



Qatar Banking Sector Review

Banking sector | Qatar

Pearl Harvesting

We initiate coverage on the banking sector in Qatar with a positive outlook, driven by the positive economic prospects. Our coverage universe includes Qatar National Bank (QNB), Commercial Bank of Qatar (CBQ) and Doha Bank. *Our top picks are CBQ and QNB, since they are set to benefit from the growth in the Qatari economy, followed by Doha Bank.*

The Qatari banking sector has been a direct beneficiary of the fast economic growth

Qatar has drawn much attention due to the rapid economic growth seen since the start of the decade, recording real GDP growth of 8.5% in the third quarter of 2007. Qatar is also the wealthiest country in the region, with a GDP per capita of around US\$76,129 in 2007. Qatar's high economic growth has provided a major boost to the banking system which, in turn, posted solid profit growth over the past few years, with total loans and deposits in the sector growing at a 2002-2007 CAGR of 35% and 30%, respectively. Total profitability registered a CAGR of 48.5% over the same period.

High asset quality, adequate capitalisation, healthy margins and high non-interest income are key features

Despite strong growth, Qatari banks have managed to keep their asset quality under control, with a sector average of non-performing loans to gross loans ratio of 2.2%. Complying with Basel II makes Qatar the first country in the region to adopt more stringent risk management procedures, and, thus, less susceptible to shocks. High margins is another positive feature that characterises banks in Qatar, averaging 3%. Qatari banks enjoy high non-interest income as a percentage of operating income, boosted by their share of profits in foreign subsidiaries.

In our view, banking in Qatar should continue to deliver robust performance buoyed by:

- The significant number and size of projects planned across Qatar
- Potential growth from profitable segments, including Islamic and SME financing
- High capitalisation to support future expansion, particularly on the regional and international front
- Population growth, which is fueled by the increasing flow of the expatriate workforce, with an average growth of 5-6% per annum

However, we are concerned about:

- Escalating competition, which may put pressure on spreads, margins and market shares
- Finding and retaining good human resources, which is a challenge for all banks
- Rising inflationary pressure might have an adverse effect on deposit growth
- The relatively smaller size of Qatari banks' balance sheets and capital base, might affect their ability to participate in mega project financing, implemented across the Gulf at large
- Funding pressures that banks in Qatar have yet to face, as a result of higher future utilisation levels

Banks under Coverage

	QNB	CBQ	Doha Bank
Recommendation	BUY	BUY	ADD
Target Price (QAR)	256.08	204.78	120.28
Current Price (QAR)	204.40	146.60	98.20
Market Capitalisation (QAR bn)	44.8	26.7	12.3
Average Daily Turnover (QAR mn)	12.2	24.8	20.1
Free Float (%)	50%	87%	80%
Foreign Ownership Limit	25%	25%	25%
P/E 08e (x)	14.7	14.4	11.1
P/E 09e (x)	12.3	11.6	9.5
P/BV 08e (x)	3.0	3.9	3.6
P/BV 09e (x)	2.6	3.3	2.9
ROAE 08e (%)	21.8	29.9	32.5
ROAE 09e (%)	22.6	30.8	30.4

Source: Beltone Financial

Radwa El-Swaify

relswaify@beltonefinancial.com

Tel: +20 (0)2 2792 6610 Ext: 420

Nancy Fahmy

nfahmy@beltonefinancial.com

Tel: +20 (0)2 2792 6610 Ext: 456

Isis Bldg., Osiris St., 8th & 9th floors

Garden City, Cairo, Egypt 11451

Tel: +20 (0)2 2792 6610

Fax: +20 (0)2 2792 6620

Contents

Executive Summary	3
Valuation Summary	4
DECF Methodology	4
Comparative Valuation	4
The Sector in Brief	6
Qatar Banking – An Overview	7
Business Performance	10
Central Bank Regulations	19
Banks in Focus	20
Qatar National Bank	20
Commercial Bank of Qatar	26
Doha Bank	31

Executive Summary

We initiate coverage on the Qatari banking sector, favouring the country's macroeconomic picture based on strong economic growth and an environment of high planned government spending to diversify the economy, boosting private sector growth. We view Qatari banks as direct beneficiaries of this positive outlook, given the size of mega projects planned in Qatar over the next five years (estimated at about US\$130 billion) across various sectors including oil, gas and infrastructure, thus providing the banks with more corporate business, in addition to a rise in the expatriate population, which should promote retail banking business.

Despite the fact that the Qatari banking sector is the second smallest after Oman in the GCC, in terms of total assets, loans and deposits, the growth it achieved over the past six years is significant. Banks in Qatar have been posting solid performance indicators, demonstrated by the growth of total credit facilities, which registered a CAGR of 34.7% from 2002 to 2007. Credit penetration reached 53%, which is below average compared to Qatar's MENA peers, and, which in turn, offers more room for growth. Deposits, on the other hand, recorded a CAGR of 29.6% over the same period. However, utilisation is very likely to cross 100% in 2008, which has led Qatari banks to start reverting to medium-term sources of funds, which are of longer term and higher cost than deposits.

Regarding business segments, corporate lending comprises the largest portion, with a combined share of 67%, mainly channeled to the public sector, in addition to construction, real estate and trade business. In the meantime, we believe that personal lending is unlikely to see much growth in Qatar, despite the high historical growth rates achieved (CAGR of 27% from 2002-2006).

