB) has by far the highest market share of system loans and deposits. In 2008, it accounted for 45.5% share of loans & advances and 50.0% of deposits among listed banks.

- In April 2009, S&P affirmed 'A+' rating by Standard & Poor's for long term and A-1 for short term, with a stable outlook. Fitch has also assigned similar rating of A+ for long term and F1 for short term.

- The total assets of the bank grew by 32.9% in 2008 to QR152.0bn. Among the major asset components, gross loans & advances grew by 51.5% to QR100.7bn. Out of the total loan portfolio of QR100.7bn, QR6.87bn accounted by Islamic financing activities which were at QR4.5bn in 2007. Funds with banks & FIs increased by 27.0% in 2008 to QR27.0bn. Net loans & advances accounted for 65.8% of total assets. Among the components of liabilities, the share of customer deposits (including unrestricted investment accounts) in total liabilities were at 68.6% in 2008 as compared to 69.4% in the preceding year and it registered a y-o-y growth of 31.4% to QR79.4bn.

- The bank's NPLs as a percentage of gross loans have been below 1% since last two years, which was despite the growing loan book and declining exposure to the government sector. In 2008, its NPLs grew by 62.2% to QR731.5mn in 2007 from QR451.1mn in 2007. NPLs as a percentage of gross loans remained at 0.7% in 2008 same as in 2007.

Faisal Hasan, CFA
Head of Research
fhasan@global.com.kw
Phone No:(965) 22951270

Chandresh Bhatt
Assistant Vic President
cbhatt@global.com.kw
Phone No:(965) 22951282

- During 2008, the total interest income of the bank from conventional banking activities grew by 33.4% to QR6,167.7mn. QNB's income from Islamic financing and investing activities grew by 64.1% to QR685.3mn. QNB registered a y-o-y growth of 45.7% in its bottomline to QR3.7bn over QR2.5bn reported in 2007. In 2008, the bank's provisions for credit losses on loans & advances was at QR247.6mn whereas there was a recovery of QR19.7mn on this account in 2007. As also its net impairment losses on financial investments grew by 110.4% in 2008 to QR130.3mn. The significant amount of these provisions have been made during last quarter of 2008. On quarter on quarter basis, the bank registered a drop of 43.3% in its profit in Q4-2008 to QR649.8mn.

- At the end of Q1-2009, on a y-t-d basis, total assets declined by 7.5% to QR140.6bn, net loans & advances declined by 18.4% to QR81.6bn and customer deposits also went down by 14.8% to QR80.9bn. In Q1-2009, the bank reported a y-o-y growth of 10.2% in its net profit to QR1,010.6mn as compared to QR917.3mn reported in Q1-2008. During Q1-2009, the government of Qatar purchased certain available for sale equity securities listed on DSM at a sale price of about QR4.0bn. The bank has received QR1.8bn in cash and the remaining QR2.2bn in bonds, carrying an interest of 5.5% per annum.

- Our estimated value for QNB worked out to be QR142 based on DDM (80%) and adaptation of the Gordon Growth Model (20%). According to our fair value the scrip offers an upside of 30.3% at the current price (May 12 2009) of QR109 per share. At the current market price (May 12, 2009), the QNB trades at 8.1x and 7.1x of its earnings and 2.0x and 1.8x of its book value for FY2009E and FY2010E respectively. We, therefore, reiterate a "**BUY"** on QNB at the current price level.

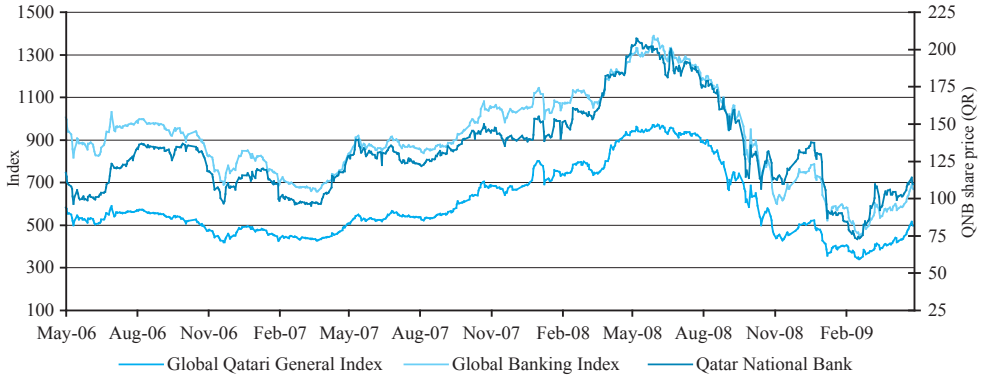
Table 01: Investment Indicators

Price (as on May 12 2009)	Shares in issue	Market Cap. (QR bn)	52-week price range (QR)
QR109.00	301mn	32.8	206.72 / 72.2

Year	Operating Income (QR' 000)	Net Profit (QR' 000)	EPS (QR)	Book Value (QR)	ROAE (%)	P/E (x)	P/BV (x)
2010 E	7,110,567	4,646,629	15.4	59.6	27.1%	7.1	1.8
2009 E	6,164,809	4,039,254	13.4	54.2	25.9%	8.1	2.0
2008 A	5,539,700	3,652,545	15.2	61.6	26.3%	7.2	1.8
2007 A	3,722,256	2,506,119	13.7	70.9	24.3%	7.9	1.5

** 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 May 12, 2009*
*Source: QNB And **Global** Research*

Chart 01: Share Price Performance



*Source : DSM & **Global** Research*

Qatar Banking Sector

Recent Developments

- In the recent past the government of Qatar has taken proactive steps to boost the economy. The government has issued sovereign bonds worth US$3bn. The bonds have been rated as 'AA-' by Standard & Poor's. The bonds have two tranches: a five-year US$2bn bond maturing on April 9, 2014, and a 10-year US$1bn bond maturing on April 9, 2019. The proceeds of the bonds will contribute to the general financing of the State of Qatar's budget in 2009, including providing funding for entities that it owns or controls.

- 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. QIA bought stakes in all the listed banks except Qatar National Bank, in which it already holds 50% equity stake.

- 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 had bought QR6.5bn worth of banks' investments as part of the plan.

Peer Group Comparison

The peer group comparison is done on all the eight listed banks, namely Qatar National Bank, Commercial Bank of Qatar, Doha Bank, Qatar Islamic Bank, Ahli Bank, Qatar International Islamic Bank, Masraf Al Rayan and Al Khalij Commercial Bank. These banks together accounted for about 85% of the total assets of commercial banks in 2008 and 91% of total credit disbursed.

