Banks
Qatar

HSBC Global Research

# Qatar National Bank and Commercial Bank of Qatar

Initiating coverage with Overweight

- **On our estimates, Qatar has strongest top-down dynamics in the Gulf region**
- **We prefer QNB to CBQ, since it offers more value and will be the main beneficiary of infrastructure spending**
- **Initiate coverage of Qatari National Bank (TP: QAR270) and Commercial Bank of Qatar (TP: QAR250) at Overweight**

## QNB ( QNBK.QA): Overweight

| | | |
|---|---|---|
| **Target price** | **(QAR)** | **270** |
| **Share price** | **(QAR)** | **199** |
| **Potential total return (%)** | | **35%** |

| | 2007 | 2008e | 2009e |
|---|---|---|---|
| HSBC EPS | 10.80 | 13.52 | 16.32 |
| HSBC PE | 18.4 | 14.7 | 12.2 |

Note: (V) = volatile (please see disclosure appendix)

## CBQ ( COMB.QA): Overweight

| | | |
|---|---|---|
| **Target price** | **(QAR)** | **250** |
| **Share price** | **(QAR)** | **189** |
| **Potential total return (%)** | | **30%** |

| | 2007 | 2008e | 2009e |
|---|---|---|---|
| HSBC EPS | 9.47 | 12.73 | 14.36 |
| HSBC PE | 21 | 14.8 | 13.1 |

Note: (V) = volatile (please see disclosure appendix)

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In our view, Qatar has the strongest top-down dynamics in the Gulf, with real average GDP growth of 11% (2007-11e) versus 6.5% for the rest of the region. We expect corporate loans in Qatar to grow by c31% over 2007-09e (the fastest rate in the Gulf) owing to planned government infrastructure spend, which could exceed USD100bn. Retail growth should decelerate to 27% (2007-09e). Qatar's relatively small population (fewer than a million people) means penetration is relatively high (23% in 2007).

We expect funding to tighten, with the loan/deposit ratio accelerating from 88% currently to 98% by 2011e. At 35%, Qatar has the largest percentage of government deposits in the Gulf, which we think should continue to support banks funding.

The concentration of the banking sector is high, with QNB alone accounting for c45% of loans and deposits in 2007 and the balance is even more skewed in the government business with QNB controlling 70% and 60% of government loans and deposits, respectively. This has given QNB a funding advantage, with a loan/deposit ratio of 88% in 2007 (CBQ: 97%). Both banks have made acquisitions in the region, with CBQ aggressively pursuing its strategy of having a presence across the whole of the Gulf region, while QNB is looking more selectively at the wider Middle-East area.

We view QNB is a pure play on the Qatari infrastructure story, while CBQ has an added dimension of acquisitive growth. Although CBQ has been growing faster, we prefer the cheaper and less-risky profile of QNB, which is also likely to be the main beneficiary of corporate loans and government deposits. We initiate coverage on both banks with Overweight and set target prices for QNB of QAR270 and for CBQ of QAR250.

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# Investment summary

Investment summary

**The fastest top-down dynamics in the gulf with real GDP growth of 11% (2007-2011e) versus 6.5% for rest of the gulf.**

## Balance Sheet

### Assets

- Corporate loan growth=31% (2007-09e) stemming from QAR 364bn infrastructure spend over the next five years
- Retail loan growth to decelerate to c27% (2007-09e) with penetration increasing (23% in 2007 and 27%2009) and potential of regulatory intervention.
- Corporate loan proportion to increase from 66%(2007) to 68% in 2011e

### Liabilities

- Deposit growth=23%,(2007-11e), driven by government deposits. Loans to deposits to accelerate from 88% (2007) to 98% (2011e)
- Foreign borrowing to close the funding gap c20% (2007-11e)

### Equity

- Margin attrition from falling rates and greater foreign borrowing to be offset by volume growth. Bottom-line growth of 25% (2007-09e)

**Equities in countries with an undervalued currency trade at a premium (eg: China)**

| P/E | 2008e | 2009e |
|---|---|---|
| **QNB** | 14.7x | 12.2x |
| **CBQ** | 14.8x | 13.1x |

## Two major players

- **QNB-** Government loans and deposits to drive balance sheet growth. Controls 45% of total loans, and 47% of total deposits in the system (2007)
- **CBQ**- More aggressive and focused on the SME segment. Controls 17% of total loans 15% of total deposits in the system (2007)

Source: HSBC estimates

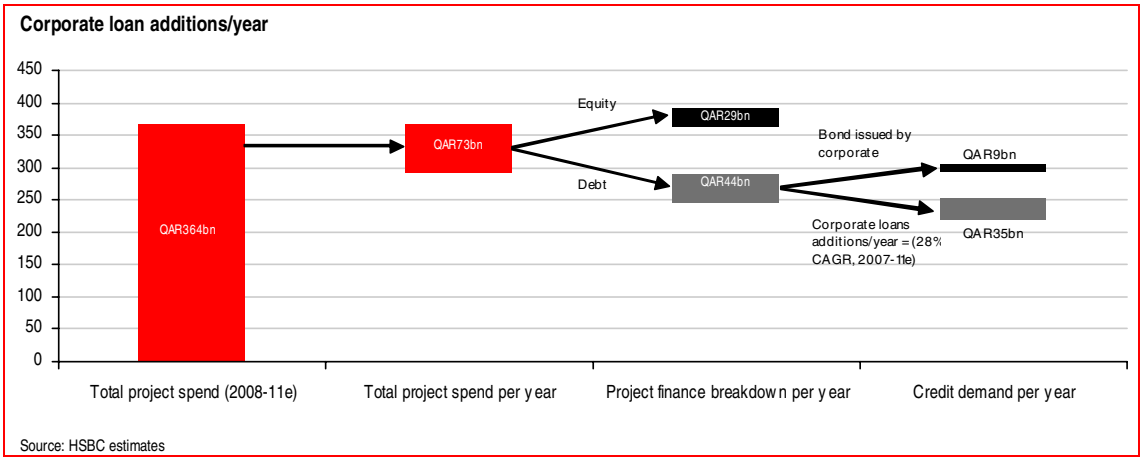
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# Strongest top-down dynamics in the Gulf

- Qatar's Infrastructure lending to be split between the two major players
- Qatari government's deposits (35% of the total – the highest in the Gulf) should continue to support funding
- Initiate coverage with Overweight ratings on QNB (target price of QAR270 implies 35% potential total return) and CBQ (target price of QAR250 implies 30% potential total return)

## Project finance lending should drive balance sheet growth

Qatar is the fastest-growing economy in the Gulf region, with average real GDP growth of 11% over 2007-11e versus 6.5% for the region as a whole (HSBC estimates). With 14% of the proven gas reserve (source: BP), the oil and gas sector remains the lifeline of the Qatari economy, representing around 60% of GDP, 85% of exports and 58% of government revenue. The large current account surplus (c20% in 2007-2010e, HSBC estimates) has allowed the Qatari government to embark on a major industrialisation programme, with planned infrastructure spending of USD100-140bn for 2007-2011. Taking a conservative view at USD100bn (QAR364bn), we estimate that project finance lending alone could translate into a c30% CAGR in corporate loans over 2007-11e (see chart).




Source: HSBC estimates

We expect Qatar National Bank (QNB) to be the major beneficiary of this spending, as it is the government's main banker (the government owns 50%). Although QNB has historically lost market share in the corporate segment (59% in 2004), we believe it should now stabilise as government spending accelerates. Government and government agencies made up 40% of its loan book in 2007.

Commercial Bank of Qatar (CBQ), a wholly-owned private bank, has less government exposure (government loans accounted for 13% of the total in 2007) and is more focused on the private sector, particularly the SME segment. Concentration in the corporate segment is extremely high, with QNB and CBQ together sharing more than 70% of the corporate market.