Segments that currently offer significant potential for growth, in our view, are corporate, Islamic banking, SME lending and mortgage financing, where the last two sectors are still early in development.

As a whole, the Qatari banking sector is characterised by high asset quality, adequate capitalisation, healthy margins, and high non-interest income as a percentage of operating income. Banks enjoy a high level of government support, which is continuously working on regulating and improving the efficiency of the financial services sector.

Qatar has been attracting regional and international institutions to establish a presence and seize growing opportunities there. This became more apparent following the establishment of the Qatar Financial Centre (QFC) in May 2005, which would intensify competition in the sector, in our view.

Most of the Qatari banks share common goals, eyeing regional and global expansion, with the aim of diversifying their exposure, boosting their profitability, in response to escalating local competition. A number of banks have already established themselves outside Qatar through the acquisition of controlling stakes or creating alliances with local banks overseas.

In this report, we cover the biggest three banks in Qatar, in terms of market share and capitalisation, namely **Qatar National Bank (QNB)**, **Commercial Bank of Qatar (CBQ)** and **Doha Bank**, in a sector highly dominated by local banks (91% asset market share). The three banks together hold a combined market share of 70% out of total banking assets in Qatar, dominating the sector by their size and coverage.

Our top picks are **Commercial Bank of Qatar** and **Qatar National Bank**, on which we assign a Buy recommendation, based on an upside potential of 39.7% and 25.3%, respectively. We assign **Doha Bank** an Add recommendation, based on an upside potential of 22.5%.

CBQ is the fastest growing bank amongst our Qatari banking coverage universe, recording high 2004-2007 compounded annual growth rates for assets (52%), loans (55%) and deposits (46%). In addition, CBQ achieved the largest profit per branch in 2007. CBQ holds significant stakes in National Bank of Oman (NBO) and United Arab Bank (UAB) in the UAE, which boosted the non-interest income as a percentage of operating income for CBQ, compared to peers. This has driven CBQ to create a new international group structure to combine the management of its operations in Qatar, Oman and the UAE.

QNB stands out with its dominating market share (39% of total banking assets in 2007), size and strong business with the government and the public sector. QNB enjoys a slightly lower risk profile, compared to its peers, in addition to a high geographical diversification overseas.

Doha Bank's majority business is with the private sector, with particular focus on retail banking, which enabled it to be the sole bank, in our coverage universe, to increase margins significantly in 2007, compared to 2006. Doha Bank has established presence in Asia (Japan, China, and Singapore), focusing on countries with significant trade relations with Qatar.

Valuation Summary

We have calculated a weighted average of the fair values using the DECF and comparative valuation methodologies. Equal weights have been assigned to both methodologies.

DECF Methodology

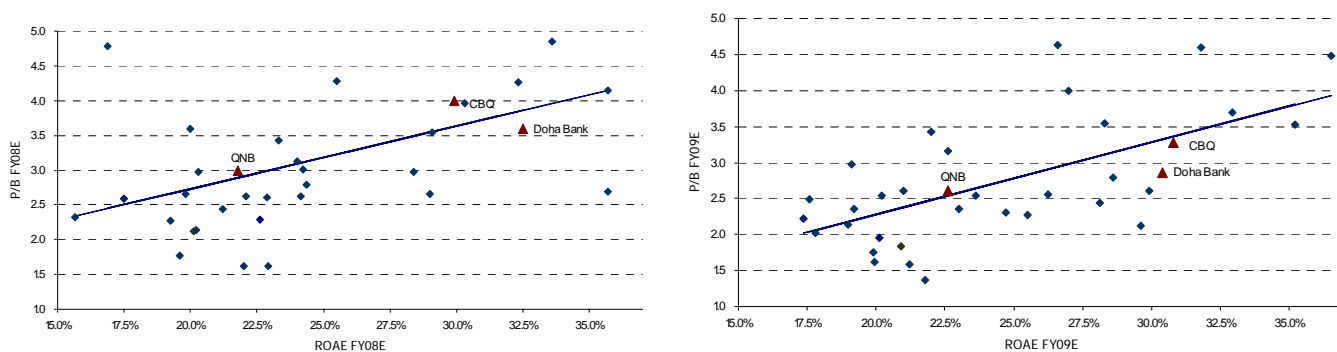
Our DECF methodology involves the discounting of each bank's equity cash flows, which is defined as net attributable income after deducting 10% of the change in risk-weighted assets to maintain the 10% minimum required capital adequacy ratio set by the Central Bank of Qatar. We used a cost of equity of 9.5%-10.5%, based on a risk free rate of 3%, in addition to a risk premium of 6.5% for QNB, 7% for CBQ and 7.5% for Doha Bank, based on our assessment of each bank's risk profile. We have developed explicit FCFE estimates until the year 2013. After 2013, we have assumed a perpetual growth rate of 5%.

Comparative Valuation

For the purpose of comparative valuation, we have chosen banks that operate in the EMEA (Europe, Middle East and Africa) region. We have valued each bank based on expected P/B and P/E ratios for the years 2008 and 2009. Please refer to the table in the page overleaf for the details of our regional and emerging market comparative valuation universe.

We obtained the comparative valuation of each bank by multiplying the P/B FY08e and P/B FY09e, estimated by the regression equation based on ROAE FY08e and ROAE FY09e, by each bank's BVPS FY08e and FY09e. In addition, the regional and emerging market average PEG FY09e was multiplied by the respective banks' EPS FY09e and estimated earnings growth, to reach the comparative fair value, using PEG multiples. Equal weights have been assigned to comparative values, using PEG and P/B multiples.

