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QATAR NATIONAL BANK

A SAFE PLAY

- A prime credit risk for fixed income investors

  QNB papers are attractive for investors looking for a safe play in the MENA region given its prime risk profile. QNB bonds currently trade at 27 bps above sovereigns, and circa 30 bps wide to closely rated peers with practically similar maturities, bearing witness to the relative value (but with limited pick-up opportunity) of a differentiated quasi-sovereign name operating in an eye-catching economy.

- A significantly high probability of government support

  Due to the bank's dominant market share, majority government ownership (50%) and material evidence of Qatari authorities' support to the banking sector, QNB is in a distinguished position to benefit from an exceptional support whenever needed. The bank is actually primary banker to the State and has the ability to draw State funds with relative ease if necessary.

- Sound liquidity and comparatively low leverage ratios

  QNB enjoys comfortable core liquidity levels coupled with low leverage ratios. Its core liquidity to total deposits ratio totaled a relatively high 35% at end-December 2010, providing the bank with a strong cushion to cover its liabilities in a short period of time. More importantly, QNB is not highly leveraged, as the bank's asset to equity ratio at 9.0x compares well by regional and global standards.

- Strong profit generation, adequate efficiency and sound asset quality

  QNB has an attractive risk profile for its consistently robust financial soundness ratios. QNB's asset quality remains among the best in class, with the NPL ratio holding steady at a low of 0.9%, while coverage is more than adequate at circa 115%. QNB is also an adequately capitalized bank with Tier 1 capital ratio exceeding 13%. With an ROAA of 2.8% and a cost-to-income ratio of 17% as of December 2010, the bank is highly efficient and profitable.

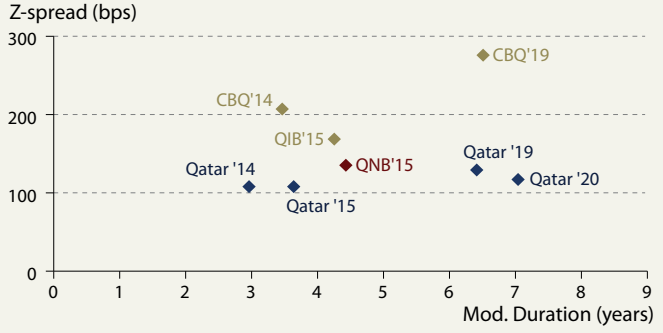
- A fast growing operating environment

  Qatari banks in general and QNB in particular benefit today from a unique operating environment. According to the IMF forecasts, Qatar's real GDP growth is projected at 16.0% in 2010 and 18.6% in 2011, among the highest worldwide. Qatar's double-digit economic growth, fuelled by a rapid expansion in gas production and abundant government spending on infrastructure projects, contributes to favorable operating conditions for Qatar's leading bank.

- Qatar's winning bid to host 2022 World Cup credit positive for QNB

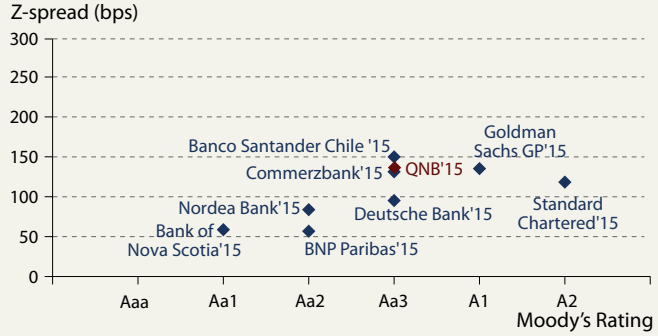
  The Qatar selection is undeniably expected to create long term business growth opportunities for Qatari banks in general and QNB in particular, enhance their franchise development in their domestic market and contribute to revenue generation through higher loan volumes. It is likely to trigger a favorable quantity effect and have a positive impact on QNB cash generation in the next 12 years, standing among important catalysts for QNB bond performance ahead.