Table 02: Key Indicators of Listed Banks – 2009

in QR Mn	Qatar National Bank	Commercial Bank of Qatar	Doha Bank	Qatar Islamic Bank	Qatar International Islamic Bank	Ahli Bank	Masraf Al Rayan	Al Khalij Commercial Bank
Total Assets	151,974	61,302	39,002	33,543	12,842	17,799	16,769	12,501
Gross Loans & Advances	100,678	34,184	24,529	21,235	8,329	11,694	13,557	7,011
Total Deposits	104,253	32,186	23,277	16,592	9,139	12,111	10,898	4,674
Paid-up Capital	2,409	2,062	1,722	1,969	1,261	584	4,125	3,600
Equity Capital	14,837	8,535	4,052	5,765	2,276	1,348	5,076	4,546
Net Profit	3,653	1,702.4	946.5	1,642.5	501.2	426	917.0	103.6

*Source: Banks' Annual Reports and **Global** Research*

Balance Sheet Size

In 2008, all the listed banks in Qatar have reported a significant growth in their balance sheet size. The aggregate balance sheet of all the listed banks grew by 73% in 2008 to QR345.7 from QR252.4bn in 2007. Al Khalij Commercial Bank recorded the highest growth in its balance sheet among its peers as it grew by 142.7% in 2008. The sector's largest bank, Qatar National Bank's assets grew by 32.9% in 2008. Among others, Masraf Al Rayan's assets grew by 58.9% followed by Qatar Islamic Bank 57.2%, Commercial Bank 35.0%, Doha Bank 29.6%, Qatar International Islamic Bank 29.1% and Ahli Bank 14.3%.

Chart 02: Market Share of Total Assets – 2008

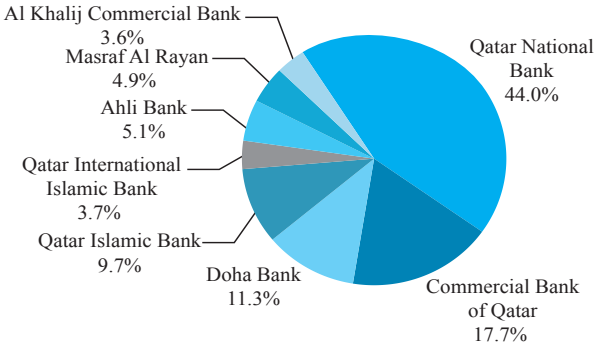
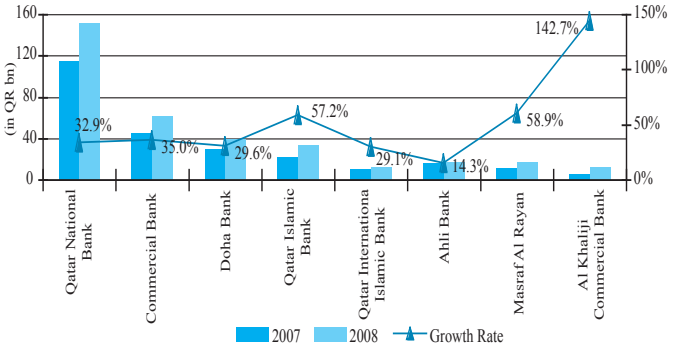


Chart 03: Growth in Balance Sheet - 2008



*Source: Banks' Annual Reports and **Global** Research*

In terms of market share of loans & advances, Qatar National Bank has by far the highest market share of system loans and deposits. In 2008, it accounted for 45.5% share of loans & advances and 50.0% of deposits among listed banks. Commercial Bank of Qatar held second position with a market share of 15.5% of loans and 15.1% of deposits. Doha Bank's share was at 11.1% of loans and 10.9% of deposits. Three Islamic banks, namely Qatar Islamic Bank, Qatar International Islamic Bank and Masraf Al Rayan accounted for 9.6%, 3.8% and 6.1%, respectively, of the market share of loans & advances and in terms of deposits, their respective share was at 7.8%, 4.3% and 5.1% among listed banks. Ahli Bank's market share was at 5.3% of loans and 5.7% of deposits. The newly established Al Khalij Commercial Bank's share was at 3.2% of loans and 2.2% of deposits at the end of 2008.

In terms of the growth in loans and advances in 2008, almost all the banks have performed exceptionally well. Masraf Al Rayan achieved a growth of 96.7% though on a lower base.

Qatar International Islamic Bank recorded a growth of 63.9% and Qatar Islamic bank 59.7%. The largest bank in terms of size, Qatar National Bank has achieved a growth of 51.5% in 2008. In case of Ahli Bank the growth in loan book was lowest among its peers at 14.1% for the year.

Chart 04: Market Share of Loans & Advances – 2008

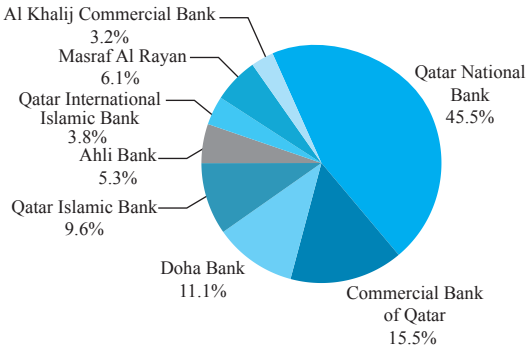
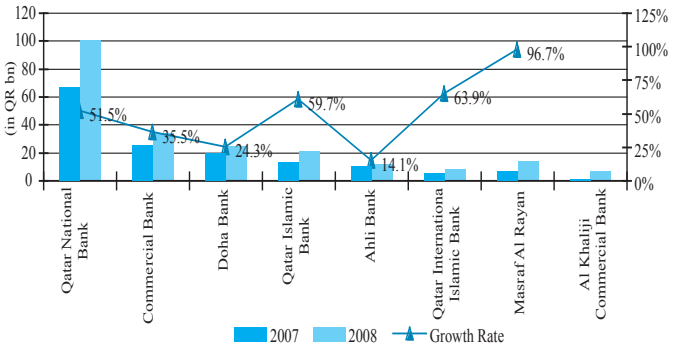


Chart 05: Growth in Loans & Advances – 2008



*Source: Banks' Annual Reports and **Global** Research*

In terms of the growth in customer deposits in 2008, Masraf Al Rayan, on a lower base, has achieved significant growth of 105.3%. Qatar Islamic Bank was at second position with a growth of 36.0% and the largest bank, Qatar National Bank has achieved a growth of 31.4%. In case of Ahli Bank the growth in loan book was lowest among its peers at 5.4% for the year.

Chart 06: Market Share of Deposits – 2008

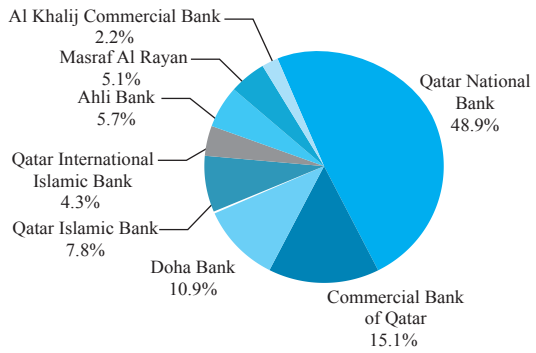
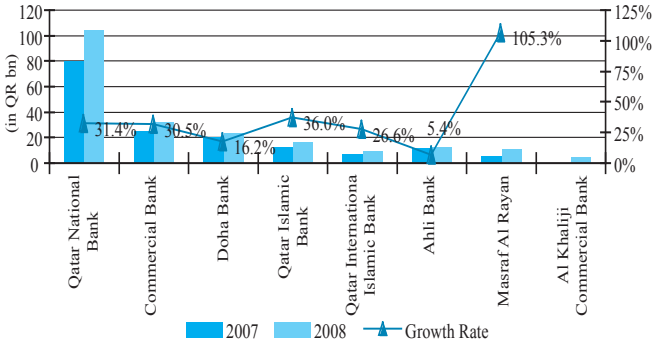