Figure 1 | Comparative valuation based on ROAE and P/B, for 2008 and 2009



Note: Prices as available on March 16th, 2008
 Source: Reuters estimates and Beltone Financial

Figure 2 | Comparative valuation based on P/E, P/B, and PEG

Bank	Country	P/B		ROAE		P/E		PEG
		2008e	2009e	2008e	2009e	2008e	2009e	
Kuwait Finance House	Kuwait	5.2	4.6	25.9%	26.6%	21.3	18.8	1.4
Saudi British Bank	Saudi Arabia	5.2	4.6	31.5%	31.8%	17.8	15.4	1.0
Commercial Bank of Kuwait	Kuwait	4.9	4.5	33.6%	36.5%	15.5	13.1	0.7
Dubai Islamic Bank	UAE	4.3	4.0	25.5%	27.0%	16.9	15.0	1.2
Samba Financial Group	Saudi Arabia	4.3	3.7	32.3%	33.0%	13.1	11.5	0.8
Banque Saudi Fransi	Saudi Arabia	4.0	3.5	30.3%	28.3%	15.0	13.3	1.1
Gulf Bank	Kuwait	4.2	3.5	35.7%	35.2%	12.5	10.8	0.7
National Bank of Oman	Oman	3.6	3.4	20.0%	22.0%	19.1	16.0	0.8
CBQ	Qatar	4.0	3.3	29.9%	30.8%	14.6	11.8	0.5
Bank Dhofar	Oman	3.4	3.2	23.3%	22.6%	15.8	15.8	N/A
National Bank of Abu Dhabi	UAE	3.4	3.1	25.1%	25.3%	13.4	12.1	1.1
Bank Muscat	Oman	4.8	3.0	16.9%	19.1%	18.4	15.9	1.0
Doha Bank	Qatar	3.6	2.9	32.5%	30.4%	11.1	9.5	0.6
Commercial International Bank	Egypt	3.5	2.8	29.1%	28.6%	12.0	9.7	0.4
QNB	Qatar	3.0	2.7	21.8%	22.6%	15.0	12.5	0.6
Burgan bank	Kuwait	3.0	2.6	28.4%	29.9%	12.8	10.7	0.5
Ahli United Bank	Bahrain	2.7	2.6	19.8%	21.0%	13.0	11.8	1.2
Bank Pekao	Poland	2.8	2.6	24.3%	26.2%	11.5	9.9	0.6
National Societe Generale Bank	Egypt	3.0	2.5	20.3%	20.2%	15.9	13.5	0.8
PKO BP	Poland	3.0	2.5	24.2%	23.6%	12.9	11.1	0.7
National Bank of Kuwait	Kuwait	2.7	2.5	35.7%	17.6%	16.8	14.4	0.9
Commercial Bank of Dubai	UAE	2.6	2.4	24.2%	28.1%	9.9	8.3	0.4
Bank of Bahrain and Kuwait	Bahrain	2.4	2.4	21.2%	23.0%	12.2	10.4	0.6
Saudi Hollandi	Saudi Arabia	2.6	2.3	22.1%	19.2%	14.6	12.3	0.6
Credit Agricole Egypt	Egypt	3.1	2.3	24.0%	24.7%	12.8	10.8	0.6
Komerčni Banka A.S.	Czech Republic	2.5	2.3	21.9%	22.2%	12.6	11.6	1.3
First Gulf Bank	UAE	2.6	2.3	22.9%	25.5%	11.3	9.0	0.3
Abu Dhabi Islamic Bank	UAE	2.6	2.2	17.5%	17.4%	13.1	11.3	0.7
Oman International Bank	Oman	2.3	2.1	19.2%	19.0%	12.6	11.6	1.3
Bahrain Islamic Bank	Bahrain	2.7	2.1	29.0%	29.6%	8.8	7.6	0.5
Emirates NBD	UAE	2.3	2.0	15.7%	17.8%	13.7	11.9	0.8
BZ WBK	Poland	2.3	2.0	22.6%	20.1%	11.5	9.8	0.6
Abu Dhabi Commercial Bank	UAE	2.1	1.8	20.1%	20.9%	10.4	8.9	0.5
Mashreq Bank	UAE	2.1	1.7	20.2%	19.9%	10.6	8.8	0.4
Union National Bank	UAE	1.8	1.6	19.6%	20.0%	10.6	9.0	0.5
Bank BPH S.A.	Poland	1.6	1.6	22.0%	21.2%	1.4	1.1	N/A
OTP Bank Ltd.	Hungary	1.6	1.4	22.9%	21.8%	7.6	6.5	0.4
Average P/E and P/B (x)		3.1	2.7			13.2	11.4	0.7

Note: Prices as available on March 16th, 2008

Source: Reuters estimates and Beltone Financial

Figure 3 | Target prices for our Qatari coverage universe

Bank	DECF (QAR)	Comparative valuation (QAR)	PEG09e valuation	P/B 08-09e valuation	P/B 08e (x)	P/E 08e (x)	Target price (QAR)	Current price (QAR)	Upside/Downside
Qatar National Bank	286.17	225.99	240.00	211.98	3.0	14.7	256.08	204.40	25.3%
Commercial Bank of Qatar	227.48	182.09	221.00	143.17	3.9	14.4	204.78	146.60	39.7%
Doha Bank	119.72	120.84	129.10	112.58	3.6	11.1	120.28	98.20	22.5%