QNB BONDS V/S QATARI BANKS AND SOVEREIGNS



Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department

PEER CREDITS RATINGS VS Z-SPREADS



Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department

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ISSUER PROFILE

Qatar National Bank, established in 1964 as the first Qatari-owned commercial bank, is the largest bank in Qatar, accounting for more than a 40% share of the domestic market. It operates through a domestic network of 59 branches and offices, of which 16 are Islamic. The QNB Group is currently present in 24 countries around the world through branches, representative offices, affiliates and subsidiaries in: Algeria, Bahrain, France, Guernsey, Iran, Iraq, Jersey, Jordan, Kuwait, Lebanon, Libya, Luxembourg, Mauritania, Oman, Palestine, Qatar, Singapore, Sudan, Switzerland, Syria, Tunisia, UAE, UK, and Yemen.

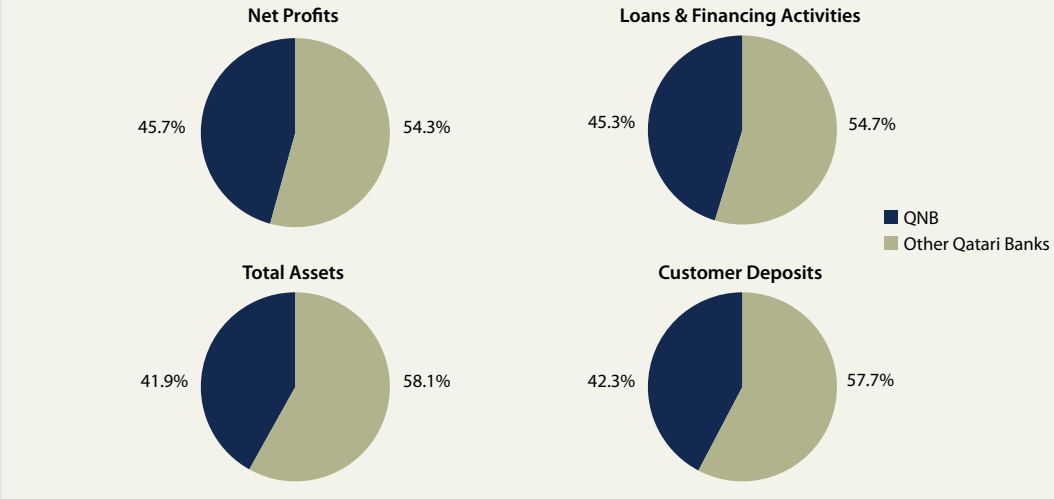
Since the launch of its expansion strategy in 2004, QNB concluded a number of deals. It entered in agreement with First Rand of South Africa to acquire 100% of the issued share capital of Ansbacher Holdings, a London-based wealth management financial institution. It acquired a 30% stake in Investment House, a licensed Islamic investment company in Qatar. It then acquired a 34% stake in Jordan's Housing Bank for Trade and Finance. It also acquired a 50% interest in Tunisian Qatari Bank as well as a 23% stake in Iraq's Mansour Bank, a 24% stake in Commercial Bank International and a 20% stake in Al Jazira Finance Company.

QNB provides retail, corporate, investment, Treasury, wealth management and Islamic banking products and services to individuals, corporate institutions and government agencies. Investment banking is offered through QNB Capital and Islamic banking is offered through QNB Al Islami. The Bank also distributes products and services through alternative channels including internet banking and a call center.

QNB is 50% owned by the government through the Qatar Investment Authority while the rest of the shares are listed on the Qatar Stock Exchange. QNB's strong links with the government have offered the bank a wide scope of lucrative business opportunities in recent years. QNB's strategy is to maintain strong focus on its large domestic franchise, but also on expanding in GCC and North Africa. As per the bank's Top Management, QNB seeks to expand its foreign presence into 42 countries.