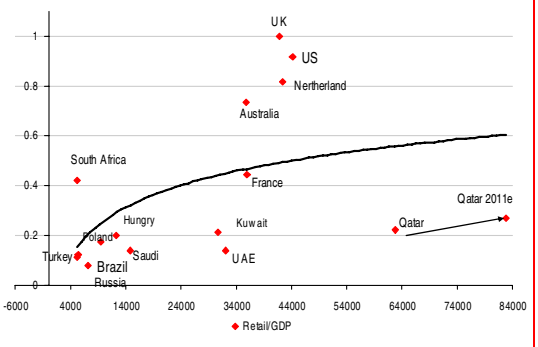
**Corporate market share (QAR m)**

| | 2005 | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|
| QNB | 24,815 | 35,911 | 50,290 | 67,967 | 84,929 |
| Share | 55% | 53% | 52% | 51% | 51% |
| CBQ | 7,127 | 12,250 | 18,566 | 26,191 | 33,413 |
| Share | 16% | 18% | 19% | 20% | 20% |
| Doha Bank | 3,774 | 6,591 | 9,948 | N/A | N/A |
| Share | 8% | 10% | 10% | | |
| Qatar Islamic Bank | 4,167 | 4,978 | 8,481 | N/A | N/A |
| Share | 9% | 7% | 9% | | |
| Penetration | 29% | 35% | 45% | 52% | 56% |

Source: HSBC estimates and company data

## Not a retail banking story

**Leveraged, but rich**

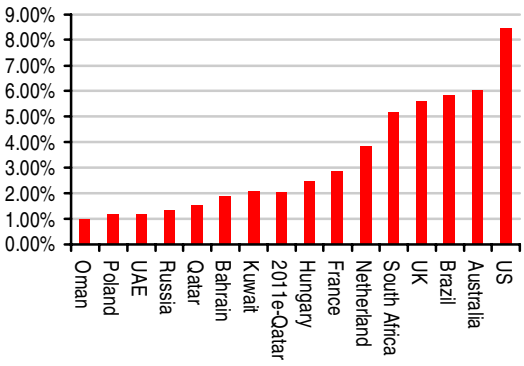



Source: HSBC estimates, 2006e

Qatar is not a large retail market, with a population of under a million (HSBC estimates), 40% of whom are un-bankable (forecast percentage of blue collar expatriate employees). Having said that, consumer loans have quadrupled over the last three years (QAR14bn in 2004 to QAR55bn in 2007e), boosted by strong demographics (5.6% population growth per annum over 2007-11e), wider availability of Islamic banking products and the wealth effect (average GDP per capita of USD60,000 in 2006). Overall retail penetration increased from 12% in 2004 to c25% in 2007e, mainly because of the greater availability of Islamic products. These adhere to Sharia law, which prohibits the collection of interest payments.

Given the recent strong growth in retail loans, we think a deceleration is inevitable. The inflationary pressure may also force the central bank to curb retail lending. As such, we forecast that retail loans will grow by a compound annual rate of c25% over 2007-11e, with penetration reaching 30% by 2011e. These forecasts include mortgages, the data for which are not available separately. The mortgage market in Qatar is still in its infancy, so has the potential to grow significantly.

**Debts serviced is supportive of our retail lending forecasts, 2006-2011e**




Source: HSBC estimates and central banks

Our outlook for retail lending is supported by a comparison of the levels of debt serviced by other countries. It shows that the level for Qatar is well

in line with other comparable countries (1.6% in 2006 increasing to 2.6% in 2011). This statistic compares the debt burden in those countries (interest rate*debt/head) to income (which we base on GDP/capita).

Although less so than for the corporate market, the retail segment is also dominated by QNB and CBQ. Together, they control c45% of the market (2007). As the incumbent, QNB's market share fell from the unsustainable level of 40% in 2004 to 32% in 2007e. However, by offering Islamic products through its affiliate, it gained back some lost ground in retail (126% growth in Islamic loans in 2007).

**Retail market share (QAR m)**

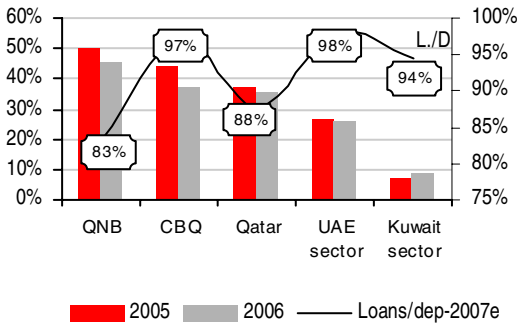
| | 2005 | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|
| QNB | 6,662 | 10,315 | 15,775 | 21,296 | 26,194 |
| Share | 27% | 29% | 32% | 32% | 33% |
| CBQ | 3,757 | 5,110 | 6,456 | 8,070 | 9,845 |
| Share | 15% | 15% | 13% | 12% | 12% |
| Doha Bank | 4,521 | 7,039 | 9,222 | | |
| Share | 18% | 20% | 19% | | |
| QIB | 1,805 | 2,178 | 3,198 | | |
| Share | 7% | 6% | 6% | | |
| Penetration | 16% | 18% | 23% | 26% | 27% |

Source: HSBC estimates and company data. Penetration=Retail loans/GDP

## Government deposits should continue to support funding

Government deposits have been the major source of funding for the Qatari banking sector. Over the last two years, government deposits in Qatar made up 35% of the total, compared with 25% in the UAE and 8% in Kuwait. We forecast greater deposit growth in Qatar, stemming from stronger monetary supply dynamics (M2 growth). For 2007-09e, we expect deposit growth of 23% for Qatar, and c18% for Kuwait and the UAE.

**Government deposits as a percentage of total deposits, and loans/deposits ratio**




Source: HSBC estimates and company data

In fact, rapid growth in government deposits is the reason QNB has so far not resorted to the euro medium-term note (EMTN) programme (83% loans/deposits in 2007). The strong links with the government ensure QNB captures most of these deposits. This was illustrated in Q4 2007, when QNB added QAR19bn of new deposits to its balance sheet, equal to the total increase in deposits in the system for the quarter.

CBQ, on the other hand, has a tighter funding position (97% loans/deposits in 2007). To support loan growth, it issued USD1.5bn of notes under the EMTN programme and consumed USD500m in October 2006, at competitive terms – LIBOR +40bp. Although we expect the cost of future funding to go up, it will be limited by Qatar's high credit rating. On 22 January 2008, Moody's updated its credit opinion on Qatari government bonds to Aa2.

**Deposit market share (QAR m)**

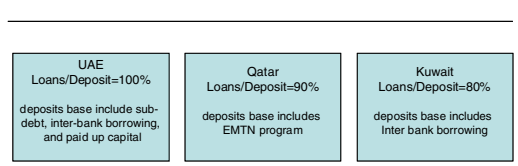
| | 2005 | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|
| QNB | 36,706 | 55,790 | 79,369 | 99,205 | 121,030 |
| Share | 43% | 46% | 47% | 47.1% | 47.9% |
| CBQ | 13,238 | 17,209 | 25,766 | 34,848 | 42,863 |
| Share | 16% | 14% | 15% | 17% | 17% |
| Doha Bank | 11,024 | 14,602 | 19,677 | | |
| Share | 13% | 12% | 12% | | |
| QIB | 6,866 | 8,786 | 12,201 | | |
| Share | 8% | 7% | 7% | | |
| Penetration (deposits/GDP) | 55% | 63% | 78% | 82% | 86% |

Note: deposits include unrestricted investment accounts.
Source: Company data and HSBC estimates

## A quick word on regulation

In a pegged currency regime environment such as the Gulf, quantitative restrictions on banks are major monetary tools for controlling inflation. Unlike Kuwait, the restrictions on banks lending in Qatar is less stringent. While the loan/deposit ratio is restricted to 90%, deposits include the banks' EMTN programme.

**Central bank restriction index**



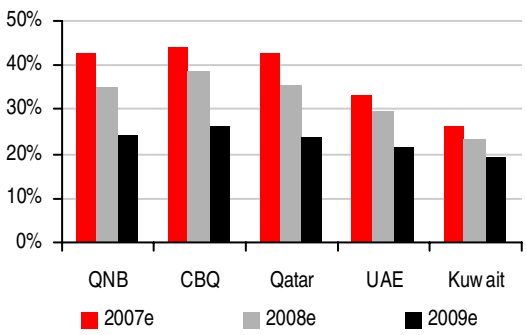

Source: Central banks

Moreover, owing to the strategic importance of the banking sector, rating agencies have stated that the likelihood of government support is high. An example of this was in 2000, when Ahli Bank (the fifth-largest Qatari bank) ran up losses of cUSD250m. The Qatari central bank (QCB) intervened by bringing in a new management team, supported the bank with financial guarantees and appointed a number of international consultants to assess the weaknesses of the business and to devise an action plan.