Source: Beltone Financial estimates

The Sector in Brief

Strengths

- Qatar has maintained strong economic growth, achieving one of the highest levels of GDP growth in the MENA region. In addition, Qatar is the wealthiest country in the region, enjoying the highest GDP per capita and looks set to become the world's wealthiest nation
- The banking sector has been a direct beneficiary of this healthy economic environment, recording stable and solid profitability levels over the last few years
- Qatari banks enjoy high asset quality, with sufficient provisions coverage
- Adequately capitalised banks, compliant with international risk management standards (Basel II)
- Healthy margins and high non-interest income as a percentage of operating income
- Banks are diversifying their operations through overseas expansion
- Strong credit ratings

Weaknesses

- The Qatari economy requires diversification. The non-oil sector accounted for only 38% of GDP in 2006 and this in turn, affects banks' lending profiles
- Banks are experiencing maturity mismatches given the long-term nature of financing energy, infrastructure and construction projects, with the average maturity of deposits being of shorter tenor. In addition, banks have already reached high utilisation levels. Consequently, a number of banks have started resorting to medium-term borrowing (through EMTNs, syndicated loans, and sukuk), which is usually at a higher cost than deposits
- Banking activity is concentrated for the most part, with three local banks, namely Qatar National Bank, Commercial Bank of Qatar and Doha Bank
- Credit is concentrated with the government, public sector entities and large prominent business groups

Opportunities

- The corporate sector, which represents the majority of lending, is yet to benefit from the size of planned investments over the next few years, backed by the government's commitment to spending on various sectors. It is estimated that Qatar will spend about US\$130 billion in the next five years, across various sectors, including oil, gas and general infrastructure
- Banks can still benefit from the unexploited potential in profitable segments, notably, Islamic banking, mortgage financing and SME lending
- Improving regulatory environment, with a newly announced financial regulator unifying the fragmented financial services sector including: banking; insurance; securities brokerage; asset management and other financial services

Risks & Challenges

- Finding and retaining good human resources is a common challenge that all Qatari banks are facing, due to rising competition, in addition to the escalation in the cost of living
- Some banks are highly exposed to potentially volatile regional property and stock markets
- The size of Qatari banks' balance sheets and capital base might affect their ability to participate in the financing of mega projects that are being implemented in Qatar and the Gulf at large
- Competition is yet to intensify, putting pressure on the spreads, margins and market shares. Banks will also experience competition from new foreign banks established in the QFC, specifically in the investment banking segment
- Rising inflationary pressure, which is mainly induced by escalating rent prices, might have an adverse effect on savings and the growth in deposits
- The increase in credit extended to the private sector might affect the sector's overall asset quality

Qatar Banking – An Overview

Financial penetration shows more room for growth

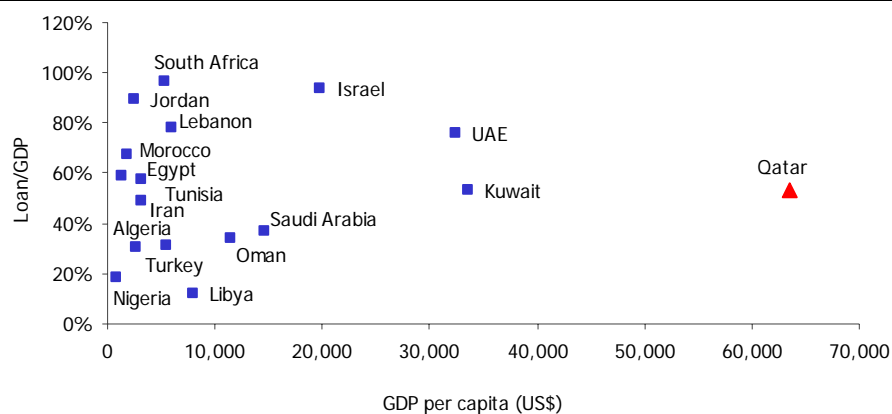
Qatar stands out amongst its MENA peers in a number of key factors. Qatar is the wealthiest country in the region, enjoying the highest GDP per capita, which stood at around US\$76,129 in 2007. The country's banking sector has been a direct beneficiary of the country's fast economic growth, recording the highest asset, loan and deposit growth levels. Qatar is still below average, amongst its MENA peers, with regard to credit penetration, which demonstrates more room for growth. Meanwhile, overall utilisation and the loan/asset ratio are within average levels. In terms of total banking assets, loans and deposits, Qatar is the second smallest after Oman amongst its GCC peers.