Chart 07: Growth in Deposits



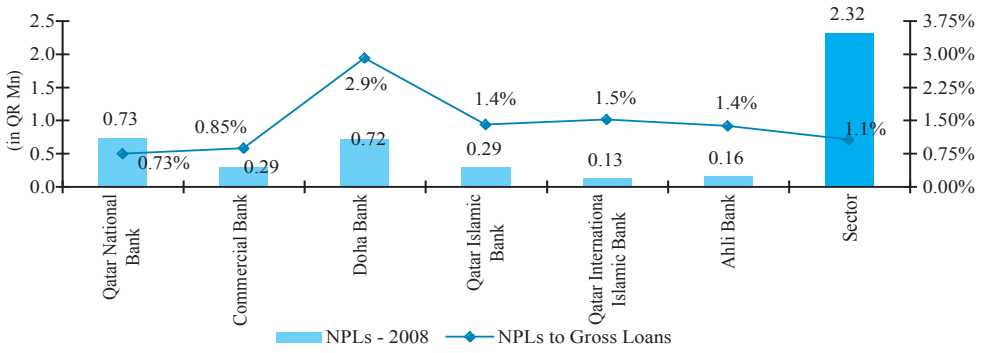
*Source: Banks' Annual Reports and **Global** Research*

Asset Quality

Over the last few years Qatari banks have extensively focused on improving their quality of assets which resulted in substantial improvement in the quality of their assets portfolio. In the sector, Doha Bank had the highest NPLs to gross loans ratio of 2.9% at the end of 2008, which was followed by Qatar International Islamic Bank at 1.5%. Two banks, namely Qatar National Bank and Commercial Bank have less than 1% of NPL to gross loans, at 0.73% and 0.85% respectively. In case of Ahli Bank and Qatar Islamic Bank this ratio was at 1.4%.

The collective NPLs of all the listed banks have gone up by 26.9% to QR2.32bn and sectors NPL to gross loans ration declined marginally from 1.2% in 2007 to 1.1% in 2008.

Chart 08: Quality of Loan Portfolio



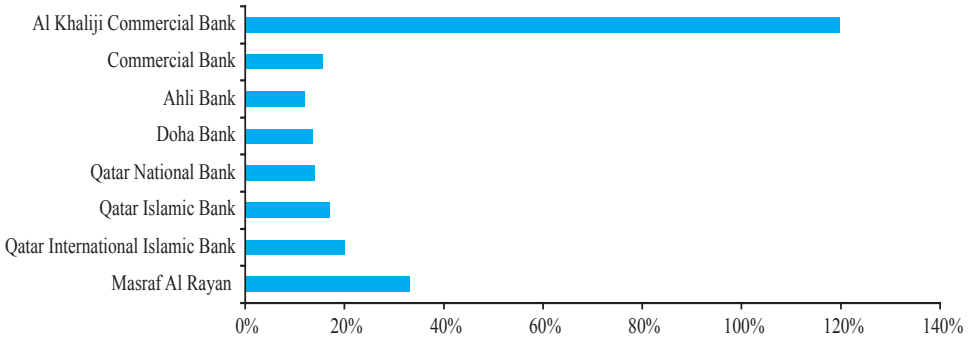
Source: Banks' Annual Reports and ***Global*** *Research*

Capital Adequacy Ratio (CAR)

In Qatar, the minimum capital adequacy ratio is 10% as per the Qatar Central Bank requirements and as per the Basel Committee on banking supervision requirements it is 8%. Looking at this standards banks in Qatar are well capitalized. In terms of comparison, Masraf Al Rayan had the highest CAR of 33.09% at the end of 2008, which was followed by Qatar International Islamic Bank 20.11%, Qatar Islamic Bank 17.04%, Commercial Bank 15.66%, Qatar National Bank 13.9%, Doha Bank 13.48% and Ahli Bank's CAR was at 12.01%.

In 2008 many Qatari banks have focused on expanding their capital base through rights issues and 2009. Apart from this, many banks have raised their capital in 2009 by allocating shares to QIA to the extent of 5% of their capital with another 5% allocation is being planned at the end of 2009. All these measures have helped the banks to shore-up their CAR and to leverage their balance sheet.

Chart 09: Total Capital Adequacy Ratio - 2008

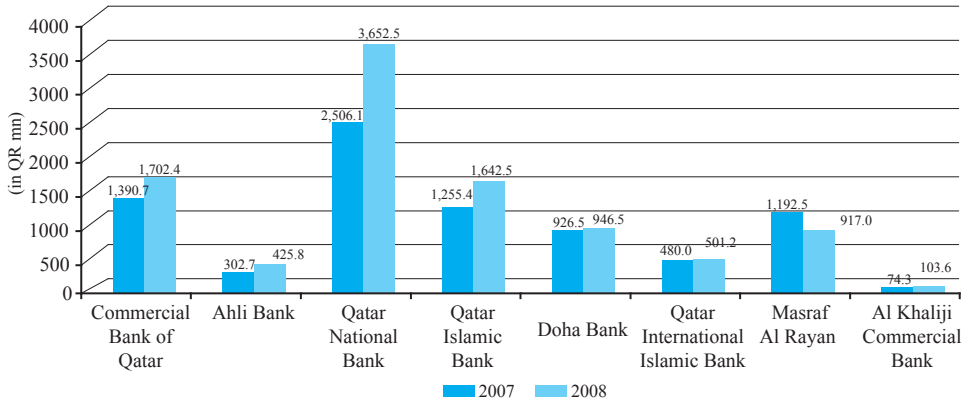


Source: Banks' Annual Reports

In terms of revenue in the sector, other income or non-interest revenue are keeping pace with the core earnings for almost all the banks. In many banks such as Qatar National Bank, Commercial Bank, Qatar Islamic Bank and Masraf Al Rayan non-interest revenue accounted for significant portion of the total revenue of the bank for the year 2007. In case of Qatar International Islamic Bank, Ahli Bank and Doha Bank core earnings have driven the growth in total operating revenue of the bank.

The combined net profit of the banks under review grew by 21.7% y-o-y in 2008, from QR8.1bn in 2007 to QR9.9bn in 2008. Among the banks under review, the only bank Masraf Al Rayan reported a decline in net profit of 23.1%. Qatar National Bank Qatar reported 45.7% increase in net profit, the highest among the listed banks, followed by Ahli Bank with a growth of 40.7%, Al Khalij Commercial Bank 39.4%, Qatar Islamic Bank 30.8%, Commercial Bank 22.4%, Qatar International Islamic Bank 4.4% and Doha Bank 2.2%.

Chart 10: Net Profit



*Source: Banks' Annual Reports and **Global** Research*

Q1-2009 Performance

In Q1-2009, the aggregate assets of all the listed banks registered a y-t-d fall of 0.3% to QR344.6bn from QR345.7bn at the end of 2008. The combined net profit of the banks under review grew by 10.1% y-o-y in Q1-2009, from QR2.5bn in Q1-2008 to QR2.8bn in Q1-2009.