# Volumes to mitigate eroding margins

We expect the net interest margin for the sector to fall, but it should be more than offset by a potential increase in loan growth volumes (c35% in 2008e) – this is similar to the rest of the Gulf. The key difference is that Qatar looks likely to see more rapid volume growth. Loan growth in Qatar should be stronger owing to its more attractive top-down dynamics (Qatari GDP growth of 11% versus 6.5% for the rest of the Gulf for 2007-2011e). At the micro level, this is likely to be even more profound, because there is less competition in Qatar. We expect QNB to control 53% of corporate loans in 2008. This is in stark contrast to the large national banks' market share in the UAE and Kuwait (we expect a corporate market share of c12% for National Bank of Abu Dhabi and c34% for National Bank of Kuwait in 2008).

**Loan growth volumes compared**



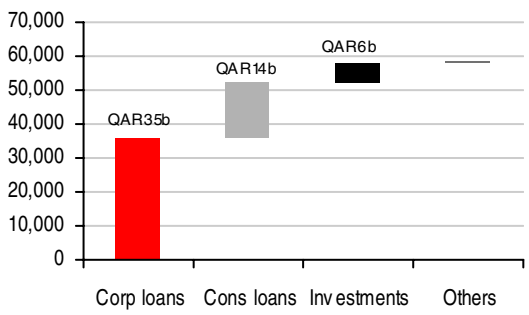

Source: HSBC and company financials

### Volume breakdown

While intuitively one would expect corporate banking to be the main story in Qatar (because of the fewer number of people who can apply for products), our analysis shows its contribution to banking earnings is at par with retail. What makes the corporate segment more attractive is that it is less crowded, with QNB and CBQ controlling 70% of this segment, while we forecast retail to have at least five major players. Despite corporate loans generating a lower spread (120bp vs 500bp

for consumers), the high absolute volume (QAR35bn new corporate loans versus QAR14bn new consumer loans) and the lower cost of risk and overheads would make it an equal contributor to total earnings. Breaking down the income generated in the sector from earnings assets, we forecast that corporate loans will contribute 33% and consumer loans 62% in 2008e. However, once we take into account the cost of risk (10bp for corporate and 100bp for consumer) and the costs required (cost/income of 20% for corporate, and 50% for consumer), the contributions from the two segments are likely to be equal.

**Earning asset addition 2008e**




Source: HSBC estimates

## Negative margin pressure

If we analyse the components of the margin drivers in Qatar we see that the improvement in asset mix (loans/total assets) should help alleviate the likely drop in margins from falling interest rates on free funds, the shift in funding profile to expensive borrowing, and greater corporate lending in the overall lending mix.

**Margin drivers**

| | 2007 QNB | 2007 COBK | 2008e QNB | 2008e COBK | Impact on margin |
|---|---|---|---|---|---|
| Loans/total assets | 58% | 55% | 63% | 58% | ↑ |
| Corporate loans/total loans | 76% | 74% | 76% | 77% | ↓ |
| Yield on free funds (NIM-margin) | 0.42% | 0.44% | 0.22% | 0.20% | ↓ |
| Foreign borrowing/total assets | 6% | 17% | 6% | 15% | - |
| NIM | 2.15% | 2.69% | 1.98% | 2.44% | |
| Change | | | -0.17% | -0.25% | ↓ |
| Spread | 1.73% | 2.25% | 1.75% | 2.24% | |
| Change | | | 0.03% | -0.01% | |

Source: Company data, HSBC estimates

Margin pressure is likely to be more profound for CBQ, because of its relatively tighter liquidity position (loans/deposits of 97% in 2007 versus 83% for QNB). The banks shifting their funding profiles from deposits (on which they generated a positive spread of c70bp over LIBOR in 2007 to the EMTN programme (where they pay out LIBOR+40bp) will lead to an increase in the overall cost of funds, in our view. QNB has a much more comfortable liquidity position and, as such, the effect of the shift towards borrowing is likely to be less severe. In fact, over the last few years QNB had no borrowing on its balance sheet (2003-06) and only in Q3 2007 did it borrow cQAR7bn (6% of its balance sheet), the primary purpose of which was to extend the maturity of its liabilities in anticipation of the long-term financing nature of its project finance business.

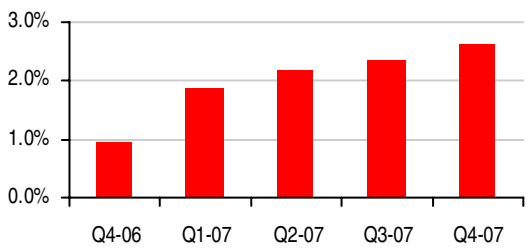
### Short-term effect of falling rates should be positive for loan spreads

The US Fed's 50bp cut in January, prompted all Gulf states to reduce their policy rates just days after they had been required to loosen monetary policy by up to 75bp after the Fed's emergency inter-meeting easing. Qatar cut its deposit rate, but kept its lending rate on hold, and later announced

that it was increasing its reserve requirement by 50bp to 3.75%.

- The increase in the reserve requirement is unlikely to have a major impact on financials, as banks already have significantly more cash with the central bank than required. At the end of 2007, QNB and CBQ already had, respectively, 14% and 9% of their deposit base lodged with the central bank, compared with the average for 2004-06 of c5.5%. The high liabilities (whether in the form of interbank liabilities or deposits) seem to have been a Gulf-wide phenomenon in 2007. Currency speculation, especially in the last quarter of 2007, abnormally pushed up deposit numbers; in response, the central bank increased the reserve requirement. Non-residents' deposits trebled in 2007, whereas residents' deposits increased by 38%.

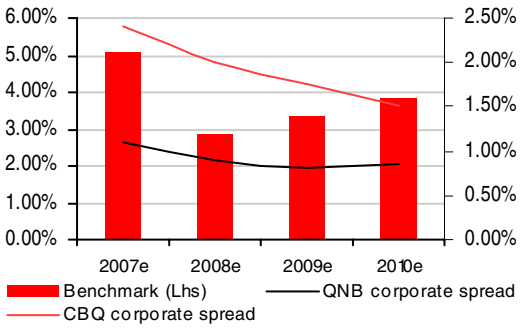
**Non-residents' share of total deposits jumped in 2007**




Source: Central bank

- Gulf banks are generally slow in passing the benefits of a fall in interest rates onto corporate and retail customers. This lag is likely to smooth the fall in corporate spreads from increased government business.

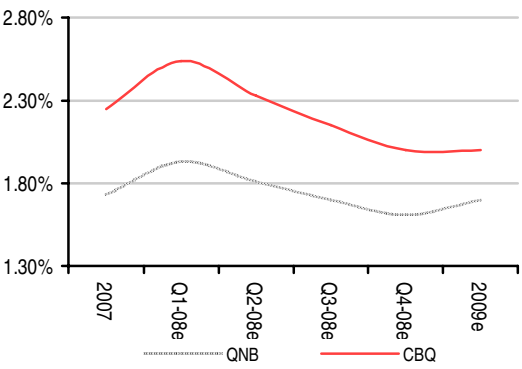
**Corporate spread for CBQ to improve as rate fall advantage is delayed to the customer**




Source: HSBC estimates

In fact, the first quarters of 2008 are likely to generate a bigger share of net interest income, as the downward re-pricing of the loan book will happen with a lag. Hence, there could be potential positive earnings surprises in early 2008 (consensus numbers in the Gulf are generally annualised).

**Positive earnings surprises may be present in early quarters**




Source: HSBC estimates

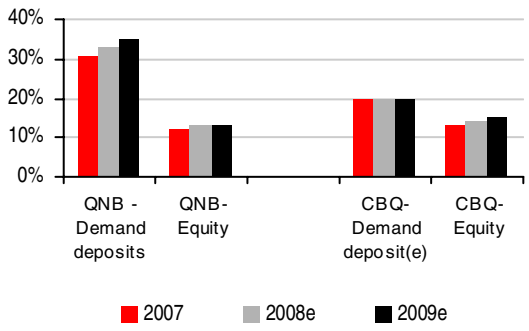
**Spreads on loans – CBQ higher, because of lower government exposure**

| | 2007e | 2008e | 2009e | 2010e |
|---|---|---|---|---|
| Spread on corporate | | | | |
| QNB | 1.10% | 0.90% | 0.80% | 0.85% |
| CBQ | 2.42% | 2.00% | 1.75% | 1.50% |
| Spread on retail | | | | |
| QNB | 5.50% | 5.00% | 4.75% | 4.50% |
| CBQ | 6.50% | 6.25% | 6.00% | 5.75% |

Source: HSBC estimates and company data

- However, the fall in interest rates will put pressure on free funds (equity +demand deposits), which will be re-priced downwards along with the benchmark rate. We forecast QNB's high level of demand deposits (31% in 2007), could result in a more pronounced decline in free funds (falling by 20bp in 2008e).