As at end-December 2010, the Bank had US$ 61.4 billion in assets, US$ 45.5 billion in total deposits, US$ 36.2 billion in loans, US$ 6.8 billion in equity and US$ 1.6 billion in full-year net profits. It ranks as top bank in Qatar and among the largest 15 Arab banking groups according to all these criteria. QNB reports under IFRS on a quarterly basis, bearing witness to an adequate financial disclosure. It also enjoys investment grade ratings by major international rating agencies: Aa3 by Moody's, A+ by Fitch and Standard and Poor's, and by AA- by Capital Intelligence.

QATAR NATIONAL BANK MARKET SHARE (SEPTEMBER 2010)



Sources: Company reports, Bank Audi's Research Department

OPERATING AND REGULATORY ENVIRONMENT

A fast growing economy benefitting a well regulating banking system

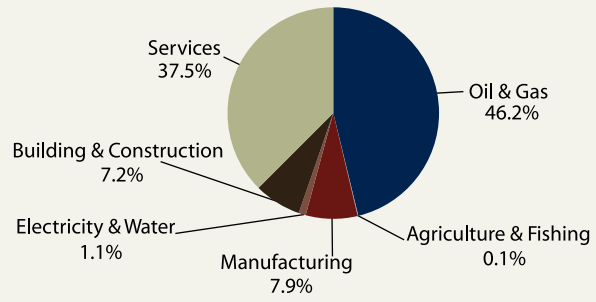
QNB is an integral part of the well regulated Qatari banking sector. It would very likely receive external support in case of need, although such support is not explicitly stated. This belief is based on the fact that given QNB's sheer size and importance to the local banking system, its potential default would cause systemic problems to the entire banking sector. Historical evidence shows that no depositors have ever lost any money in Qatar. It is worth recalling that the Central Bank provided material support to Al Ahli Bank when it ran into severe problems in 2000, rescuing the bank and restoring confidence in the banking system.

Qatari banks in general and QNB in particular benefit today from a unique operating environment. Qatar's national economy has been delivering an impressive buoyant performance in the midst of sluggish global conditions. According to the IMF forecasts, real GDP growth is projected at 16.0% in 2010 and 18.6% in 2011, among the highest worldwide, after a 9% growth in 2009 (where most economies were contracting in net real terms), and close to 24% average growth over the previous three years. Qatar has been significantly resilient to the global crisis spillovers as a result of a solid increase in gas output, pre-arranged financing (mainly for hydrocarbon and petrochemical projects) and a number of supportive government measures targeting the real and financial sectors.

Qatar's double-digit economic growth in 2010-2011, fuelled by a rapid expansion in gas production and abundant government spending on infrastructure projects, will contribute to favorable operating conditions for banks and help reduce local borrowers' defaults. This is not to say there are no macro challenges at all. Among Qatar's major challenges rises the economy's large dependence on hydrocarbons (about half of total national output) within the context of a weakly diversified economic base. In the event of any sustained weakness in global oil and LNG prices, the State's ability to continue in the provision of deposits and credit demand will be adversely impacted, thus affecting banking sector performance at large.

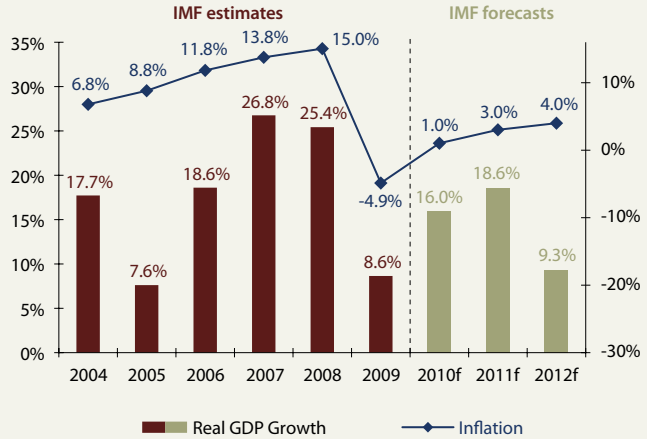
Qatar's winning bid to host 2022 World Cup is believed to be credit positive for banks in general and QNB in particular which was named the Official Bank of the Qatar 2022 Bid. As a matter of fact, the larger Qatari banks, which have higher capital levels, are likely to benefit most, as they will be able to participate in large financing deals. The Qatar selection is undeniably expected to create long term business growth opportunities for banks, enhance their franchise development in their domestic market and contribute to revenue generation through higher loan volumes.