Table 03: Performance of Listed Banks in Q1-2009

	Assets (in bn)			Net Profit (in mn)		
	2008	Q1-2009	Change	Q1-2008	Q1-2009	Change
Qatar National Bank	152.0	140.6	-7.5%	917.3	1,010.6	10.2%
Commercial Bank	61.3	63.5	3.6%	436.4	610.1	39.8%
Doha Bank	39.0	42.2	8.2%	274.0	329.7	20.3%
Qatar Islamic Bank	33.5	32.8	-2.2%	455.6	350.2	-23.1%
Qatar International Islamic Bank	12.8	14.1	9.7%	135.4	136.7	1.0%
Ahli Bank	17.8	16.9	-5.1%	85.6	86.3	0.8%
Masraf Al Rayan	16.8	19.8	18.2%	217.8	209.8	-3.7%
Al Khalij Commercial Bank	12.5	14.6	17.1%	7.1	51.7	633.4%
Total	**345.7**	**344.6**	**-0.3%**	**2,529.1**	**2,785.2**	**10.1%**

*Source: Bank's financial results and **Global** Research*

Banking Sector 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. Qatar mainly because of its oil-bound economy is likely to remain resilient as compared to other GCC countries. 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 percent 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.

Qatar's economy will continue its growth trajectory in 2009 when performances of most other regional oil producers are likely to slowdown. Qatar's biggest strength is continuous expansion in its liquefied natural gas (LNG) capacity. Qatar is set to almost double its production of LNG to more than 60mn tonnes in 2009 and it is likely to reach 77mn tonnes by end-2011. "Qatar's economy is still very strong despite the global financial distress…it will remain strong as it is a real economy which enjoys many advantages and points of strength," said Abdullah bin Hamad Al Attiyah, Qatar's Deputy Premier and Minister of Energy and Industry.

Qatar has launched an impressive domestic investment program aimed at diversifying its economic base from the hydrocarbon sector. The banking sector would be one of the major beneficiaries of these projects and regional diversification program. As part of further support to the local economy, recently the country's prime minister reiterated the country's commitment to continue its planned expenditures on major projects and infrastructure development in order to support the various projects over the next four years valued at US$150bn and stands ready to inject funds into local companies hit by the global economic meltdown.

The liquidity infusing measures such as recapitalisation of banks and buying of investment portfolio are boosting confidence in Qatar's banking sector. Though, the banks in Qatar are sound in terms of meeting CAR requirements, further capital infusion by QIA by the end of 2009 will take care of further fund requirement. Apart from this in the recent past, many banks have raised their capital through rights issues are also considered as right in time. With regard to quality of loan portfolio, over the last few years, banks in Qatar have extensively focused on improving their quality of assets which resulted into substantial improvement in the quality of their loan portfolio. We believe that going forward quality of the loan book are likely to remain sound as in the last two quarters banks have also raised their provisioning levels to take care of any unexpected deterioration in asset quality.

The outlook for the sector appears bright as banks are well placed to ride out the global economic downturn, thanks to a combination of factors, including the sound state of the country's economy, prompt intervention by the state to support local banks, adequate levels of liquidity and sound asset quality.

QNB - Recent Developments

- In 2008, QNB entered the Tunisian market through the 50% acquisition of the Tunisian–Qatari Bank. QNB Al Islami opened a branch in Sudan and QNB's stake in the Jordan-based Housing Bank for Trade and Finance was increased to 33.2%.

- The 23.8% acquisition of the UAE-based Commercial Bank International will further enhance QNB's presence in the GCC Region given its established operations in Oman and Kuwait. Similarly, the conversion of the Representative Office in Singapore into a Branch will allow QNB to further expand the scope of business activities in Singapore and the region.

- QNB is planning to come out with Initial Public Offering (IPO) of 32.5% of Qatar National Bank-Syria in May. QNB owns 49% of the new bank's capital, valued around US$100m, while other Syrian government organizations own 15.5% and 3% owned by the private sector. The Syrian cabinet agreed in January last year to establish The Qatar National Bank-Syria as a joint company with a capital of 5bn Syrian Pounds divided into 10mn registered shares, with each share valued at 500 Syrian pounds. QNB manages the new bank which will be headquartered in Damascus, and will expand to open more branches in other governorates and districts, with plans to expand outside Syria.

- In 2008, the bank raised its equity through rights issue of 10% and it also issued 25% bonus shares for the year 2008, therefore, with the bonus issue and second rights issue the bank's equity capital increased to QR3.0bn.

- QNB has the highest credit rating. In April 2009, S&P affirmed 'A+' rating by Standard & Poor's for long term and A-1 for short term, with a stable outlook. Fitch has also assigned similar rating of A+ for long term and F1 for short term.

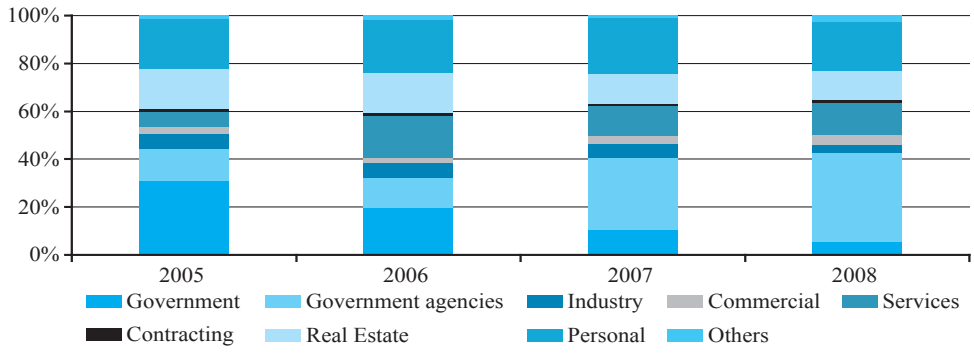
QNB - Analysis of 2008 and Q1-2009 Financial Results

- The total assets of the bank grew by 32.9% in 2008 to QR152.0bn. Among the major asset components, gross loans & advances grew by 51.5% to QR100.7bn. Out of the total loan portfolio of QR100.7bn, QR6.87bn accounted by Islamic financing activities which were at QR4.5bn in 2007. Funds with banks & FIs increased by 27.0% in 2008 to QR27.0bn. Net loans & advances accounted for 65.8% of total assets.

- Among the components of liabilities, the share of customer deposits (including unrestricted investment accounts) in total liabilities were at 68.6% in 2008 as compared to 69.4% in the preceding year and it registered a y-o-y growth of 31.4% to QR79.4bn. Unrestricted investment accounts stood at QR9.3bn, registered a growth of 79.0%. The amount due to banks & other FIs increased by 98.6% to QR19.7bn. The bank also has borrowings to the tune of QR6.7bn which represents loan secured by the bank through a syndicated loan facility. The contribution of shareholders' equity in total liabilities declined marginally to 9.8% from 11.3% to QR14.8bn.