**Demand deposits and equity as a percentage of overall balance sheets**

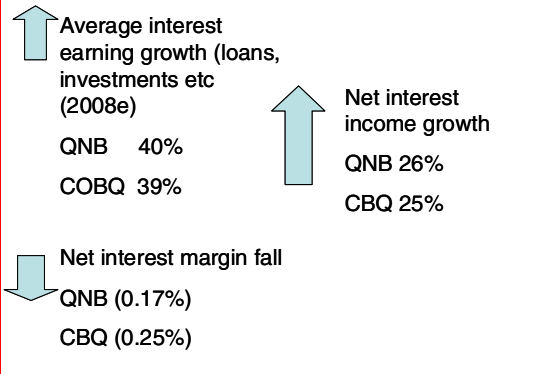



Source: Company data and HSBC estimates

## Strong loan volume of c30% in 2008-11e to offset declining margins

With corporate loan growth of c28% and consumer loan growth of c25%, we forecast CAGR in net interest income of c20% over 2008-11e.

**2008 interest income forecast**




Source: HSBC estimates

The c17bp fall in margins that we expect for QNB in 2008 is likely to limit net interest income growth somewhat. QNB's average increase in interest earning assets (IEA) in 2008e of 37% should translate into net interest income growth of c26%, on our estimates. By comparison, we forecast UAE's NBAD will see a c17% increase in IEA over 2008e, which will translate into a c15% increase in net interest income growth.

**Net interest income forecast**

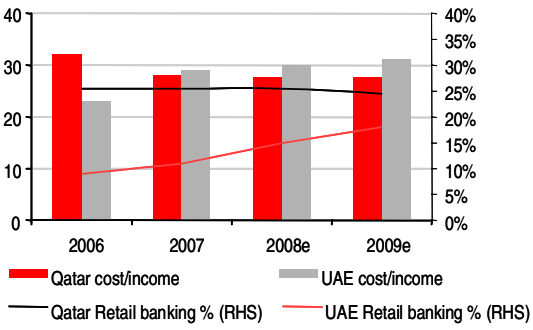
| QNB | 2007 | 2008e | 2009e | 2010e |
|---|---|---|---|---|
| NIM change | -0.68% | -0.17% | 0.03% | 0.06% |
| IEA growth | 56% | 25% | 20% | 18% |
| Net interest growth | 15% | 26% | 24% | 22% |
| | | | | |
| **CBQ** | | | | |
| NIM change | -0.22% | -0.25% | -0.12% | -0.01% |
| IEA growth | 45% | 32% | 25% | 17% |
| Net interest growth | 32% | 25% | 22% | 20% |

Source: Company data, HSBC estimates

## Limited branch rollout requirement should keep cost/income in check

Network expansion in the UAE is likely to put banks' cost/income ratios under pressure. Unlike the UAE, Qatari banks' ratio should fare better, given that we think they already have adequate network distribution and tend to focus more on the corporate segment.

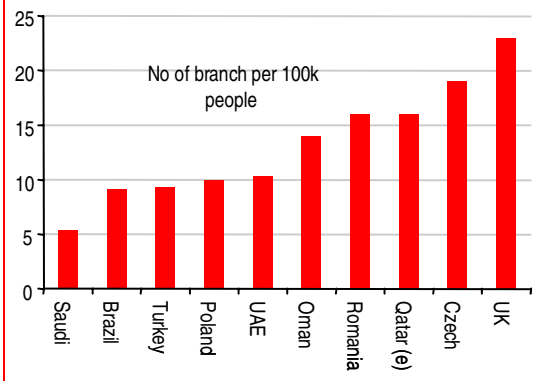
**Unlike the UAE, cost/income should be stable, as retail loans/total loans should be limited**




Source: Company financials and HSBC estimates

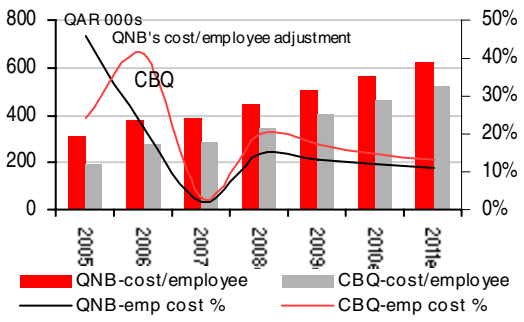
This view is supported by the already high number of branches in Qatar –15 branches per 100,000 people, higher than most of the other Gulf states (five branches in Saudi and 10 in the UAE.)

**Qatari banks do not require massive investment in their branch network**




Source: Central banks and HSBC estimates

**We expect CBQ cost/employee to grow faster to close the current gap between the two banks cost/employee**




Source: Company data, HSBC estimates

Having said that, high inflation (c10%, 2007-11e) will, nonetheless, put pressure on operating expenses. In fact, in anticipation of a housing shortage, CBQ has purchased a housing complex for its junior staff, and plans to buy another one for its senior employees.

In response to rising inflation, both CBQ and QNB have made significant salary adjustments over the last two years (CBQ's cost per employee increased 41%in 2006 and QNB's by 46% in 2005e (QNB stopped reporting staffing figures in 2005 and we have estimated the consolidation effect of Ansbacher in 2004 on QNB). According to our estimates, QNB's costs per employee are significantly higher than those of CBQ and are likely to remain so, because of the inflexible labour market in Qatar (employees are not allowed to change jobs in Qatar without the prior approval of the employer). However, we expect CBQ's costs to rise more rapidly, which should narrow the current gap between the two banks' costs per employee.

## Excess capital justifies acquisition ambitions

Given the small size of the Qatari market, CBQ and QNB are looking outside the country to diversify their businesses (company statements). This, coupled with the rapid growth in the domestic economy, is forcing the two banks to raise capital.

**CBQ efficiently managed capital in 2007**

**CBQ's capital (QAR m)**

| | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|
| Tier 1 capital | 4,466 | 5,132 | 7,205 | 9,571 |
| RWA | 30,454 | 46,948 | 57,775 | 68,348 |
| Tier 1 ratio | 14.66% | 10.93% | 12.47% | 14.00% |
| Excess capital | 1,420 | 438 | 1,427 | 2,736 |

Note: excess capital assumes an effective Tier 1 of 10%.
Source: Company data, HSBC estimates

CBQ is one of the few banks in the Gulf which managed to keep excess capital down in 2007 through making selective acquisitions. However, its planned capital increases in 2008 (10% of paid-up capital) and 2009 (a further 10%) will inflate capital and dilute return on equity, we believe (ROE would jump to 34% based on an efficient capital base versus the current actual 24% in 2007). CBQ has so far acquired a 35% stake in National Bank of Oman (in 2005) and, in 2007, followed it up with a 35% stake in United Arab Bank in the UAE.

The National Bank of Oman shares were bought at attractive multiples – c1.96x book, with an average ROE of 20% (average for 2006 and 2007). We view this deal as value-accretive. The acquisition of United Arab Bank was more expensive, at 3.8x book; in our view, the current ROE does not justify the acquisition price (ROE of 5% versus 9.5% cost of capital), although CBQ views this as a cost effective way of entering the UAE. CBQ believes it will be able to improve United Arab Bank's performance by doubling its current branch network and by increasing its offering of retail products. Currently, United Arab Bank has nine branches and controls fewer than 1% of loans and deposits

**Acquisition trail CBQ**

| | P/B (e) | ROE | ROI (e) | Stake | Date | Price (QAR bn) |
|---|---|---|---|---|---|---|
| National Bank of Oman | 1.96 | 20% | 10% | 35% | 2005 | 1,203 |
| United Arab Bank | 3.85 | 19% | 5% | 35% | 2007 | 1,900 |

Source: HSBC estimates and company data

### QNB excess capital on the rise

**QNB capital (QARm)**

| | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|
| Tier 1 capital | 6,135 | 9,816 | 14,655 | 17,422 |
| RWA | 42,188 | 71,596 | 99,152 | 124,581 |
| Tier 1 ratio | 14.54% | 13.71% | 14.78% | 13.98% |
| Excess capital | 1,916 | 2,656 | 4,739 | 4,963 |

Note: Excess capital assumes an effective Tier 1 of 10%.
Source: HSBC estimates

QNB's excess capital increased in 2007, despite the acquisition of Housing Bank for Trade and Finance (HBTF) in Jordon. The increase in capital (12.5% rights issue of paid-up capital) more than offset the increase in risk-weighted asset growth. Another 10% increase in capital has been approved this year, which we think will dilute ROE further (ROE would jump to 38% based on an efficient capital base versus the current actual 23% in 2007).