BREAKDOWN OF GDP BY SECTOR IN 2009



Sources: Qatar Central Bank, Bank Audi's Research Department

QATAR GROWTH AND INFLATION



Sources : IMF, Bank Audi's Research Department

GOVERNMENT SUPPORT

QNB credit profile underpinned by large government support practices

QNB enjoys a significantly high probability of government support. Due to the bank's dominant market share, majority government ownership and material evidence of Qatari authorities' support to the banking sector, QNB is in a distinguished position to benefit from an exceptional support whenever needed. The bank is actually primary banker to the State and has the ability to draw State funds with relative ease if necessary.

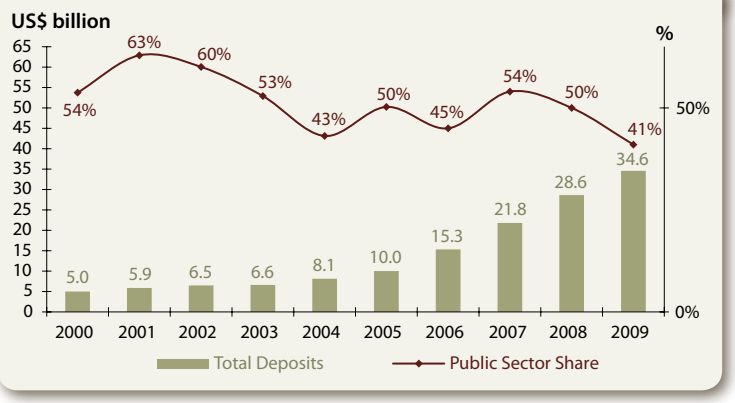
The bulk of QNB funding is through customer deposits, where a substantial part comes from the Qatari government or government related entities. By the end of 2009, the total deposit base was accounted to the extent of 41% by the government and government related entities, and the remainder by corporates, individuals, banks and other financial institutions.

Recent support measures by the State to the banking sector reinforce the view of strong government support assumptions. The government intervened significantly in 2009 to support the banking sector through three drastic measures, namely capital injection, purchases of investment portfolios and acquisitions of some of the real estate portfolios. Qatar Investment Authority has announced its willingness in early 2009 to take a 5% stake in any interested local bank by way of capital injection, to be followed by an additional 5% at the end of 2009. In further moves to strengthen banks, the Qatari government announced that it was ready to buy the investment portfolios and part of the real estate portfolios of the banks, following a steep decline in the Doha stock market and emerging weakness in the real estate sector at large.

As a matter of fact, QNB was actually one of the main beneficiaries of such government support due to its size and exposure to the domestic market. As part of Qatar's support package for domestic banks, the bank sold part of its local equities portfolio and other loans to the State for cash and government bonds.

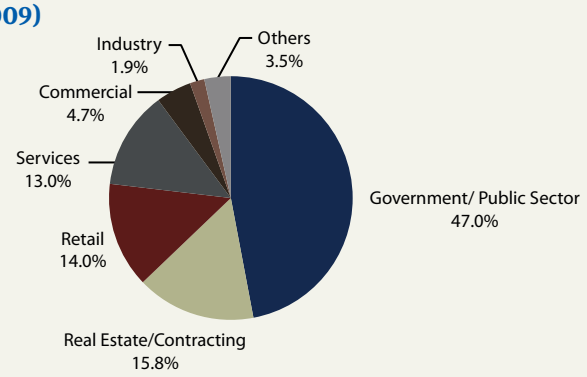
It is important to mention that the State of Qatar, QNB's major shareholder, is in a position to provide strong support, given its large creditworthiness and strong financial position. The State of Qatar benefits on the overall from a prime credit profile, with large hydrocarbons reserves ensuring long-term fixed price related LNG revenues, a strong net foreign position and robust economic performances in recent years. While official reserve numbers have increased dramatically over the past years, in line with the overall strong current account performance, those reserves do not fully capture the extent of financial resources available to the authorities. Qatar has large additional assets under its sovereign wealth fund which could potentially be called upon to meet its direct and contingent liabilities.

