Analyst Comment

October 07, 2010

QATAR NATIONAL BANK (QNBK.QA)

12-Month Fair Value: QR 157.50
Last Close (07 October 2010): QR 156.10
Recommendation: Hold - Risk Level: 2

- Qatar National Bank (QNB) posted very solid results in 3Q2010, announcing a record high quarterly net profit of QR 1.45 billion, 37% above 3Q2009 and 1% above 2Q2010. Total operating income also reached a record high of QR 1.92 billion in 3Q2010, 34% above 3Q2009, 3% above 2Q2010, and 9% above our forecast of QR 1.76 billion on the back of an outperformance in net interest income.

- Net interest income surged to an all-time high of QR 1.46 billion in 3Q2010, 56% above 3Q2009 and 6% above 2Q2010. The increase in net interest income was driven by an improvement in interest margins and rapid loan growth. Fee and commission income and foreign exchange income in 3Q2010 grew by 31% and 9%, respectively, year-on-year (Y-o-Y), but declined by 2% and 3%, respectively, quarter-on-quarter (Q-o-Q). Investment income was the only weak non-interest income component, standing at QR 47 million, 30% below 3Q2009 and 6% below 2Q2010.

- Costs expanded by 23% Y-o-Y and 6% Q-o-Q in 3Q2010, taking the 9M2010 cost growth to 20%. Nevertheless, the bank's cost-to-income ratio remained low at 17% in 9M2010, compared to 19.6% in FY2009, supported by strong operating income. Domestic and international branch expansion is on-going at QNB as the bank opened new domestic branches and also became the first Qatari bank to open a branch in Mauritania. In addition to the branch expansion in Oman, Sudan and Syria, the bank also intends on opening a branch in Lebanon in 1H2011.

- Loan loss provisions stood at QR 118 million in 3Q2010, up 13% Y-o-Y and 22% Q-o-Q. Income before provisions (IBP) stood at QR 1.57 billion in 3Q2010, 35% above 3Q2009 and 9% ahead of our forecast. Non-performing loans (NPLs) increased by 11% in 3Q2010 to stand at QR 1.047 billion, representing 0.84% of gross loans, in-line with our forecast of 0.85% for December 2010 and compared with 0.79% as of June 2010. NPL coverage improved to 125% as of September 2010 compared with 123% as of June 2010.

- QNB's total assets grew by 5% in 3Q2010 to QR 194.7 billion, driven by an increase in loans. Net loans and financing activities reached QR 124 billion as of September 2010, growing by 5.5% in 3Q2010. This brought the year-to-date (YTD) loan growth to 14% compared to our forecast of 19% for FY2010. Deposits grew by 7% in 3Q2010 to stand at QR 148.7 billion as of September 2010, bringing the YTD deposit growth to 18%. We forecast QNB's deposits to grow by 19% in FY2010. The bank's loans-to-deposits ratio decreased slightly to 83.5% as of September 2010, compared with 84.5% as of June 2010.

- QNB's total growth in loans (5.5%) in 3Q2010 was primarily driven by QNB's conventional banking business. The Qatar Central Bank's directive that was issued at the end of August 2010 which imposed some regulatory limits on the Islamic banking windows of conventional Qatari banks started to have an effect on QNB's Islamic business. QNB Al Islami's growth slowed down in 3Q2010, as total assets inched up by just 1% to stand at QR 29.5 billion as of September 2010, compared with 33% growth in 1H2010 and 64% growth in FY2009. The share of Islamic banking assets in QNB's total assets declined to 15.2% as of September 2010, compared with 15.7% as of June 2010; closer to the 15% limit imposed by the Central Bank. The share of Islamic loans in QNB's total loans also declined to 19.2% as of September 2010 from 19.9% as of June 2010. Hence, although QNB's Islamic business was negatively affected, as expected, by that directive, QNB managed to maintain high growth rates in 3Q2010 driven by its conventional business.