**Acquisition trail QNB**

| | P/B (e) | ROE | ROI (e) | Stake | Date | Price (QAR bn) |
|---|---|---|---|---|---|---|
| Housing Bank (Jordon) | 1.90 | 14% | 7% | 31% | 2007 | 2.55 |
| Mansour Bank (Iraq) | N/A | N.A | N.A | 23% | 2005 | 0.49 |
| Ansbacher | N/A | N/A | N/A | 100% | 2004 | N/A |

Source: Company data

Excluding Ansbacher (a London-based private bank, with offices in Switzerland, the Channel Islands, Dubai and Qatar), most of QNB's acquisitions so far have tapped into relatively under-penetrated markets with significant growth potential. We view the HBTF deal as value-accretive (ROE of 14% in 2008e versus the acquisition multiple of 1.9x book) and forecast income from associates from HBTF to grow at 25% (2007-11e). Before the HBTF acquisition, QNB acquired a 25% stake in a small, start-up bank in Iraq (Mansour bank). It has also signed an agreement to establish a new bank in Syria, in which it will own 49%. It is not yet known when it will be established and the investment is likely to be small (the new bank is expected by the local press to have capital of USD100m).

## Sector risks and the impact of a currency revaluation

- In terms of currency revaluation, QNB was long the dollar at the end of 2007. Should the Qatari riyal be revalued by 5%, QNB stands to lose 5% of 2008e earnings, on our estimates. CBQ, on the other hand, had a short dollar position and so 2008e earnings stand to be boosted by 10% in the event of a 5% revaluation of the Qatari riyal.

**Impact of a 5% revaluation of the Qatari riyal**

| Long dollar position (QARm) | 2006 | 2007 | Impact on earnings (5%) | % of earnings 2008e |
|---|---|---|---|---|
| QNB | 10,160 | 3,309 | -165 | -5.3% |
| CBQ | 2,336 | -3,402 | 170 | 9.0% |

Source: Company data, HSBC estimates

- An increase in quantitative restrictions on banks by the central bank could lead to slower volumes and/or a higher cost of funding, which would affect income and hence earnings.
- Although none of the banks has disclosed any CDO (collateralised debt obligations) in their investment portfolio, they may incur losses.

## Valuation

We have valued the Qatari banks using a residual income valuation methodology, whereby the intrinsic value of the bank is the sum of its current NAV and the present value of the future residual income, ie, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period; the second (maturity stage) assumes a constant growth rate in net profit and the final (declining stage) assumes a convergence of returns to the cost of equity. Regarding the cost of equity (9.5%), we have used the CAPM (capital asset pricing model) model, whereby the cost of equity is equal to the risk-free rate (4%) and an equity risk premium of 5.5%.

**QNB valuation methodology**

| QARm | 2007 | 2008e | 2009e | 2010e | 2011e | 2012e |
|---|---|---|---|---|---|---|
| Net profit | 2,508 | 3,139 | 3,790 | 4,409 | 5,070 | 5,887 |
| NAV | 13,858 | 18,712 | 21,874 | 25,905 | 30,534 | 35,914 |
| ROE | 30% | 23% | 20% | 20% | 20% | 19% |
| CoE | 9.5% | | | | | |
| PV of residual income | | 1,685 | 1,699 | 1,798 | 1,837 | 1,920 |
| | Growth | Payout | Value | | | |
| Maturity phase (2012e-26e) | 9% | 55% | 24,710 | | | |
| Decline phase (2027e-35e) | | 55% | 7,510 | | | |
| Intrinsic value | 56,778 | | | | | |
| No. of shares* | 232 | | | | | |
| Value per share | 244 | | | | | |
| **12M target price (QAR)** | **270** | | | | | |
| Potential total return | **35%** | | | | | |
| Current P/E | 18.4 | 14.7 | 12.2 | 10.5 | 9.1 | 7.8 |
| Implied P/E (intrinsic value) | 22.6 | 18.1 | 15.0 | 12.9 | 11.2 | 9.6 |
| Current P/B | 3.3 | 2.5 | 2.1 | 1.8 | 1.5 | 1.3 |
| Implied P/B (intrinsic value) | 4.1 | 3.0 | 2.6 | 2.2 | 1.9 | 1.6 |

* No of shares adjusted for rights issue, See company section for methodology
Source: Company data, HSBC estimates.

**CBQ valuation methodology**

| QARm | 2007 | 2008e | 2009e | 2010e | 2011e | 2012e |
|---|---|---|---|---|---|---|
| Net profit | 1,391 | 1,870 | 2,217 | 2,566 | 2,933 | 3,348 |
| NAV | 6,228 | 8,812 | 11,497 | 12,955 | 14,862 | 17,036 |
| ROE | 25% | 30% | 25% | 22% | 23% | 23% |
| CoE | 10% | | | | | |
| Residual income | | 1,182 | 1,165 | 1,137 | 1,199 | 1,245 |
| | Growth | Payout | Value | | | |
| Maturity phase (2012-26e) | 9.5% | 60% | 16,640 | | | |
| Decline phase (2027-35e) | | 60% | 4,896 | | | |
| Intrinsic value | 34,825 | | | | | |
| No. of shares* | 154 | | | | | |
| Value per share | 225.6 | | | | | |
| **12M target price (QAR)** | **250** | | | | | |
| **Potential total return** | **30%** | | | | | |
| Current P/E | 21.0 | 14.8 | 13.1 | 11.4 | 9.9 | 8.7 |
| Implied P/E (intrinsic value) | 25.0 | 17.7 | 15.7 | 13.6 | 11.9 | 10.4 |
| Current P/B | 4.7 | 3.1 | 2.5 | 2.2 | 2.0 | 1.7 |
| Implied P/B (intrinsic value) | 5.6 | 3.8 | 3.0 | 2.7 | 2.3 | 2.0 |

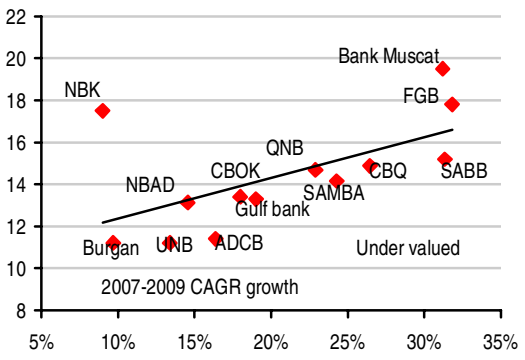
* No of shares adjusted for rights issue ,See company section for methodology
Source: Company data, HSBC estimates

We have adjusted for the rights issue of QNB and CBQ by calculating the amount of capital raised at the current market price. This adjustment to the current number of shares ensures the target price is comparable with the current share price.

## Relative valuation is supportive of our rating

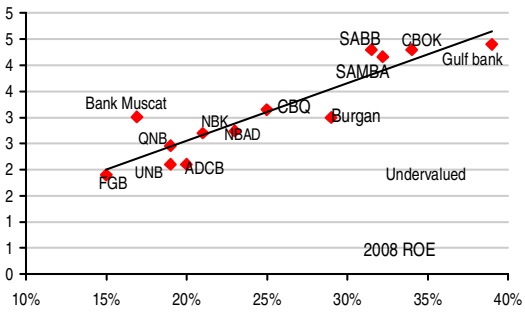
Although Qatari banks may appear expensive on a static P/E basis, we feel the multiples are justified by their higher earnings growth potential over 2007-09e. This, coupled with potentially lower interest rates across the region (we have conservatively assumed a risk-free rate of 4%), may result in equities across the Gulf looking a lot cheaper.