PUBLIC SECTOR SHARE IN TOTAL DEPOSITS



Sources: Company reports, Bank's Audi Research Department

BREAKDOWN OF GROSS LOANS, ADVANCES & FINANCING (YEAR 2009)



Sources: Company reports, Bank Audi's Research Department

LIQUIDITY AND LEVERAGE

Comfortable core liquidity levels coupled with low leverage ratios

Supported by sizeable interbank placements and marketable securities, QNB's liquidity position is relatively healthy. QNB indeed holds substantial liquid assets composed of interbank placements, a non-mandatory deposit with the Central Bank and marketable government securities (largely government debt) and has the ability to draw State funds easily if necessary. Core liquidity (defined as the sum of cash, Central Bank placements and due from banks) to total deposits stood at a relatively high 35% at end-December 2010. Such high core liquidity levels provide the Bank with a strong cushion to cover its liabilities in a short period of time.

QNB's liquidity management is believed to be quite satisfactory. A sound liquidity management entails the maintenance of ample and diverse funding capacity, liquid assets and other sources of cash to mitigate volatility in assets and liabilities arising from unanticipated events. It is worth mentioning that QNB's market risk appetite is modest. Based on data provided by the bank, major changes in key financial variables have an insignificant impact on the bank's core capital.

QNB is not highly leveraged. The bank's asset to equity ratio at 9.0x compares well by regional and global standards. Given management's plans to continue to expand its business at a fast pace as the Qatari economy grows rapidly, it is believed that higher capital levels may be needed to support growth and maintain capitalization at levels commensurate with the bank's total activity base. The bank just announced plans to conduct a rights issue during the second quarter of this year and increase its share capital by 25% by issuing 1 new share for every 4 shares held (after the distribution of proposed bonus shares), in an aim to meet ongoing local and foreign expansion plans.

Funding is sourced mainly from customer deposits though the overall funding mix also includes interbank and long term debt. The bank is actually a net interbank lender. The total deposit base has been growing at an average rate of 31.2% per annum over the past four years and accounted for 74% of the total assets of the bank at end-December 2010. The only long term funding is a US$ 1.85 billion syndicated loan due July 2012, in addition to the newly issued US$ 1.5 billion bond maturing in 2015.

Qatar's domestic economy is dominated by a relatively small number of major corporate groups, leading to funding and credit concentrations for the banking system in general and QNB in particular. In terms of industry concentrations, QNB's loan portfolio is relatively well diversified among different economic sectors, with no major concern with regard to any possible negative impact of a particular segment on the quality of the bank's credit portfolio.