- We believe this is a strong set of results for QNB. For now, we maintain our fair value for QNB at QR 157.50, which is 1% above the bank's latest closing price. Hence, our recommendation on the stock is a "Hold". However, we will publish an update report on QNB after further discussions with the bank's management.

Munira Mukadam

T. +971 4365 2858
E. munira.mukadam@nbkcapital.com

Related Research

- Analyst Comment - 23 September 2010
- Analyst Comment - 07 July 2010
- QNB Update - 05 May 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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NBK CAPITAL

Kuwait

Head Office
38th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research
35th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage
37th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates

NBK Capital Limited
Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506
Dubai, UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey

NBK Capital
Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

NATIONAL BANK OF KUWAIT

Kuwait

National Bank of Kuwait SAK
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
T. +965 2242 2011
F. +965 2243 1888
Telex: 22043-22451 NATBANK

INTERNATIONAL NETWORK

Bahrain

National Bank of Kuwait SAK
Bahrain Branch
Seef Tower, Al-Seef District
P.O. Box 5290, Manama, Bahrain
T. +973 17 583 333
F. +973 17 587 111

Saudi Arabia

National Bank of Kuwait SAK
Jeddah Branch
Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
T. +966 2 653 8600
F. +966 2 653 8653

United Arab Emirates

National Bank of Kuwait SAK
Dubai Branch
Sheikh Rashed Road, Port Saeed
Area, ACICO Business Park
P.O. Box 88867, Dubai
United Arab Emirates
T. +971 4 2929 222
F. +971 4 2943 337

Jordan

National Bank of Kuwait SAK
Head Office
Al Hajj Mohd Abdul Rahim Street
Hijazi Plaza, Building # 70
P.O.Box 941297,
Amman -11194, Jordan
T. +962 6 580 0400
F. +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
Sanayeh Head Office
BAC Building, Justinian Street
P.O. Box 11-5727, Riyad El Solh
1107 2200 Beirut, Lebanon
T. +961 1 759 700
F. +961 1 747 866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O.Box 3420, Baghdad, Iraq
T. +964 1 7182198/7191944
+964 1 7188406/7171673
F. +964 1 7170156

Egypt

Al Watany Bank of Egypt
13 Al Themar Street
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza, Egypt
T. +202 333 888 16/17
F. +202 333 79302

United States of America

National Bank of Kuwait SAK
New York Branch
299 Park Avenue, 17th Floor
New York, NY 10171, USA
T. +1 212 303 9800
F. +1 212 319 8269

United Kingdom

National Bank of Kuwait (Intl.) Plc
Head Office
13 George Street,
London W1U 3QJ, UK
T. +44 20 7224 2277
F. +44 20 7224 2101

NBK Investment
Management Limited
13 George Street
London W1U 3QJ, UK
T. +44 20 7224 2288
F. +44 20 7224 2102

France

National Bank of Kuwait (Intl.) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
T. +33 1 5659 8600
F. +33 1 5659 8623

Singapore

National Bank of Kuwait SAK
Singapore Branch
9 Raffles Place #51-01/02
Republic Plaza, Singapore 048619
T. +65 6222 5348
F. +65 6224 5438

Vietnam

National Bank of Kuwait SAK
Vietnam Representative Office
Room 2006, Sun Wah Tower
115 Nguyen Hue Blvd, District 1
Ho Chi Minh City, Vietnam
T. +84 8 3827 8008
F. +84 8 3827 8009

China

National Bank of Kuwait SAK
Shanghai Representative Office
Suite 1003, 10th Floor,
Azia Center, 1233 Lujiazui Ring Rd.
Shanghai 200120, China
T. +86 21 6888 1092
F. +86 21 5047 1011

ASSOCIATES

Qatar

International Bank of Qatar (QSC)
Suhaim bin Hamad Street
P.O.Box 2001
Doha, Qatar
T. +974 447 3700
F. +974 447 3710

Turkey

Turkish Bank
Head Office
Valikonagl Avenue No. 1
P.O.Box 34371 Nisantasi,
Istanbul, Turkey
T. +90 212 373 6373
F. +90 212 225 0353