**2008e P/E versus 2007-09e CAGR growth**




Source: HSBC estimates and company financials. SABB, SAMBA, Bank Muscat use consensus numbers

**2008e P/B versus ROE**




Source: Source: HSBC estimates and company financials. SABB, SAMBA, Bank Muscat use consensus numbers

**Valuation table**

| Name | Ticker | Rating | TP (Local Currency) | Current price | Potential Upside (%) |
|---|---|---|---|---|---|
| Qatar National Bank | QNBK.QA | OW | QAR 270 | 199 | 35% |
| Commercial Bank of Qatar | COMB.QA | OW | QAR 250 | 189 | 30% |
| National Bank of Kuwait | NBKK.KW | Neutral | KD 2.51 | 2.11 | 19% |
| Commercial bank of Kuwait | CBKK.KW | OW | KD 2.13 | 1.66 | 28% |
| Burgan Bank | burg.kw | OW (V) | KD 1.72 | 1.2 | 43% |
| Gulf bank | gbkk.kw | OW | KD 2.52 | 1.9 | 33% |
| National Bank of Abu Dhabi | NBAD.AD | Neutral (V) | AED 26 | 23 | 13% |
| Abu Dhabi Commercial Bank | ADCB.AD | OW | AED 8.4 | 6.58 | 28% |
| First Gulf bank | FGB.AD | OW | AED 26.2 | 23 | 14% |
| Union National Bank | UNB.AD | OW (V) | AED 12.8 | 9.62 | 33% |

Source: Reuters and HSBC estimates

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## Qatari Economy

There are few economic stories anywhere in the world that compare with that of Qatar. On an annual average basis, the economy has expanded at just under 20% a year for 13 consecutive years – a rate of growth we expect to be maintained in the years ahead. By 2010, we estimate that the economy will be 12 times larger than it was just 15 years before. Per capita income this year will stand at roughly USD75,000 – double that of the neighbouring UAE and Kuwait. The figure is four times larger than that recorded in 1998 and establishes Qatar as not just one of the fastest growing economies in the world, but also one of the wealthiest.

The key to this transformation is the strategic decision taken in the mid-1990s to develop Qatar's vast gas reserves. For a generation before, the Qatari economy had developed around its oil industry. The oil sector produces roughly 800,000b/d – a comfortable level of output for a modest population, but one which nevertheless makes Qatar the smallest oil producer within OPEC controlling 1.3% of the world's proven oil reserves. Qatar's gas reserves are far more significant, equating to 15% of the world's proven total - only Russia and Iran have larger gas reserves under their control.

The development of these gas resources has been highly capital intensive and Qatar borrowed heavily to finance the development. It invested at a time when the market for gas exports was in its infancy, and global energy prices were far lower than they are today. The risks policy makers took on, however, have proved to be extremely well judged, with new gas-based export capabilities coming on stream just as international oil and gas prices began to soar.

Liquefied Natural Gas (LNG) is the centre piece of the downstream energy programme. Last year, Qatar established itself as the world's pivotal LNG supplier, but output is still maturing and should grow at roughly 30% a year over 2008-10. As well as exporting gas in liquefied form, Qatar is also supplying natural gas around the Gulf through the newly built Dolphin gas-pipeline. Alongside the export of natural gas, Qatar is also investing heavily in the development of a gas-fired industrial base to leverage more fully the comparative advantage that accrues with its control of vast gas resources. This has seen a rapid build up in a broad range of industrial sectors, notably petrochemicals.

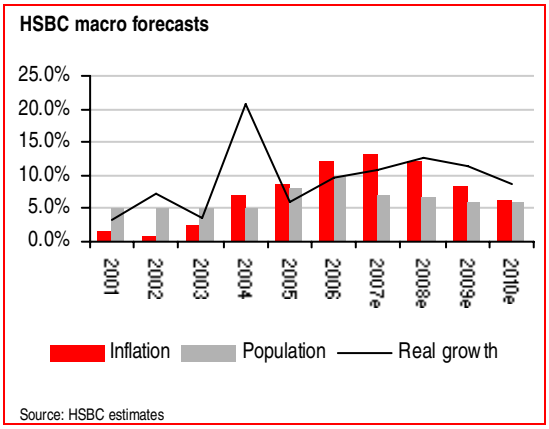
The rapid growth in Qatar's export base and investment in its vast energy resources has had a direct feed through into domestic demand. Investment in infrastructure has been immense as the emirate's entire economic framework has been upgraded to cope with rapidly rising demand, and to adjust to increasing levels of wealth. The process is underway, but has a long way to run and includes heavy spending on commercial and residential real estate, power and water generation capacity, airport, road and port capabilities. This capital spending has been stimulative, providing a highly supportive environment for the broader non-oil sector. Employment growth has also been strong, drawing in a large number of expatriates as well as pushing local labour force participation rates. Supported by newly available consumer credit, this has led to strong growth in private consumption – a trend we expect to see continue over the years ahead as the economy steadily adjusts to the new levels of wealth it enjoys.

The transformation of the Qatari economy has been coupled with increasingly robust fundamentals. Despite strong growth in recurrent and investment spending, public finances have generated substantial surpluses every year since 2000, and we expect to see no deficits over the remainder of this decade. The trade and current accounts have also recorded large surpluses as

growth in export revenue has more than offset large increases in import spending. We expect the value of these surpluses to increase significantly in the years ahead, as the spending intensive phase of the industrialisation push subsides, and revenues continue to strengthen. The surpluses will support continued growth in the funds controlled by the Qatar Investment Authority, which has already established itself as one of the region's most ambitious sovereign wealth funds.

There are risks to the outlook. As a particularly energy-intensive Gulf economy, Qatar is heavily exposed to shifts in historically volatile international oil prices. Weaker prices would undermine the outlook for public finances and Qatar's external accounts, and would also dampen yields on the state's industrial projects. However, it would take a dramatic and sustained drop in oil prices before the underlying real growth story was threatened. Brent could, for example, fall to USD50/b this year, and the state would still generate public finance and current account surpluses. Rather than growth slowing, the greater risk is, perhaps, that it could accelerate too fast. Inflation has run at double digit rates over the past three years as rapid economic growth has exposed capacity constraints within the domestic economy. With fiscal policy expansive, and monetary policy tied to the US by the maintenance of the dollar-peg, the state's capacity to calibrate demand growth is limited and that carries with it the risk of still higher consumer price inflation.

Although those risks are real, we remain bullish on the outlook for the Qatari economy. The growth story has been extraordinary and a positive combination of well-directed capital spending, strong energy prices and effective policymaking should ensure that the momentum the economy has built persists over the medium term. Price growth is a concern, and could yet prompt Qatar to adjust its currency regime. However, we do not view accelerating inflation as a threat to fundamental stability which will continue to be supported by strong public finances, large external account surpluses and rapidly growing stock of reserve assets. (*Contribution by Simon Williams, Gulf economist.*)



HSBC

# Qatar National Bank

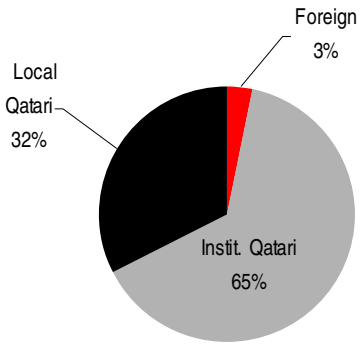
- A pure play on the Qatari infrastructure story – it controls 70% of government loans and 60% of government deposits
- We prefer the less-risky profile of QNB, the likely main beneficiary of corporate loans and government deposits
- We initiate coverage with an Overweight rating and a target price of QAR270, which implies 35% potential total return

## The government's banker

Established in 1964 as Qatar's first commercial bank, QNB is by far the largest bank, with 52 branches in Qatar (including 10 Islamic banking branches, which operate under the banner of QNB Al Islami).It controlled 45% loans and 47% of deposits in the market in 2007. The bank's international division manages branches in London, Paris, Oman, Kuwait and has representative offices in Iran, Singapore and Libya. The government has a 50% stake and foreign investors are allowed up to a 25% stake.

Despite QNB's ambition to diversify away from the relatively small Qatar economy, its domestic operations will continue to be the company's main focus. We forecast that the income from its subsidiaries should, on average, contribute 6% to the bottom line over 2007-11e. Its associate, the Housing Bank for Trade and Finance (HBTF), initially started out as a mortgage provider, but began offering full banking services in 1997. It has the largest branch network in Jordan, and controlled c14% of total loans and c17% of total deposits in 2006.

**Ownership breakdown for QNB**




Source: Doha securities market. As at February 2008

We forecast a CAGR of 21% for loans and of 20% for deposits in 2007-12e. This should translate into NII growth of 22% and growth in fees of 16% (2007-12e ). We expect cost to income to hover around c27%, with the bottom line growing at 19% over the same period.

## Risks to our view

In addition to our sector risks (see page 12), we see the following company-specific risks: a fall in QNB's share of government business would materially affect our earnings forecasts, while a lower-than-forecast yield on corporate business growth may materially affect our earnings estimates.