- During 2008, the bank continued its focus to diversify its loan portfolio in favor of other sectors and reduced its exposure to the government sector. The bank's exposure to the government sector declined by 17.3% to QR5.8bn from QR7.1bn in 2007. At the same time, the bank's lending to government agencies increased significantly by 89.0% to QR37.7bn from QR19.9bn in 2007. This segment alone accounted for almost 37% of the total loan portfolio of the bank. Personal loans segment was the second highest contributor to the total loan portfolio, however, its share declined to 20.5% in 2008 from 24.0% in 2007. The y-o-y growth in the segment was 29.6% to QR20.9bn. Services sector registered a growth of 61.4% to QR13.2bn and it accounted for 13% of the total loan portfolio in 2008. Exposure to the Real Estate segment grew by 46.4% to QR12.3bn and its contribution to the total loan portfolio remained same at about 12%.

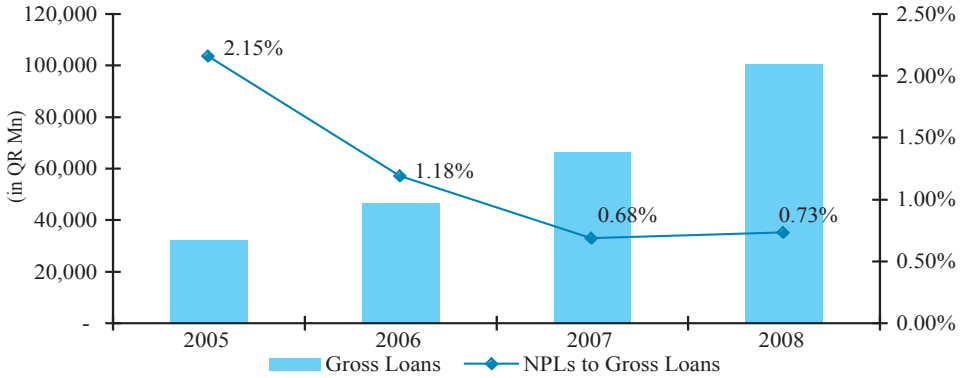
Chart 11: Sectoral Distribution of QNB's Loan Portfolio



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

- The bank's NPLs as a percentage of gross loans have been below 1% since last two years, which was despite the growing loan book and declining exposure to the government sector. In 2008, its NPLs grew by 62.2% to QR731.5mn in 2007 from QR451.1mn in 2007. NPLs as a percentage of gross loans remained at 0.7% in 2008 same as in 2007. The bank has sufficient coverage to its NPLs at 85.4%, however, it declined from 90.5% in 2007.

Chart 12: Quality of Loan Portfolio



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

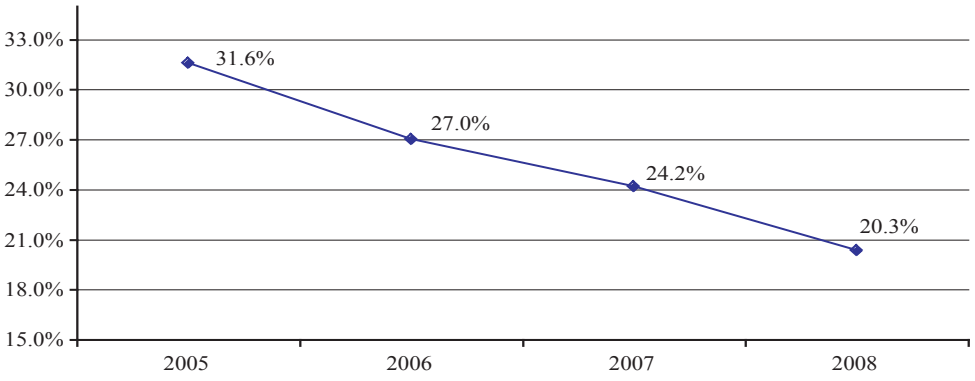
- During 2008, the total interest income of the bank from conventional banking activities grew by 33.4% to QR6,167.7mn. Among the major components of gross interest income, interest from loans & advances grew by 40.4% to QR5,122.9mn and interest on funds due from banks & other FIs increased by 17.6% to QR696.1mn, while interest income from debt securities declined marginally by 7.3% to QR320.8mn. QNB's income from Islamic financing and investing activities grew by 64.1% to QR685.3mn.

- Among the major components of non-interest revenue, the bank registered a y-o-y growth of 34.4% in fees & commission income to QR975.9mn, gain from investments went up by 52.0% to QR569.3mn, dividend income witnessed a growth of 12.7% to QR137.5mn and gain from foreign currency transactions grew by 88.6% to QR330.4mn.

- In 2008, the QNB's yield on interest earning assets declined from 6.4% in 2007 to 6.0% in 2008, however, the bank was able to maintain its net spread at 2.3% as its cost of funds also declined from 4.1% in 2007 to 3.7% in 2008. The bank's net interest margin improved marginally from 2.4% in 2007 to 2.5% in 2008.

- Over the last few years the bank's cost to total income ratio has been on decline, which improved to 20.3% in 2008 from 24.2% in 2007. Total operating expenses of the bank grew by 25.2% in 2008 to QR1,126.4mn from QR899.6mn in 2007.

Chart 13: Cost to total income



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

- QNB registered a y-o-y growth of 45.7% in its bottomline to QR3.7bn over QR2.5bn reported in 2007. In 2008, the bank's provisions for credit losses on loans & advances was at QR247.6mn whereas there was a recovery of QR19.7mn on this account in 2007. As also its net impairment losses on financial investments grew by 110.4% in 2008 to QR130.3mn. The significant amount of these provisions have been made during last quarter of 2008. On quarter on quarter basis, the bank has registered a drop of 43% in its profit in Q4-2008 to QR649.8mn.

- The bank's Return on Average Equity (RoAE) increased to 26.3% in 2008 from 24.3% in 2007 while its Return on Average Assets (RoAA) remain unchanged at 2.7% in 2008.

- At the end of 2008, the bank reported Tier 1 capital ratio of 13.7% same as in 2007 while its total capital ratio declined from 16.2% in 2007 to 13.9% in 2008. The minimum accepted capital adequacy ratio is 10% under Qatar Central Bank requirements and 8% under Basel I Committee on Banking supervision requirements.

- At the end of Q1-2009, on a y-t-d basis, total assets declined by 7.5% to QR140.6bn, net loans & advances declined by 18.4% to QR81.6bn and customer deposits also went down by 14.8% to QR80.9bn.

- During Q1-2009, the government of Qatar purchased certain available for sale equity securities listed on DSM at a sale price of about QR4.0bn. The bank has received QR1.8bn in cash and the remaining QR2.2bn in bonds, carrying an interest of 5.5% per annum.

- During Q1-2009, interest income grew by 3.5% y-o-y to QR1,465.4mn while interest expense registered a y-o-y decline of 20.4% to QR719.2mn. With this the net interest income of the bank registered a y-o-y growth of 45.5% to QR746.2mn. The bank reported a y-o-y growth of 10.2% in its net profit to QR1,010.6mn as compared to QR917.3mn reported in Q1-2008.

- During Q2-2009, the bank is expected to complete the sale of one of its subsidiary's lines of business, included within the wealth management segment (the Bahamas business within the QNB International Holdings Limited). As of March 2009, the assets under this business were at QR569mn and liabilities were at QR1,228mn and classified as held for sale. This transaction will have its impact on the income statement for Q2-2008 as one off item.