Figure 4 | Qatar compared to MENA and emerging market peers (2006)

	Loan/ deposit ratio	Loan/ asset ratio	Loan/ GDP ratio	Growth in assets	Growth in loans	Growth in deposits	GDP per capita (US\$)	Per capita deposits (US\$)
Algeria	57%	52%	31%	17%	9%	17%	2,699	1,469
Bahrain	123%	31%	410%	35%	42%	33%	18,709	62,638
Egypt	58%	40%	59%	14%	7%	8%	1,298	1,348
Iran	99%	45%	51%	27%	35%	37%	3,215	1,678
Israel	81%	64%	103%	4%	2%	4%	19,840	25,136
Jordan	108%	39%	89%	15%	25%	15%	2,558	2,118
Kuwait	89%	55%	53%	25%	15%	24%	33,617	20,062
Lebanon	28%	23%	79%	8%	6%	7%	6,011	16,807
Libya	39%	31%	12%	24%	15%	28%	7,914	2,387
Morocco	77%	62%	68%	12%	17%	17%	1,777	1,573
Nigeria	107%	40%	19%	44%	34%	-6%	793	140
Oman	101%	65%	34%	28%	21%	24%	11,410	3,864
Qatar	85%	54%	53%	45%	47%	41%	62,912	39,871
Saudi Arabia	107%	58%	38%	13%	7%	21%	14,724	6,743
South Africa	112%	83%	96%	24%	29%	25%	5,357	4,587
Tunisia	115%	64%	57%	8%	8%	12%	3,089	1,517
Turkey	60%	39%	30%	21%	38%	22%	5,431	2,730
UAE	104%	63%	90%	35%	36%	27%	32,398	21,294
Eurozone	126%	51%	119%	11%	9%	9%	35,432	33,436
United States	92%	61%	55%	9%	8%	10%	44,503	26,239
Av. Universe	88%	51%	77%	21%	20%	19%	15,684	13,782
Av. MENA	84%	47%	77%	22%	19%	19%	12,885	12,349

Source: Business Monitor International, Egypt Commercial Banking Report Q1-2008

Figure 5 | Loan/GDP versus GDP per capita (2006)



Source: Business Monitor International, Beltone Financial

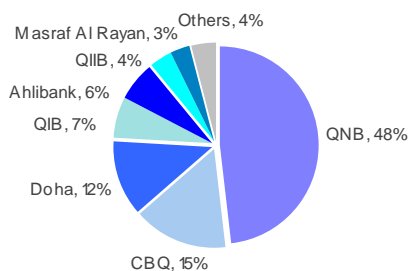
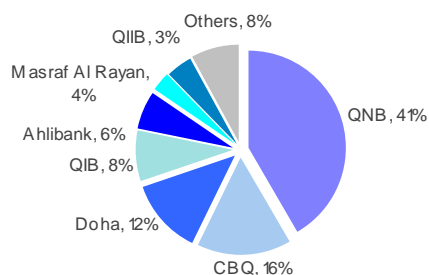
Local concentration

The Qatari banking sector encompasses a total of seventeen banks, of which ten banks (including three Islamic banks) are national and seven banks are foreign, operating with around 140 branches. Masraf Al Rayan and Al Khaliji Bank are the most recent entrants to the Qatari banking sector. To date, national banks hold a strong grip over the sector (enjoying no taxation) with a 91% market share of the total Qatari banking assets and credit facilities as at October 2007 and around 89% of total deposits. Foreign banks have been present in Qatar for quite some time, however they have not succeeded in taking significant market share. The biggest institutions in the Qatari banking sector are Qatar National Bank (QNB), Commercial Bank of Qatar (CBQ) and Doha Bank, with a combined market share of 70% of the total banking assets in 2007. They dominate the industry on the back of their size and coverage. These banks also have a competitive edge over the smaller banks, given their strong brand name, distribution coverage in addition to government and public sector ties. QNB remains, by far, the dominant bank, backed by its strong interrelationship with, and majority ownership, by the government. However, QNB's market share has been falling gradually in recent years, as its peers are catching up by adopting aggressive growth strategies. Another factor, which has contributed to the decline in QNB's market share, is that the government has recently been financing its expenses through its cash flows rather than external funding. In 2007, QNB held a 41% loan market share in addition to a 48% deposit market share. Meanwhile, CBQ held second place, while Doha Bank was the third.

Local banks hold a strong grip, over the sector, with a 91% market share of assets and loans and 89% of deposits

Figure 6 | Loan market share

Figure 7 | Deposit market share



Source: Banks' financial statements, Beltone Financial

Competition would intensify in certain segments as QFC opened doors

The structure of the banking sector is unlikely to change dramatically in the short-term. However, since Qatar Financial Centre (QFC) opened in May 2005 (it aimed to attract international financial institutions to establish themselves in Qatar), the banking system has seen around 20 offshore branches of foreign banks establishing themselves within the QFC. These foreign institutions include Citibank, Deutsche Bank, the Royal Bank of Scotland, Barclays, Credit Suisse, Arab Jordan Investment Bank (AJIB), Industrial and Commercial Bank of China and India's ICICI Bank. In our view, we believe that these banks will have a different scope of operations compared to local banks. They will be competing primarily in the corporate, investment and private banking fields, in addition to asset management, an area where local banks had traditionally had a strong market presence.

Around 20 international institutions have established themselves in the QFC

The Qatari banking sector has been raising the interest of other GCC banks as well. The National Bank of Kuwait (NBK) is a clear example, after buying a stake in Grindlays Qatar Bank, which is now known as International Bank of Qatar (IBQ). Bahrain's Ahli United Bank (AUB) entered the market by acquiring 40% stake in Al-Ahli Bank of Qatar, which has been renamed Ahli Bank QSC.

Competition will intensify with the entry of these two groups of foreign and GCC banks, particularly given Qatar's relatively small market, which is becoming both more regulated and more open to foreign institutions.