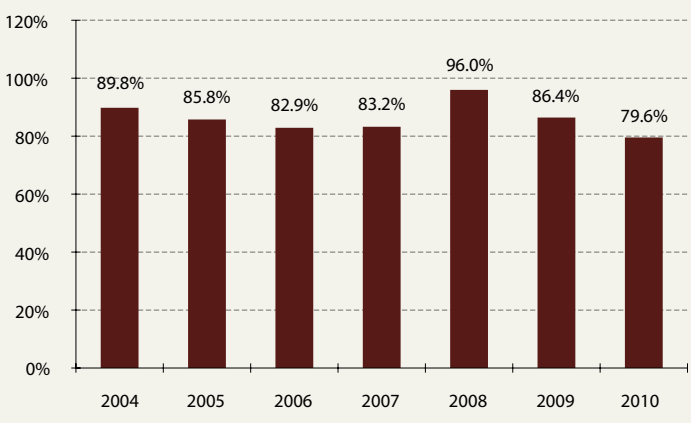
KEY FINANCIAL HIGHLIGHTS

(US$ million)	2006	2007	2008	2009	2010
Financial aggregates					
Assets	19,688	31,418	41,751	49,266	61,369
Deposits*	15,321	21,803	28,641	34,580	45,459
Loans	12,700	18,149	27,487	29,886	36,180
Equity	2,323	3,807	4,572	5,487	6,811
Net Profits	549	688	1,003	1,151	1,567
Financial ratios					
Assets/Equity	8.5x	8.3x	9.1x	9.0x	9.0x
NPLs/Total loans	1.2%	0.7%	0.7%	0.8%	0.9%
Cost-to-Income	27.0%	24.2%	20.5%	19.6%	17.0%
Net Interest margin	3.0%	2.3%	2.6%	2.7%	-
ROAA	3.3%	2.7%	2.7%	2.5%	2.8%

** Customer Deposits + Unrestricted Investment Accounts*

Sources: Company reports, Fitch ratings, Bank's Audi Research Department

LOAN-TO-DEPOSIT RATIO



Sources: Company reports, Bank Audi's Research Department

OPERATING PERFORMANCE

Strong profit generation, adequate efficiency and sound asset quality

QNB's overall financial profile has had a consistent and strong track record underpinned by good earning power, strong efficiency levels and solid capitalization, reinforced further recently with the announcement of the bank's 2010 results.

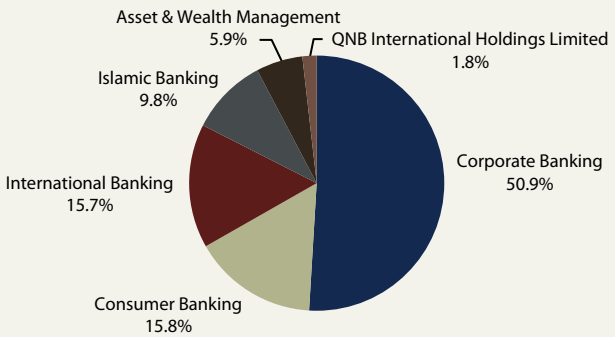
Leveraging on its extensive distribution network and its government ownership structure, the bank has built a dominant presence across all major business segments in Qatar including corporate banking, Islamic banking, project finance & syndications, retail banking and asset management business. As a matter of fact, the bank reported strong balance sheet growth over the past few years and during 2010. Loans and deposits grew by 21.1% and 28.5% respectively in 2010.

The bank's strong position and long established presence in the market translates into a strong earning power and earnings diversification across business lines. The bank's return on average assets displayed a satisfactory ratio of 2.8% in 2010, comparing well by emerging and global benchmarks. Net income was up by 36.1% year-on-year in 2010, led by a strong performance in net interest income. The strong growth along with the spread expansion (2.9% of net interest margin as of September 2010) resulted in the net interest income growing by 40.2% year-on-year. Fee income grew by 15.8% year-on-year in 2010.

Benefitting from a relatively low cost structure of operations, cost-to-income continued its contraction trajectory, hitting a low of 17.0% in 2010. The strong efficiency ratio reflects the low cost of handling State related business and the small size of the country, which implies that full coverage can be reached with only a small branch network and a moderate staff count.

QNB has an attractive risk profile for a number of reasons. First, QNB's asset quality remains the best in class, with the NPL ratio holding steady at a low of 0.9% (the majority of which coming from the consumer loan portfolio), while coverage also remained more than adequate at circa 115%. Retail risk is relatively mitigated, as all personal loans are salary-linked and customers are also restricted to a maximum debt service ratio of 50% and a maximum tenor of seven years (five for expatriates). QNB is also a well capitalized bank with Tier 1 capital ratio exceeding 13% by September 2010. On the downside however, QNB has a high credit concentration and corporate governance issues, notwithstanding the fact that rapid foreign expansion could pressure the bank's credit risk profile once its foreign operations' loan book becomes more material.