Outlook

- QNB plan for 2009 includes promoting an even more comprehensive range of Islamic products and services across the corporate and retail functions of the QNB Group, as well as the implementation of various global initiatives including the launch of QNB Syria and strengthening QNB's presence in strategic Middle East and North African (MENA) markets. The bank also plans to open a new branch in Geneva during second half of 2009.

- QNB is considered as one of the best banks in Qatar considering its sound assets portfolio, which we believe that will continue to remain its main focus area despite significant growth in its loan portfolio over the last few years.

- At the same time the bank's capital expansion through rights issues allowed the bank to leverage its balance sheet. This helped the bank to finance its regional expansion plan and ensure that it is adequately capitalized at all times to meet the diverse needs of its rapidly expanding business at home and overseas.

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 (2009-12). 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 QNB:

1. Risk free rate of 6.1%.

2. Equity risk premium of 5%

3. We have taken Beta of 1. The actual beta for the company is low, but to be more appropriate
in reflecting the market risk we have taken it as 1.

4. Cost of equity for QNB works out to 11.09%.

5. Terminal growth rate of 3%.

Based on our future earnings projections and the above assumptions, the DDM value of QNB is QR135.6 per share.

Table 04: DDM Valuation

(QR'000)	2009F	2010F	2011F	2012F	Terminal Value
Dividends Expected	2,560,887	3,011,016	3,314,093	3,617,279	46,037,286
PV of Dividends Expected	9,791,034				
PV of Terminal Value	31,030,202				
Estimated Fair Value of Equity	40,821,236				
No. of Shares Outstanding ('000)	301,121				
Fair Value as per DDM (QR)	135.6				

*Source: **Global** Research*

DDM 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 QNB shares based on a range of varying inputs. The shaded area at the center shows the most probable range of alternatives.

Table 05: DDM Valuation Sensitivity Analysis

		Terminal Growth Rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Cost Of Capital	9.09%	142.1	158.5	180.4	210.9	256.2
	10.09%	126.2	138.8	154.8	176.2	205.9
	11.09%	113.5	123.3	**135.6**	151.2	172.0
	12.09%	103.1	111.0	120.6	132.5	147.8
	13.09%	94.5	100.9	108.5	117.8	129.5

*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 QR167.8 per share.

Table 06: Gordon Growth Model

Average ROE	28.1%
COE	11.09%
g	3.0%
2009: P/BV target multiple	3.1
2009: BV/share	54.2
GGM Value per share	**167.8**

*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 07: Valuation

Valuation Methods	Fair Value/ Share (QR)	Weightage	Wighted Value (QR)
DDM	135.6	80%	108.5
GGM	167.8	20%	33.6
Estimated Fair Value			**142.0**

*Source: **Global** Research*

Our estimated value for QNB worked out to be QR142 based on DDM (80%) and adaptation of the Gordon Growth Model (20%). According to our fair value the scrip offers an upside of 30.3% at the current price (May 12 2009) of QR109 per share. At the current market price (May 12, 2009), the QNB trades at 8.1x and 7.1x of its earnings and 2.0x and 1.8x of its book value for FY2009E and FY2010E respectively. We, therefore, reiterate a **BUY** on QNB at the current price level.

BALANCE SHEET

	Qatar National Bank						
Amount in Qatari Riyal '000	**2006**	**2007**	**2008**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Assets							
Cash & balances with banks	2,481,218	10,948,569	6,269,596	7,792,817	6,114,255	7,214,035	9,015,036
Due from Banks and Other FIs	12,780,711	21,302,608	27,044,455	28,937,567	32,120,699	36,617,597	43,941,117
Loans and advances (Gross)	46,701,646	66,472,455	100,678,451	105,712,374	125,797,725	145,925,360	169,273,418
Other assets	674,889	1,381,387	1,576,284	1,655,098	1,953,016	2,265,498	2,605,323
Less: provisions	(475,036)	(408,318)	(624,961)	(973,812)	(1,225,407)	(1,400,518)	(1,561,327)
Total Current Assets	**62,163,428**	**99,696,701**	**134,943,825**	**143,124,043**	**164,760,287**	**190,621,973**	**223,273,566**
Investment securities - debt	5,357,651	5,436,163	6,323,823	11,977,958	11,168,636	10,424,061	10,413,636
Investment securities - equity	3,520,051	5,872,762	5,491,089	4,208,472	7,445,758	10,424,061	12,727,778
Financial Invetsments	8,877,702	11,308,925	11,814,912	16,144,345	18,475,514	20,573,729	22,707,925
Investment in associates & joint venture	32,810	2,703,546	4,596,644	4,826,476	5,067,800	5,321,190	5,587,250
gross fixed assets	1,042,822	1,167,579	1,116,174	1,294,762	1,450,133	1,595,147	1,754,661
less: accumulated depreciation	(453,729)	(516,083)	(497,937)	(607,992)	(724,002)	(851,614)	(991,987)
net fixed assets	589,093	651,496	618,237	686,770	726,131	743,532	762,674
Total Assets	**71,663,033**	**114,360,668**	**151,973,618**	**164,781,635**	**189,029,733**	**217,260,424**	**252,331,415**
Liabilities							
Due to banks and other FIs	6,254,842	9,928,352	19,721,259	21,101,747	24,267,009	28,149,731	33,216,682
Repurchase agreements	-	2,495,142	2,267,416	1,632,540	1,469,286	1,322,357	1,190,121
Deposits from customers	51,930,594	74,180,689	94,973,407	101,621,545	116,864,777	134,394,494	155,897,613
Other Borrowings	-	6,714,819	6,719,147	6,719,147	6,719,147	6,719,147	6,719,147
Other liabilities	1,183,866	2,000,110	2,369,934	1,658,954	1,891,207	2,118,152	2,287,604
Proposed dividend	778,656	912,487	1,806,724	2,560,887	3,011,016	3,314,093	3,617,279
Total Liabilities	**60,147,958**	**96,231,599**	**127,857,887**	**135,294,820**	**154,222,442**	**176,017,974**	**202,928,447**
Unrestricted investment accounts	3,836,397	5,183,192	9,279,230	13,176,507	16,865,928	21,082,411	26,353,013
Minority interest	-	505	-	-	-	-	-
Owner's Equity							
Paid-up equity capital	1,297,760	1,824,975	2,408,966	3,011,208	3,011,208	3,011,208	3,011,208
Statutory reserve	1,297,760	3,852,723	6,829,459	7,650,698	7,650,698	7,650,698	7,650,698
Other reserve	1,760,004	1,751,616	1,789,787	1,789,787	1,789,787	1,789,787	1,789,787
Risk reserve	444,072	783,072	1,410,000	1,728,186	2,055,443	2,384,660	2,767,249
Fair value reserve	1,099,895	2,346,658	(274,167)	777,951	1,150,239	1,671,442	2,053,275
Proposed bonus shares	324,440	364,995	602,242	-	-	-	-
Proposed transfer to statutory reserve	324,440	567,770	821,239	-	-	-	-
Retained earnings	1,130,306	1,453,562	1,248,974	1,352,477	2,283,986	3,652,245	5,777,736
Total Shareholder's Equity	**7,678,677**	**12,945,371**	**14,836,500**	**16,310,307**	**17,941,361**	**20,160,039**	**23,049,954**
Total Liabilities & Shareholders' Equity	**71,663,033**	**114,360,668**	**151,973,618**	**164,781,635**	**189,029,733**	**217,260,424**	**252,331,415**