Qatari banks stepping out of Qatar

In response to escalating local competition in a relatively small market like Qatar, and with an aim of boosting profitability, Qatari banks have started to step out of the domestic market and expand across the region, and the world, a trend that is likely to continue for most banks. QNB bought 100% of the London-based wealth management group, Ansbacher Holdings, a subsidiary of South Africa's FirstRand. QNB also acquired 31% of Housing Bank for Trade and Finance (HBTF) in Jordan, in addition to buying a 23.1% stake in Iraq's Mansour Bank. QNB has also announced plans to establish a joint venture bank in Syria, in which it would own 49%. Commercial Bank of Qatar (CBQ) acquired a 35% stake in National Bank of Oman, and 40% of United Arab Bank based in the UAE. Doha Bank has established overseas branches in New York, Dubai, and Kuwait, in addition to representative offices in Turkey, China, Japan, Singapore, and Romania.

Most of the local Qatari banks are embarking on regional and international expansions in efforts to boost profitability

A new financial regulator

As part of the Qatari government's commitment to regulate its financial services sector and improving efficiency and transparency, the government unveiled plans to unify its fragmented financial services sector including: banking; insurance; securities brokerage; asset management and other financial services, under one regulator, to be in place in 2009. The new authority will bring together the functions of Qatar's three financial services regulators: Qatar Central Bank (which supervises domestic institutions, monetary policy, currency issues and debt instruments); Qatar Financial Markets Authority (which oversees the Doha Securities Market) and the Qatar Financial Centre Regulatory Authority (which regulates financial services in the Qatar Financial Centre investment zone). All financial institutions in Qatar will be operating under the new regime. Overall, we believe it is a positive step for the sector, which should see a uniform and international standard in its regulatory environment and, consequently, this should encourage more foreign financial institutions to enter the Qatari market. This, however, will impose more competitive pressures on banks. Additionally, banks would also face more pressure to comply with new regulations that would imply tighter risk management.

The new financial regulator will increase liberalisation and competition in the sector

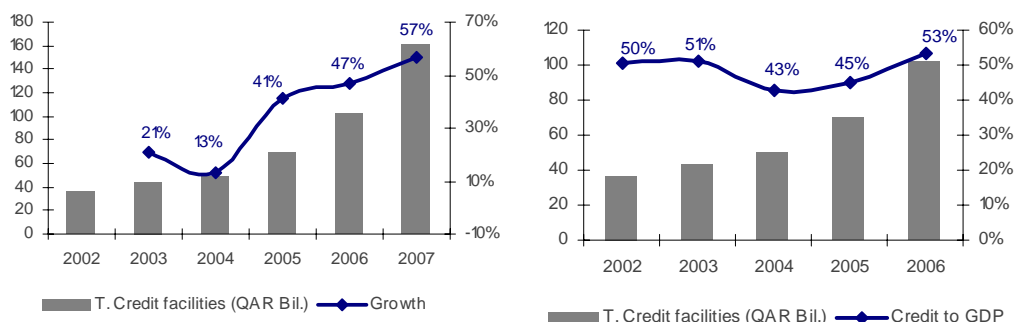
Business Performance

Lending

A clear sign of the vibrant growth in Qatar is the credit surge witnessed over the past six years, where total credit facilities grew at a CAGR of 34.7% from 2002 – 2007 to reach QAR161 billion in 2007 from QAR36 billion in 2002. Credit facilities witnessed the highest y-o-y growth in 2007, surging by 57%. Meanwhile, credit penetration (credit as a percentage of GDP) has also been consistently going up throughout the past three years to reach 53% in 2006, which demonstrates the ample room for growth in the sector, especially when comparing this figure to a MENA average of 77%.

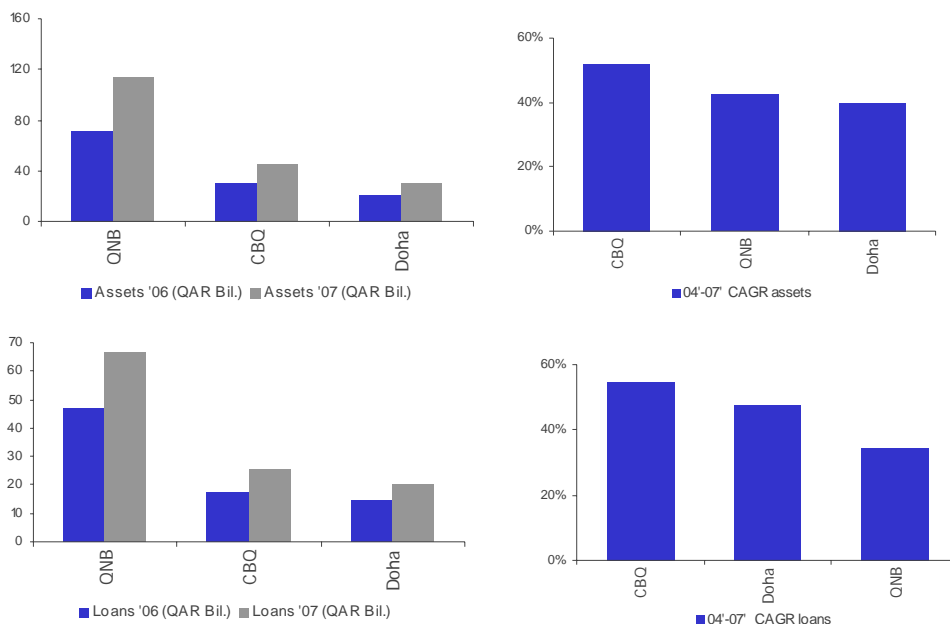
Total credit facilities grew at a CAGR of 34.7% from 2002 – 2007 and reached QAR161 billion in 2007

