QATAR NATIONAL BANK (QNB) RATING BUY

07 October 2010

3Q2010 Strong Top-Line Growth, Spreads Better than Forecasts

RESULTS REVIEW | BANKS | QATAR

Earnings Rise 37% Y-o-Y, Revenue Growth the Main Driver

QNB reported a strong set of results for 3Q2010, with net profit of QAR1,450 million up 37% Y-o-Y and 1% Q-o-Q. Earnings were 4% ahead of our forecast on higher-than-expected revenues. We recently upgraded our rating on QNB to Buy from Neutral and our new fair value (FV) of QAR187.9 offers 23% upside. The stock trades at 9.2x P/E and 2.4x P/B in 2011e, which are not demanding in our view considering QNB's low risk profile and the strong visibility on medium-term earnings growth.

Net Interest Spread Surprises Positively

QNB reported very strong double-digit growth in core banking income- net interest income and fee income- with both revenue lines exceeding forecasts by c9%. The net interest spread surprised positively, as it remained unchanged Q-o-Q from the very high level reported in 2Q2010 at 285bps. We estimate there was just a minimal increase in funding costs while asset yields increased slightly Q-o-Q.

Loan Growth at 5% Q-o-Q; Balance Sheet Liquidity Increases

Deposit growth was a strong 7% Q-o-Q and QNB continued to increase its balance sheet liquidity during 3Q2010. The loan to deposit ratio reached 83.5% in September 2010 compared to 85% in June 2010. Both loan growth and deposit growth came in line with forecasts. Loan growth for QNB has decelerated from the strong growth rates reported in 4Q2009 and 1Q2010, as expected. Management had confirmed earlier that their short-term focus is on lending selectively in order to maintain spreads. On a Y-o-Y basis, loan growth was a strong 32%.

Marginal Increase in NPLs, Coverage Remains High

The NPL ratio increased from 0.74% in June 2010 to 0.8% in September. Credit provisioning charges were a bit higher than forecasts, but we do not think this is an area of downside risks to earnings. The bank's NPL coverage (taking into account specific provisions only) stood at 125% in September 2010.

KEY FINANCIAL HIGHLIGHTS

December Year End (QAR mn)	2009a	2010e	2011e	2012e
Banking Income	5,657	7,248	8,222	9,191
Operating Income (Pre-provisions)	4,550	6,048	6,926	7,793
Net Attributable Income	4,202	5,571	6,613	7,527
EPS (QAR)	13.95	14.23	16.89	19.23
P/E* (x)	11.2	10.9	9.2	8.1
P/BV*(x)	2.5	2.8	2.4	2.0
Dividend Yield	2.6%	3.7%	4.3%	4.9%
ROAE	25.2%	27.5%	27.7%	26.7%
Capital Adequacy Ratio	13.2%	16.0%	16.6%	17.2%
NPL Coverage	85%	120%	117%	116%

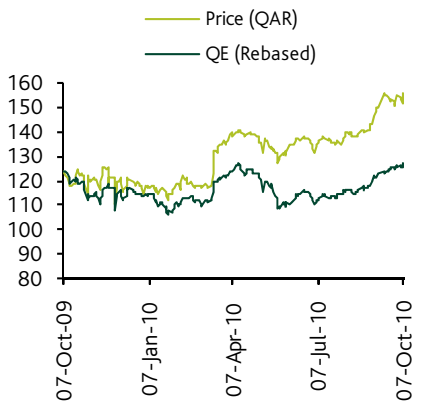
*Prices as at 07 October 2010
Source: Qatar National Bank (QNB), EFG Hermes estimates

Elena Sanchez-Cabezudo, CFA
+971 4 364 4007
esanchez@efg-hermes.com

STOCK DATA

Price	**QAR153.2***
Fair Value	**QAR187.9**
Last Div. / Ex Date	QAR4 on 09 Feb 2010
Mkt. Cap / Shares (mn)	QAR60,954 / 391.5
Av. Mthly Liqdty (mn)	QAR286.4
52-Week High / Low	QAR155.7 / QAR110.1
Bloomberg / Reuters	QNBK QD / QNBK.CA
Est. Free Float	50%

SHARE PRICE PERFORMANCE RELATIVE TO QE REBASED



QUARTERLY EARNINGS

(QAR mn)	2009	2010a/e
Q1	1,011	1,266
Q2	1,057	1,438
Q3	1,059	1,450
Q4	1,075	1,417

KINDLY REFER TO THE IMPORTANT DISCLOSURES AND DISCLAIMERS ON BACK PAGE

RESULTS HIGHLIGHTS

FIGURE 1: QNB'S 3Q2010 RESULTS, KEY HIGHLIGHTS
In QAR million, unless otherwise stated