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## Valuation

We are setting a target price of QAR270 for QNB. We have adjusted for the rights issue by assuming the planned capital increase happens at the current market price. This adjustment to the current number of shares ensures that the target price is comparable with the current share price (we forecast QAR2.6bn will be raised in 2008e based on the current closing price). Our target price implies a potential total return of 35% and we initiate coverage with an Overweight rating.

HSBC

# Commercial Bank of Qatar

- CBQ has an added dimension of acquisitive growth
- It is well-placed in the SME segment
- We initiate with an Overweight rating and a target price of QAR250 (implying 30% potential total return)

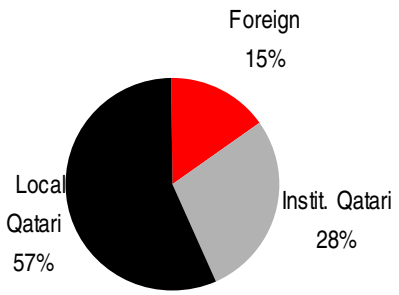
## Growth to accelerate from current acquisitions

The Commercial Bank of Qatar was established in 1975 as the first wholly-owned private commercial bank in Qatar. It has been profitable every year since its foundation and has a policy of paying regular annual dividends. In fact, in 2006 (during the turbulence of the equity market in the Gulf) it paid dividends in excess of the year's earnings (114% payout ratio). Management is rated highly with international investors and the CEO and deputy CEO have been with the bank for 15+ years. Although it has only a small network of 23 branches, it controls 17% of the market's loans and 15% of its deposits. No shareholder is allowed to hold more than 5% of the bank's share capital. Although exact shareholdings are not publicly available, the major shareholders include the Al Fardan family and members of the royal family.

National Bank of Oman, which CBQ acquired in 2005, is a restructuring story. National Bank of Oman's management expects its bottom line to grow at c40% over the next three years (2008-2010e). We have conservatively assumed the associated income from National Bank of Oman will grow at c20% (2008-2012e).

CBQ has a clear acquisition strategy. It is looking for a private bank in the Gulf with a turnaround strategy. CBQ is looking for an equity stake of only 30-49%, exerting control through a management contract. This strategy of controlling the acquired company through a management agreement as opposed to acquiring a majority stake minimises the payment of a control premium in the acquisition price and, at the same time, could appeal to the acquired bank as it would maintain its brand identity. If CBQ manages to increase the number of regional banks currently in its portfolio, then it could lead the consolidation that is starting throughout the Gulf.

**Ownership breakdown CBQ**




Source: Doha securities market. As at February 2008

We forecast a CAGR of 23% for loans and of 21% for deposits for 2007-12e. We expect this to translate into NII growth of 20% and an increase in fees of 19% (CAGR 2007-12e). Cost to income should hover around c28%, with the bottom line growing by 19% over the same period.

## Risks to our view

In addition to the sector risks that we set out earlier (see page 12), we see the following specific risks for CBQ: with significant capital being raised in the next year (2008 and 2009), overpaying for an acquisition could destroy value and hence affect our rating. Additionally, lower-than-forecast growth in deposits may materially affect our earnings estimates.

## Valuation

We initiate coverage of CBQ with a target price of QAR250, which implies 30% potential total return. We have adjusted for the rights issue by assuming the planned capital increase happens at the current market price. This adjustment to the current number of shares ensures the target price is comparable with the current share price (we forecast QAR1.3bn will be raised in 2008e and QAR1.4bn in 2009e at the current closing price).

HSBC

**Qatar National Bank's balance sheet , QAR m**

| | 2006 | 2007 | 2008e | 2009e | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | Y-o-y growth | | |
| Cash and central bank | 2,481 | 10,949 | 4,929 | 6,013 | 3% | 341% | -55% | 22% |
| Interbank | 12,781 | 21,303 | 29,063 | 30,404 | 70% | 67% | 36% | 5% |
| Customers loans, net | 46,227 | 66,064 | 89,263 | 111,123 | 47% | 43% | 35% | 24% |
| Securities | 8,878 | 11,309 | 13,571 | 16,285 | 17% | 27% | 20% | 20% |
| Investments in associates | 33 | 2,704 | 2,900 | 3,136 | | | | |
| Tangible assets | 589 | 651 | 684 | 718 | 26% | 11% | 5% | 5% |
| Other assets: | 675 | 1,381 | 1,717 | 2,050 | | | | |
| **TOTAL ASSETS** | **71,663** | **114,361** | **142,127** | **169,730** | 43% | 60% | 24% | 19% |
| **Liabilities** | | | | | | | | |
| Interbank | 6,255 | 12,423 | 13,666 | 14,349 | 141% | 99% | 10% | 5% |
| Customer deposits | 55,767 | 79,364 | 99,205 | 121,030 | 52% | 42% | 25% | 22% |
| Debt securities | 0 | 6,715 | 8,058 | 9,508 | - | - | 20% | 18% |
| Other liabilities | 1,184 | 2,000 | 2,486 | 2,968 | | | | |
| Minorities | 0 | 1 | 0 | 0 | | | | |
| Equity | 8,457 | 13,858 | 18,712 | 21,874 | -3% | 64% | 35% | 17% |
| Share capital | 1,298 | 1,825 | 2,409 | 2,409 | | | | |
| Reserves & share premium | 3,081 | 6,172 | 8,627 | 8,307 | | | | |
| Retained earnings | 1,130 | 1,454 | 3,680 | 6,842 | | | | |
| **TOTAL LIABILITIES & EQUITY** | **71,663** | **114,361** | **142,127** | **169,730** | 43% | 60% | 24% | 19% |

Source: Company data and HSBC estimates

**Qatar National Bank's profit and loss statement (QARm)**

| | 2006 | 2007 | 2008e | 2009e | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Y-o-y growth | | |
| Interest income | 3,675 | 5,040 | 4,653 | 6,474 | 68% | 37% | -8% | 39% |
| Interest expense | (1,988) | (3,108) | (2,219) | (3,463) | 124% | 56% | -29% | 56% |
| Net interest income | 1,687 | 1,932 | 2,434 | 3,011 | 30% | 15% | 26% | 24% |
| | | | | | | | | |
| Fee income, net | 453 | 726 | 938 | 1,102 | 17% | 60% | 29% | 18% |
| Trading income | 539 | 672 | 767 | 870 | 14% | 25% | 14% | 13% |
| Other operating income | -44 | -48 | -38 | 20 | 481% | 8% | -20% | -152% |
| Total non-interest income | 948 | 1,350 | 1,667 | 1,991 | 11% | 42% | 23% | 19% |
| | | | | | | | | |
| Total income | 2,635 | 3,283 | 4,101 | 5,002 | 22% | 25% | 25% | 22% |
| | | | | | | | | |
| Staff costs | (457) | (541) | (687) | (829) | 19% | 18% | 27% | 21% |
| General costs & other | (271) | (302) | (362) | (423) | 8% | 11% | 20% | 17% |
| Depreciation | (53) | (57) | (66) | (76) | -5% | 8% | 15% | 15% |
| **Total costs** | (781) | (900) | (1,115) | (1,328) | 13% | 15% | 24% | 19% |
| **Operating profit** | 1,854 | 2,383 | 2,986 | 3,674 | 27% | 29% | 25% | 23% |
| | | | | | | | | |
| Provision charge | 153 | 20 | (67) | (148) | 96% | -87% | 441% | 122% |
| Provisioning for credit risk/avg. gross loans | -0.39% | -0.03% | 0.09% | 0.15% | | | | |
| **Pre-tax profit** | 2,006 | 2,403 | 2,919 | 3,525 | 30% | 20% | 21% | 21% |
| Income tax (overseas branch)/writeback | (9) | (19) | 23 | 28 | | | | |
| **Profit before minorities** | 1,998 | 2,506 | 3,139 | 3,790 | 30% | 25% | 25% | 21% |
| Minority interest | - | (1) | - | - | | | | |
| **Net profit** | 1,998 | 2,508 | 3,139 | 3,790 | 30% | 26% | 25% | 21% |