OPERATING STATEMENT

	Qatar National Bank						
Amount in Qatari Riyal '000	**2006**	**2007**	**2008**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Interest Income	3,397,013	4,622,719	6,167,748	7,111,589	8,073,714	9,309,680	10,957,490
Interest Expense	(1,794,624)	(2,855,168)	(3,634,747)	(3,804,700)	(4,440,543)	(5,259,969)	(6,300,557)
Net interest income	**1,602,389**	**1,767,551**	**2,533,001**	**3,306,889**	**3,633,171**	**4,049,711**	**4,656,933**
Add: Income from Islamic financing and investing activities	277,834	417,586	685,294	808,700	956,063	1,178,347	1,366,883
Add : Fees and commission	453,273	726,300	975,907	1,044,220	1,211,296	1,429,329	1,686,608
Add : Net Gains from Dealing in Foreign Currencies	117,913	175,173	330,361	373,308	455,436	546,523	644,897
Add: Gain from Investments	334,503	374,470	569,286	126,254	349,627	536,095	694,555
Add: Share in Profit of Associates	-	122,895	200,299	229,258	278,729	319,271	335,235
Add : Dividend Income	86,717	122,048	137,524	175,715	115,733	186,144	260,602
Add : Other Operating Income	22,267	16,233	108,028	100,466	110,513	121,564	133,720
Total Operating Income	**2,894,896**	**3,722,256**	**5,539,700**	**6,164,809**	**7,110,567**	**8,366,984**	**9,779,433**
Less: Recoveries / (Provision) for Impairment of Loans & Advances	139,194	19,709	(247,612)	(348,851)	(251,595)	(175,110)	(160,810)
Add: Recovery of Provision/(Provision) for Properties Acquired against Settlement of Debts	5,271	-	-	-	-	-	-
Less: Other (Provisions) / Recoveries	8,360	(93)	(301)	-	-	-	-
Less: Net impairment losses of financial investments	(66,449)	(61,957)	(130,336)	(42,085)	(96,795)	(135,513)	(159,097)
Operating Income (net of provisions)	**2,981,272**	**3,679,915**	**5,161,451**	**5,773,874**	**6,762,177**	**8,056,360**	**9,459,526**
Less : Staff Expenses	(457,398)	(540,744)	(640,814)	(678,430)	(767,507)	(878,143)	(997,980)
Less: Other Expenses	(270,943)	(301,551)	(382,830)	(421,493)	(480,115)	(543,804)	(600,680)
Less: Depreciation	(53,025)	(57,293)	(102,727)	(110,055)	(116,011)	(127,612)	(140,373)
Less: Goodwill Impairment	-	(1,860)	-	-	-	-	-
Less: Unrestricted Investment Account Holders> Share of Profit	(193,476)	(253,009)	(362,773)	(494,119)	(716,802)	(927,626)	(1,159,533)
Profit Before Taxes	**2,006,430**	**2,525,458**	**3,672,307**	**4,069,777**	**4,681,742**	**5,579,175**	**6,560,961**
Less : Taxes	(8,567)	(19,339)	(19,762)	(30,523)	(35,113)	(41,844)	(49,207)
Net Profit	**1,997,863**	**2,506,119**	**3,652,545**	**4,039,254**	**4,646,629**	**5,537,331**	**6,511,754**
P&L Appropriation Account:							
Retained Earnings Broght Forward	*840,627*	*1,130,306*	*1,453,562*	*1,248,974*	*1,352,477*	*2,283,986*	*3,652,245*
Net Profit for the year	1,997,863	2,507,508	3,652,545	4,039,254	4,646,629	5,537,331	6,511,754
Proposed Dividend	(778,656)	(912,487)	(1,806,724)	(2,560,887)	(3,011,016)	(3,314,093)	(3,617,279)
Director Fees	(6,450)	-	-	(4,560)	(4,560)	(4,560)	(4,560)
Proposed Issue of Bonus Shares	(324,440)	(364,995)	(602,242)	-	-	-	-
Net Movement in Risk Reserve	(274,198)	(339,000)	(626,928)	(318,186)	(327,257)	(329,217)	(382,590)
Trfr to Statutory Reserve	(324,440)	(567,770)	(821,239)	-	-	-	-
Trfr (to)/from General Reserve							
Net Movement in Fair Value Reserve				(1,052,118)	(372,288)	(521,203)	(381,833)
Cl Balance of Retained Earnings	1,130,306	1,453,562	1,248,974	1,352,477	2,283,986	3,652,245	5,777,736