Figure 8 | Credit growth and penetration



Source: Central Bank of Qatar, Beltone Financial

Figure 9 | Asset and credit growth amongst our Qatari coverage universe



QNB has the largest asset and loan books in our universe, however CBQ scored the highest asset and loan CAGR over 2004-07

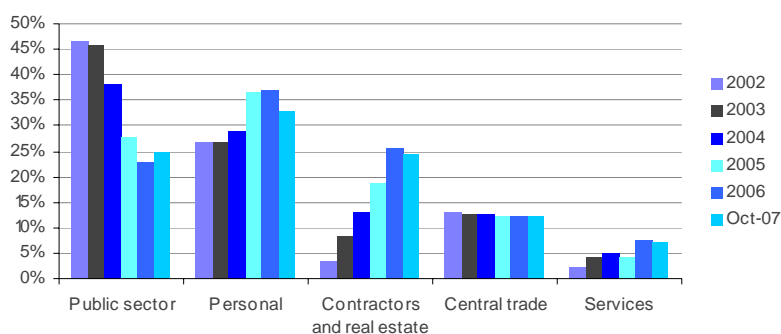
Source: Banks' financial statements, Beltone Financial

Credit Breakdown

In general, credit is highly concentrated amongst the public (25%), personal (33%), construction and real estate (19%) sectors. However, the most noticeable phenomenon has been the gradual shift of lending in recent years from the public sector towards riskier business lines. These include personal and real estate lending which have witnessed extensive growth in the past few years, coupled with the vibrant economic activity, and the infrastructure and capital market booms, which have created considerable demand. Public sector lending accounted for 25% of domestic credit facilities as at October 2007, down from 47% in 2002. A reason for the shift was the government's ability to finance some of its projects from its own cash flows after becoming a key producer in the international natural gas market. In addition, the government's liberalisation strategy, which aimed to boost the private sector's participation in the economy, contributed to the shift.

There has been a gradual shift of lending in the recent years from the public sector towards riskier business lines, like personal and real estate lending

Figure 10 | Credit development over 2002-2007

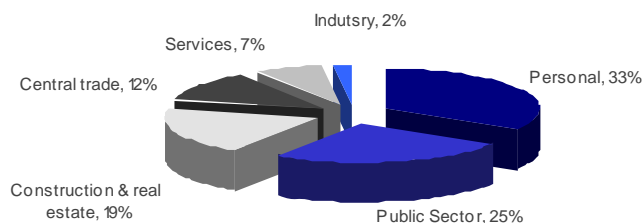


Source: Central Bank of Qatar, Beltone Financial

Corporate lending is the largest

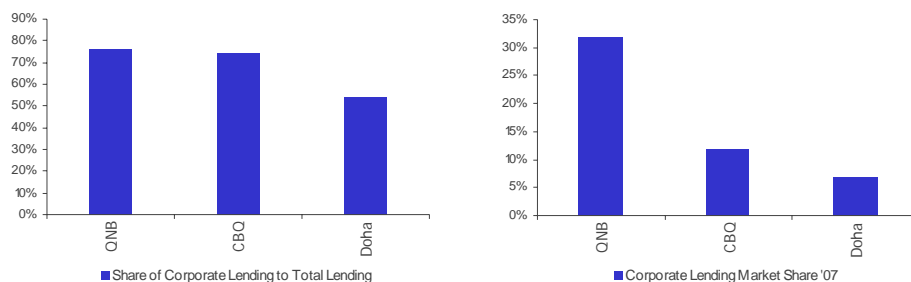
As seen in Figure 11, corporate lending comprises the largest portion (a combined 67% share) of lending mainly driven towards the public sector, construction and real estate projects and central trade, as opposed to 33% share of personal lending. In our view, corporate lending should still account for the bulk of credit, given the large size of planned projects across Qatar, particularly in the energy and infrastructure sectors, with total investment estimated at around US\$130 billion over the next five years.

Figure 11 | Credit breakdown (October 2007)