Source: Company data and HSBC estimates

**Qatar National Bank spread assumptions and ratios**

| | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|
| **Spreads over EIBOR** | | | | |
| Consumer retail loans | 5.50% | 5.50% | 5.00% | 4.75% |
| Corporate loans | 1.40% | 1.10% | 0.90% | 0.80% |
| Debt/investments | 0.32% | 0.09% | 0.50% | 0.40% |
| Interbank lending | -0.15% | -1.60% | 0.00% | 0.00% |
| Due from central bank | -2.85% | -4.55% | -2.85% | -2.85% |
| | | | | |
| Total deposits | 1.23% | 1.72% | 1.10% | 1.00% |
| Interbank borrowing | -0.90% | -3.89% | 0.00% | 0.00% |
| Borrowing | 0.00% | 0.00% | -0.25% | -0.35% |
| Others | 4.74% | 4.83% | 0.00% | 0.00% |
| | | | | |
| Yield on Interest earning Assets | 6.16% | 5.60% | 3.78% | 4.31% |
| Yield on Interest bearing liabilities | 3.92% | 3.87% | 2.02% | 2.61% |
| Spread | 2.23% | 1.73% | 1.75% | 1.70% |
| **Net interest margin** | 2.83% | 2.15% | 1.98% | 2.00% |

| **Ratios** | **2006** | **2007** | **2008e** | **2009e** |
|---|---|---|---|---|
| Total cost(+prov)/income | 24 | 27 | 29 | 30 |
| Cost/income (as reported) | 30 | 27 | 27 | 27 |
| Cost/avg. assets | 1.28 | 0.97 | 0.87 | 0.85 |
| ROE | 23.28 | 22.47 | 19.28 | 18.67 |
| ROA | 3.28 | 2.70 | 2.45 | 2.43 |
| Loans/assets | 65% | 58% | 63% | 65% |
| Loans/deposits | 83% | 83% | 90% | 92% |
| Deposits/assets | 78% | 69% | 70% | 71% |
| Risk ratio | -9% | -1% | 3% | 5% |

Source: Company data and HSBC estimates

**Commercial Bank of Qatar's balance sheet (QARm)**

| | 2006 | 2007 | 2008e | 2009e | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | Y-o-y growth | |
| Cash and central bank | 1,018 | 2,249 | 2,121 | 2,651 | 57% | 121% | -6% | 25% |
| Interbank | 5,493 | 9,019 | 12,694 | 15,981 | 3% | 64% | 41% | 26% |
| Customers loans, net | 17,360 | 25,021 | 34,261 | 43,259 | 59% | 44% | 37% | 26% |
| Securities | 4,321 | 4,665 | 5,131 | 5,644 | | | | |
| Investments in associates | 1,285 | 3,330 | 3,452 | 3,609 | | | | |
| Tangible assets | 558 | 721 | 866 | 996 | 76% | 29% | 20% | 15% |
| Other assets: | 322 | 391 | 509 | 628 | -7% | 21% | 30% | 23% |
| **TOTAL ASSETS** | **30,358** | **45,397** | **59,034** | **72,767** | **37%** | **50%** | **30%** | **23%** |
| **Liabilities** | | | | | | | | |
| Interbank | 2,695 | 4,908 | 5,153 | 5,411 | 58% | 82% | 5% | 5% |
| Customer deposits | 17,209 | 25,796 | 34,825 | 43,531 | 30% | 50% | 35% | 25% |
| Debt securities | 4,136 | 7,623 | 9,148 | 10,977 | 279% | 84% | 20% | 20% |
| Other liabilities | 687 | 842 | 1,095 | 1,350 | 46% | 23% | 30% | 23% |
| Minorities | - | - | - | - | | | | |
| Equity | 5,631 | 6,228 | 8,812 | 11,497 | -1% | 11% | 42% | 30% |
| Share capital | 1,402 | 1,402 | 1,542 | 1,696 | | | | |
| Reserves & share premium | 2,998 | 3,114 | 5,657 | 7,865 | | | | |
| **TOTAL LIABILITIES & EQUITY** | **30,358** | **45,397** | **59,034** | **72,767** | **37%** | **50%** | **30%** | **23%** |

Source: Company data and HSBC estimates

**Commercial Bank of Qatar's profit and loss statement (QARm)**

| | 2006 | 2007 | 2008e | 2009e | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Y-o-y growth | |
| Interest income | 1,456 | 2,328 | 2,223 | 3,049 | 79% | 60% | -4% | 37% |
| Interest expense | (751) | (1,399) | (1,064) | (1,638) | 124% | 86% | -24% | 54% |
| Net interest income | 704 | 929 | 1,159 | 1,411 | 48% | 32% | 25% | 22% |
| Fee income, net | 390 | 673 | 886 | 1,088 | 82% | 73% | 32% | 23% |
| Trading income | 224 | 328 | 370 | 412 | -24% | 46% | 13% | 11% |
| Other operating income | -83 | -85 | 19 | 21 | | 3% | -123% | 10% |
| **Total non-interest income** | 532 | 917 | 1,275 | 1,521 | 4% | 72% | 39% | 19% |
| **Total income** | 1,236 | 1,846 | 2,434 | 2,931 | 25% | 49% | 32% | 20% |
| Staff costs | (259) | (287) | (354) | (434) | 71% | 11% | 23% | 23% |
| General costs & other | (150) | (201) | (251) | (296) | 38% | 34% | 25% | 18% |
| Depreciation | (38) | (52) | (66) | (79) | 11% | 39% | 25% | 20% |
| **Total costs** | (447) | (540) | (670) | (809) | 52% | 21% | 24% | 21% |
| **Operating profit** | 789 | 1,305 | 1,763 | 2,122 | 13% | 65% | 35% | 20% |
| Provision charge | (6) | (48) | (84) | (135) | -176% | 767% | 75% | 60% |
| Provisioning/avg. gross loans | 0.04% | 0.22% | 0.28% | 0.35% | | | | |
| **Pre-tax profit** | 784 | 1,257 | 1,679 | 1,988 | 11% | 60% | 34% | 18% |
| Income tax (overseas branch)/writeback | - | - | - | - | | | | |
| **Profit before minorities** | 784 | 1,257 | 1,679 | 1,988 | 11% | 60% | 34% | 18% |
| Minority interest | - | - | - | - | | | | |
| **Net profit to shareholders** | 863 | 1,391 | 1,870 | 2,217 | 15% | 61% | 34% | 19% |

Source: Company data and HSBC estimates

**Commercial Bank of Qatar .Spread assumptions and ratios**

| Spreads Over EIBOR | 2006 | 2007 | 2008e | 2009e |
|---|---|---|---|---|
| Consumer retail loans | 6.50% | 6.50% | 6.25% | 6.00% |
| Corporate loans | 1.26% | 2.42% | 2.00% | 1.75% |
| Debt/investments | -0.04% | 0.43% | 0.50% | 0.50% |
| Interbank lending | -1.43% | -1.03% | 0.00% | 0.00% |
| | | | | |
| Deposits | 1.27% | 0.75% | 0.70% | 0.60% |
| Interbank borrowing | 0.08% | -0.60% | 0.00% | 0.00% |
| Debt securities | -0.34% | 0.44% | -0.40% | -0.50% |
| | | | | |
| Yield on Interest earning assets | 6.01% | 6.73% | 4.67% | 5.01% |
| Yield on Interest bearing liabilities | 3.75% | 4.49% | 2.43% | 3.00% |
| Spread | 2.26% | 2.25% | 2.24% | 2.00% |
| Net interest margin | 2.91% | 2.69% | 2.44% | 2.32% |
| | | | | |
| Ratios | | | | |
| Total cost(+prov)/income | 37 | 32 | 31 | 32 |
| Cost/income (as reported) | 36 | 29 | 28 | 28 |
| Cost/avg. assets | 1.70 | 1.43 | 1.28 | 1.23 |
| ROE | 15.26 | 23.45 | 24.86 | 21.83 |
| ROA | 3.28 | 3.67 | 3.58 | 3.36 |
| Loans/assets | 57% | 55% | 58% | 59% |
| Loans/deposits | 101% | 97% | 98% | 99% |
| Deposits/assets | 57% | 57% | 59% | 60% |
| Risk ratio | 1% | 5% | 7% | 10% |

Source: Company data and HSBC estimates

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# Notes

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# Disclosure appendix

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| | | |
|---|---|---|
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| Company | Ticker | Recent price | Price Date | Disclosure |
|---|---|---|---|---|
| COMMERCIAL BANK OF QATAR | COMB.QA | 190.00 | 25-Feb-2008 | 2, 6, 7, 11 |
| QATAR NATIONAL BANK | QNBK.QA | 195.00 | 25-Feb-2008 | 2, 6, 7 |

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