CASH FLOW STATEMENT

	Qatar National Bank						
Amount in Qatari Riyal '000	**2006**	**2007**	**2008**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Operating							
Operating Activities	1,584,463	2,122,457	3,305,459	4,535,684	5,106,470	5,971,006	6,967,474
Profit for the Year (Before Taxes)	2,006,430	2,525,458	3,672,307	4,069,777	4,681,742	5,579,175	6,560,961
Provision for impairment of loans and advances	(139,194)	(19,709)	247,612	348,851	251,595	175,110	160,810
Provision for Legal cases	794	3,954	9,315	-	-	-	-
Depreciation	53,025	57,293	102,727	110,055	116,011	127,612	140,373
Directors fees	-	-	-	(4,560)	(4,560)	(4,560)	(4,560)
Provision / (release) of provision for impairment of investments	66,449	61,957	130,336	42,085	96,795	135,513	159,097
Release of staff indemnity provision	(39,915)	(4,478)	(3,856)	-	-	-	-
Provision for property acquired against settlement of debts	(5,271)	-	-	-	-	-	-
Profit on sale of financial investments	(334,503)	(374,470)	(569,286)	-	-	-	-
Goodwill impairment	-	1,860	-	-	-	-	-
Amortisation of premium or discount on investments	3,389	4,242	22,979	-	-	-	-
(Profit)/loss on sales of fixed assets	(12,812)	(170)	(89,576)	-	-	-	-
Taxes Paid	(13,929)	(10,585)	(16,800)	(30,523)	(35,113)	(41,844)	(49,207)
Gain from investment in associates	-	(122,895)	(200,299)	-	-	-	-
Net Increase/Decrease in Operating Activities	**1,828,027**	**8,222,052**	**(5,483,229)**	**3,574,198**	**(1,399,486)**	**771,920**	**866,488**
Inc./(Dec.) in due to banks	3,656,134	3,673,510	9,792,907	1,380,488	3,165,262	3,882,721	5,066,952
Dec/(Inc.) in due from banks	(5,281,509)	(8,521,897)	(5,741,847)	(1,893,112)	(3,183,132)	(4,496,898)	(7,323,519)
Repurchase agreements	-	2,495,142	(227,726)	(634,876)	(163,254)	(146,929)	(132,236)
Inc. in customer deposits	19,083,898	22,250,095	20,792,718	6,648,138	15,243,232	17,529,717	21,503,119
Inc. in unrestricted investment accounts	-	1,346,795	4,096,038	3,897,277	3,689,422	4,216,482	5,270,603
Dec. / (Inc.) in loans and advances	(14,609,916)	(19,817,818)	(34,236,965)	(5,033,923)	(20,085,351)	(20,127,636)	(23,348,058)
(Inc.) / Dec. in other assets	(117,480)	(719,368)	(196,269)	(78,814)	(297,918)	(312,483)	(339,825)
Inc. / (Dec.) in other liabilities	(903,100)	800,774	233,587	(710,980)	232,254	226,945	169,452
(Inc.) / Dec. in other borrowings	-	6,714,819	4,328	-	-	-	-
Total Operating	3,412,490	10,344,509	(2,177,770)	8,109,882	3,706,985	6,742,926	7,833,961
Investing							
Purchase of investments	(5,573,810)	(6,583,801)	(7,299,111)	(4,371,517)	(2,427,964)	(2,233,727)	(2,293,293)
Sale / Redemption of investments	3,243,860	5,745,028	4,550,260	-	-	-	-
Sale / (Purchase) of Associates	-	(2,554,797)	(1,676,913)	(229,832)	(241,324)	(253,390)	(266,060)
Purchase of fixed assets and property	(123,643)	(114,190)	(344,372)	(178,588)	(155,371)	(145,013)	(159,515)
Sale of fixed assets and property	32,689	1,149	262,396	-	-	-	-
Total Investing	**(2,420,904)**	**(3,506,611)**	**(4,507,740)**	**(4,779,937)**	**(2,824,660)**	**(2,632,131)**	**(2,718,867)**
Financing							
Dividend paid to shareholders	(771,976)	(779,888)	(903,227)	(1,806,724)	(2,560,887)	(3,011,016)	(3,314,093)
Proceeds from Rights Issue	-	2,433,298	2,627,962	-	-	-	-
Minority interest	-	-	-	-	-	-	-
Total Financing	**(771,976)**	**1,653,410**	**1,724,735**	**(1,806,724)**	**(2,560,887)**	**(3,011,016)**	**(3,314,093)**
Net Change in Cash	219,610	8,491,308	(4,960,775)	1,523,221	(1,678,562)	1,099,780	1,801,001
Exchange rate differences	(144,719)	(23,957)	281,802	-	-	-	-
Net Cash at beginning	2,406,327	2,481,218	10,948,569	6,269,596	7,792,817	6,114,255	7,214,035
Net Cash at end	2,481,218	10,948,569	6,269,596	7,792,817	6,114,255	7,214,035	9,015,036

FACT SHEET

	Qatar National Bank						
	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)
Profitability							
- Return on Average Assets	3.3%	2.7%	2.7%	2.6%	2.6%	2.7%	2.8%
- Return on Average Equity	25.6%	24.3%	26.3%	25.9%	27.1%	29.1%	30.1%
- Net interest income/ Op. Income (net of provisions)	59%	49%	44%	51%	50%	48%	48%
- Non-interest income/ Op. Income (net of provisions)	32%	40%	42%	35%	36%	37%	38%
Margins							
- Interest Expense to Interest Income	54.1%	61.7%	58.3%	54.3%	57.1%	59.0%	60.5%
- Interest Income to Interest Earning Assets	6.8%	6.4%	6.0%	5.6%	5.7%	5.8%	5.9%
- Interest Expense to Interest Bearing Liabilities	3.9%	4.1%	3.7%	3.3%	3.5%	3.6%	3.7%
- Net Spread	2.9%	2.3%	2.3%	2.3%	2.2%	2.2%	2.2%
- Net Interest Margin	3.1%	2.4%	2.5%	2.6%	2.5%	2.4%	2.3%
Efficiency							
- Cost to Total Income	27.0%	24.2%	20.3%	19.6%	19.2%	18.5%	17.8%
- Cost to Op Income	26.2%	24.4%	21.8%	21.0%	20.2%	19.2%	18.4%
- Staff Expense to Total Op Income	15.3%	14.7%	12.4%	11.8%	11.4%	10.9%	10.6%
Liquidity							
- Loans to Interest Earning Assets	72%	71%	75%	72%	74%	76%	76%
- Loans to Customer Deposits	82.9%	83.2%	96.0%	91.2%	93.2%	93.0%	92.0%
- Customer Deposits to Equity	676%	573%	640%	623%	651%	667%	676%
- Due from Banks to Due to Banks	204%	215%	137%	137%	132%	130%	132%
Credit Quality							
- Non Performing Loans (QR '000)	553,000	451,100	731,500	845,699	1,006,382	1,196,588	1,438,824
- Loan Loss Reserve (QR '000)	475,036	408,318	624,961	973,812	1,225,407	1,400,518	1,561,327
- NPLs to Gross Loans	1.2%	0.7%	0.7%	0.80%	0.80%	0.82%	0.85%
- NPLs to (Equity+Loan loss reserve)	8%	4%	5%	6%	6%	6%	7%
- Loan Loss Reserve to Gross Loans	1.0%	0.6%	0.6%	0.9%	1.0%	1.0%	0.9%
- NPL Coverage	85.9%	90.5%	85.4%	115.1%	121.8%	117.0%	108.5%
Capital Adequacy							
- Equity to Total Assets	11%	11%	10%	10%	9%	9%	9%
- Equity to Gross Loans	16%	19%	15%	15%	14%	14%	14%
Constitution of Total Income							
- Interest Income to Total Op Income	67.9%	59.9%	57.6%	65.2%	64.1%	62.7%	62.0%
- Fees & Comm. to Total Op. Income	15.2%	19.7%	18.9%	18.1%	17.9%	17.7%	17.8%
- Investment Income to Total Op Income	12.2%	15.1%	15.0%	8.5%	9.6%	11.2%	12.0%
- FX Income to Total Op. Income	4.0%	4.8%	6.4%	6.5%	6.7%	6.8%	6.8%
- Other Income to Total Op. Income	0.7%	0.4%	2.1%	1.7%	1.6%	1.5%	1.4%
Operating Performance							
- Change in Interest Income	47%	9%	35%	27%	15%	16%	16%
- Change in Fees and Commission	17%	60%	34%	7%	16%	18%	18%
- Change in Investment Income	3%	18%	42%	-57%	54%	55%	32%
- Change in Fx Income	82%	49%	89%	13%	22%	20%	18%
- Change in Other Income	-6%	-27%	565%	-7%	10%	10%	10%
RATIO'S USED FOR VALUATION							
- EPS (QR)	15.4	13.7	15.2	13.4	15.4	18.4	21.6
- Book Value Per Share (QR)	59.2	70.9	61.6	54.2	59.6	67.0	76.5
- Market Price Year End (QR)	114.99	137.82	137.0	109.00	109.00	109.00	109.00
- P/E	7.5	10.0	9.0	8.1	7.1	5.9	5.0
- P/BV	1.9	1.9	2.2	2.0	1.8	1.6	1.4

** Market price for 2008 and subsequent years are as per closing price on DSM on May 12, 2009.*

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist				
Company	Recommendation	Ticker	Price	Disclosure
Qatar National Bank	Buy	QNBK.QA (Reuters) QNBK QD (Bloomberg)	QR109.0	1, 10

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