	3Q09	2Q10	3Q10a	3Q10e	Y-o-Y	Q-o-Q	Vs Est
INCOME STATEMENT							
Net Interest Income	**938**	**1,374**	**1,461**	**1,337**	**56%**	**6%**	**9%**
Fees & Commissions	215	286	281	260	31%	-2%	8%
Investment & Trading Income	141	141	135	143	-5%	-4%	-6%
Associates Share of Profit	137	67	43	69			
Other Income	2	2	4	5			
Non-interest Income	**495**	**495**	**463**	**477**	**-6%**	**-7%**	**-3%**
Total Banking Income	**1,432**	**1,869**	**1,923**	**1,814**	**34%**	**3%**	**6%**
Operating Expenses	(265)	(306)	(326)	(307)	23%	6%	6%
Operating Income	**1,167**	**1,563**	**1,597**	**1,507**	**37%**	**2%**	**6%**
Loan Loss Provisions	(105)	(97)	(118)	(90)			
Other Provisions	3	(21)	(30)	(15)			
Other Income / Expense	0	0		0			
Pre-tax Income	**1,065**	**1,445**	**1,449**	**1,402**	**36%**	**0%**	**3%**
Taxes	(5)	(7)	(3)	(7)			
Net Income	**1,059**	**1,438**	**1,446**	**1,395**	**37%**	**1%**	**4%**
Minorities	0	(0)	4	(4)			
Net Attributable Income	**1,059**	**1,438**	**1,450**	**1,391**	**37%**	**1%**	**4%**
BALANCE SHEET- KEY FIGURES							
Loans	93,782	117,610	124,069	123,491	32%	5%	0%
Deposits	108,254	139,213	148,657	148,958	37%	7%	0%
Total Assets	153,185	186,049	190,080	193,670	24%	2%	-2%
KEY RATIOS							
Net Interest Spread	2.29%	2.85%	2.85%	2.60%			
Loans to Deposits	87%	84%	83%	83%			
Costs to Income	19%	16%	17%	17%			
NPL Ratio		0.74%	0.80%	-			

Source: QNB, EFG Hermes estimates

EGYPT SALES TEAM

Local call center 16900
cc-hsb@efg-hermes.com

Head of Western Institutional Sales
Mohamed Ebeid
+20 2 35 35 6054
mebeid@efg-hermes.com

Local Institutional Sales
Amr El Khamissy
+20 2 35 35 6045
amrk@efg-hermes.com

UAE SALES TEAM

call center
+971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM

call center
+800 123 4566
RiyadhCallCenter@efg-hermes.com
RiyadhTraders@efg-hermes.com

Director of Client Relationship
Mazen Matraji
+9661 279 8640
mmatraji@EFG-HERMES.com

Client Relationship
Khalid S. Al-Bihlal
+9661 279 8670
kalbihlal@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 35 35 6140
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research
Wael Ziada
+20 2 35 35 6154
wziada@efg-hermes.com

Head of Publ. and Distribution
Rasha Samir
+20 2 35 35 6142
rsamir@efg-hermes.com

DISCLOSURES

I, Elena Sanchez-Cabezudo, hereby certify that the views expressed in this document accurately reflect my personal views about the securities and companies that are the subject of this report. I also certify that neither I nor my spouse or dependants (if relevant) hold a beneficial interest in the securities that are traded in Qatar Exchange. EFG Hermes Holding owns 5,000 shares in Qatar National Bank as at 30 September 2010, the security that is the subject of this report.

Funds managed by EFG Hermes Holding SAE and its subsidiaries (together and separately, "EFG Hermes") for third parties may own the securities that are the subject of this report. EFG Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The authors of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which they have no discretion. The Investment Banking division of EFG Hermes may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this report or are mentioned in this report.

DISCLAIMER

This Research has been sent to you as a client of one of the entities in the EFG Hermes group. This Research must not be considered as advice nor be acted upon by you unless you have considered it in conjunction with additional advice from an EFG Hermes entity with which you have a client agreement.

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimate on a fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that EFG Hermes believes to be reliable, we have not independently verified such information and it may not be accurate or complete. EFG Hermes does not represent or warrant, either expressly or implied, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by EFG Hermes or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation to the clients of EFG Hermes and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any security. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

GUIDE TO ANALYSIS

EFG Hermes investment research is based on fundamental analysis of companies and stocks, the sectors that they are exposed to, as well as the country and regional economic environment.

Effective 16 December 2009, EFG Hermes changed its investment rating approach to a three-tier, long-term rating approach, taking total return potential together with any applicable dividend yield into consideration.

In special situations, EFG Hermes may assign a rating for a stock that is different from the one indicated by the 12-month expected return relative to the corresponding fair value.

For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

Rating	Potential Upside (Downside) %
Buy	Above 15%
Neutral	(10%) and 15%
Sell	Below (10%)

EFG Hermes policy is to update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a stock to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the stock immediately. However, if a stock has been outside of its longer-term investment rating range consistently for 30 days or more, the analyst will be encouraged to review the rating.

COPYRIGHT AND CONFIDENTIALITY

No part of this document may be reproduced without the written permission of EFG Hermes. The information within this research report must not be disclosed to any other person if and until EFG Hermes has made the information publicly available.

CONTACTS AND STATEMENTS

Background research prepared by EFG Hermes UAE Limited. Report prepared by EFG Hermes Holding SAE (main office), Building No. B129, Phase 3, Smart Village, KM 28, Cairo-Alexandria Desert Road, P.O. Box 220, 12577 Egypt, Tel +20 2 35 35 6140 | Fax +20 2 35 37 0939 which has an issued capital of EGP 1,939,320,000.

Reviewed and approved by EFG Hermes KSA (closed Joint Stock Company) which is commercially registered in Riyadh with Commercial Registration number 1010226534, and EFG Hermes UAE Limited, which is regulated by the DFSA and has its address at Level 6, The Gate, DIFC, Dubai, UAE. The information in this document is directed only at institutional investors. If you are not an institutional investor you must not act on it.