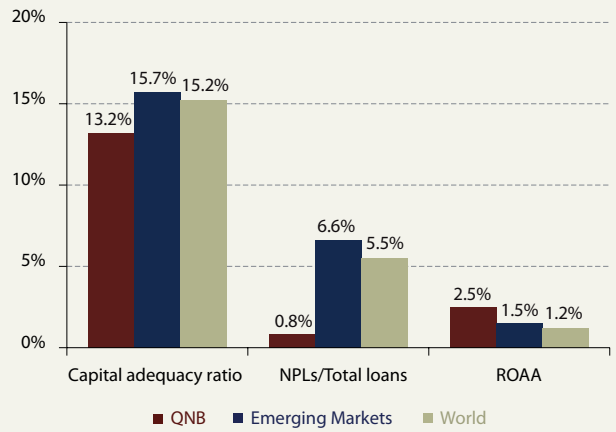
BUSINESS SEGMENT* (% OF NET OPERATING INCOME, 2009)



** Excluding unallocated & intra-group transactions*

Sources: Company reports, Bank Audi's Research Department

COMPARATIVE FINANCIAL SOUNDNESS INDICATORS (2009)



Sources: Company reports, IMF, Bank Audi's Research Department

MARKET CONSIDERATIONS

Mostly a conservative play

With US interest rates at all-time lows for an extended period of time and Middle East and North Africa markets blessed anew with excess liquidity, QNB lately tapped bond markets for the first time. It issued, through its wholly owned subsidiary QNB Finance, a US$ 1.5 billion five-year bond paying a coupon of 3.125% for general corporate purposes, according to company disclosures. The November issue, unconditionally and irrevocably guaranteed by QNB, was nearly four times oversubscribed and attracted orders from around 200 investors from across the globe. It actually remains the largest bond issue from a bank in the MENA region to date.

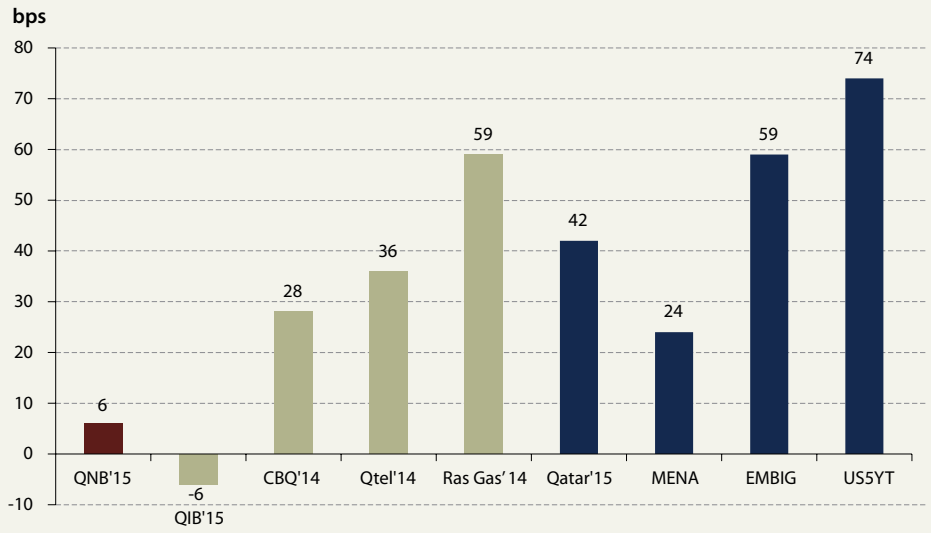
QNB bonds resisted the sell-off in the region's markets in the few weeks post issuance following US Treasuries moves and within relatively weaker investor appetite, with yields more or less holding still since issuance. Investors provided support to QNB bond prices, with demand notably stemming from US and local real money accounts and likely enticed by the issuer's strong credit standing.

In spite of a limited pick-up opportunity over sovereigns at current trading levels (current differential stands at 27 bps), QNB papers are considered interesting for investors looking for a safe play in the MENA region, given: (a) the bank's solid State backing (the only bank issuer in Qatar to be majority owned by the government); (b) its privileged role as a government financier, and (c) its consistently robust financial soundness ratios. Issued bonds include a change of control put option that could be exercised by investors if, at any time, the government ceases to own, directly or indirectly, at least 50% of the issued share capital of QNB.

Further, Qatar's successful 2022 soccer World Cup bid is likely to trigger a favorable quantity effect and have a positive impact on QNB cash generation in the next 12 years, and most probably stands among the top catalysts for QNB bond performance ahead. This said, it is interesting to note that Qatari banks in general could very well resort further to international capital markets in the run-up to the year 2022 to raise long-term funds for such large scale projects.

For investors looking at bank bonds across the global fixed income market arena, QNB papers trade at rather interesting levels relative to similarly rated worldwide peers. QNB bonds currently trade circa 30 bps wide to closely rated peers with practically similar maturities, bearing witness to the relative value of a differentiated quasi-sovereign name operating in an eye-catching economy.

YIELD VARIATION: QNB BONDS V/S BENCHMARKS*



** Since QNB bond issuance*

Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department

APPENDIX 1: FINANCIAL METRICS SUMMARY

KEY FINANCIAL INDICATORS

US$ million	2005	2006	2007	2008	2009	2010
Financial Aggregates						
Balance Sheet						
Cash & Deposits with Central Banks	661	682	3,008	1,722	2,714	9,317
Due from Banks & Other Financial Institutions	2,060	3,511	5,852	7,430	8,291	6,782
Loans & Advances & Financing Activities	8,648	12,700	18,149	27,487	29,886	36,180
Investment Securities	2,084	2,439	3,107	3,246	6,410	6,607
Property & Equipment	128	162	179	170	196	251
Other Assets	157	185	380	433	548	955
Total Assets	13,753	19,688	31,418	41,751	49,266	61,369
Due to Banks & Other Financial Institutions	714	1,718	2,728	5,418	5,713	3,341
Repurchase Agreements	-	-	685	623	573	600
Customer Deposits	10,016	14,267	20,379	26,091	29,883	38,485
Other Liabilities	562	325	2,394	2,497	2,940	5,158
Unrestricted Investment Accounts	68	1,054	1,424	2,549	4,698	6,974
Total Equity	2,393	2,323	3,807	4,572	5,460	6,811
Total Liabilities	13,753	19,688	31,418	41,751	49,266	61,369
Income Statement						
Interest Income	597	933	1,270	1,680	1,757	2,168
Interest Expense	244	493	784	991	846	891
Net Interest Income	353	440	486	689	911	1,277
Net Fees & Commission Income	107	125	200	252	266	308
Operating Income	601	795	1,023	1,399	1,554	2,090
Operating Expenses	190	215	247	286	304	355
Profit Before Taxes	424	551	694	1,008	1,151	1,571
Taxes	2	2	5	5	5	4
Profit for the Period	422	549	688	1,003	1,151	1,567
Financial and Operating Ratios						
Loans/Deposits	85.8%	82.9%	83.2%	96.0%	86.4%	79.6%
Assets/Equity	5.7x	8.5x	8.3x	9.1x	9.0x	9.0x
Deposits/Assets	73.3%	77.8%	69.4%	68.6%	70.2%	74.1%
Cost-to-Income	31.6%	27.0%	24.2%	20.5%	19.6%	17.0%
ROAA	3.4%	3.3%	2.7%	2.7%	2.5%	2.8%
ROAE	20.0%	23.3%	22.5%	23.9%	22.9%	25.5%
NPLs/Total Loans	1.6%	1.2%	0.7%	0.7%	0.8%	0.9%
LLRs/NPLs	89.5%	85.9%	90.5%	85.4%	108.8%	115%

Sources: Company reports, Fitch ratings, Bank Audi's Research Department

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