Source: Central Bank of Qatar, Beltone Financial

Figure 12 | Corporate lending amongst our Qatari coverage universe



QNB is the largest in terms of corporate and retail lending market shares

Source: Banks' financial statements, Beltone Financial

Personal lending recorded high growth levels, but with doubtful growth prospects

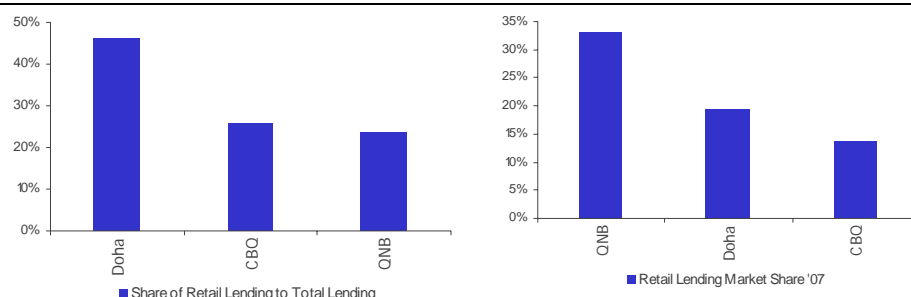
Despite the small size of the Qatari population (slightly over 900,000), retail banking has been an attractive segment, given the high GDP per capita levels in Qatar. This segment has been expanding at a fast pace, recording a CAGR of 27% from 2002 – 2006, to reach QAR35 billion in 2006. As a percentage of GDP, it accounted for 18% in 2006, which is high given Qatar's size. Personal lending stood at QAR45 billion as at October 2007. It is worth noting that personal lending recorded the highest y-o-y growth of 76% in 2005, mainly due to the regional capital markets boom witnessed that year. In 2006, personal lending was slower registering a 42% y-o-y growth, and until October 2007, personal lending grew by 27%. Despite this strong growth, the banks have so far maintained satisfactory asset quality ratios.

Retail lending has been expanding at a fast pace, recording a CAGR of 27% from 2002-2006 and stood at QAR45 billion in October 2007

Product ranges are already advanced in Qatar. It is common, for example, for individuals to hold multiple credit cards, however, product offerings still have room for further development. Banks are continuing to develop more innovative products in the market and enhancing their product ranges to appeal to the increasing diversity of the population needs. One example is the launch of the Securities Trading Electronic Settlement (STES) gateway by QNB, which delivered faster services to capital market investors. QNB connected the country's two largest brokerage companies to their clients via an electronic processing mechanism providing their customers with on-line real-time trading using their personal accounts.

The growth of personal lending is largely a function of population growth in Qatar, which currently stands at 5 - 6% per annum. Unless we see an even greater inflow of expatriates, retail lending, in our view, is unlikely to witness strong growth over the medium to long term, given its current adequate size.

Figure 13 | Retail lending amongst our Qatari coverage universe



Source: Banks' financial statements, Beltone Financial

More room for Islamic banking growth

The Qatari banking sector has had two main Islamic banks (Qatar Islamic Bank (QIB) and Qatar International Islamic bank (QIIB)) which have been operating in the country for the past 20 years and which have dominated the Islamic banking market in Qatar. It was not until February 2005 that conventional banks obtained approval from the Central Bank of Qatar to offer Islamic banking services through special units or divisions inside the bank, or through an independent Islamic branch. QNB was the

first bank to set up a fully compliant Islamic branch in 2005 (QNB al-Islami), then Commercial Bank of Qatar (Al Safa Islamic), while Doha Bank and Ahli Bank, followed in offering Islamic services. Six commercial banks are now providing Islamic banking products, which have been focusing on retail banking rather than corporate banking. We believe that conventional banks will face tough competition amongst themselves to create market share if they want to venture into the fast growing Islamic banking sector. The establishment of Masraf Al Rayan in 2006, is a major step in the Islamic banking, since Al Rayan is the largest Islamic bank in Qatar by paid in capital (QAR3.7 billion). Islamic banking accounted for an overall 17% of total credit facilities and 15% of deposits as at October 2007. Islamic lending to GDP reached 12% in 2006. We anticipate that Islamic banking products in Qatar will witness significant growth over the medium to long term.

Mortgage financing at its infancy

The mortgage market in Qatar is still relatively new. To date, there are no established independent mortgage finance companies or subsidiaries, but banks offer mortgage products as part of their product range, where there has been competition on pricing and mortgage maturities that have grown up to 30 years. The UAE-based Amlak Finance announced its entry into the Qatari market, through the signing of an alliance with Barwa Real Estate Company, to make available its products and solutions through a new entity called "Amlak Barwa Finance". Mortgage financing should witness further growth, given the sizeable infrastructure projects planned over the next five years. The government's decision to allow non-Qataris to purchase real estate in three housing projects, namely, Pearl of the Gulf Island, West Bay Lagoon and Al Khor Resort should enhance mortgage lending. Barwa Real Estate Company announced in January 2008 that it had received authorisation from the Ministry of Economy to set up a bank specialising in financing real estate projects, in addition to providing investment banking activities. Barwa Bank should commence operations in Q2 2008, with a capital of QAR1 billion.

To date, there are no established independent mortgage finance companies or subsidiaries, banks offer mortgage products as part of their product ranges

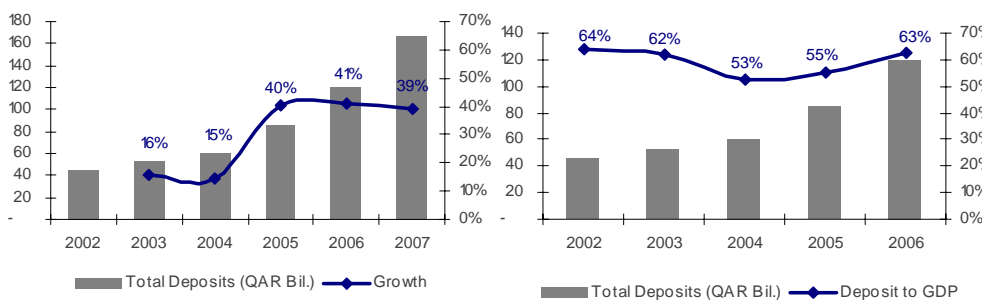
SME lending

SME lending has been very small in scale in Qatar as commercial banks have not had the focus or the infrastructure to tailor to this segment. However, state-owned Qatar Development Bank (QDB) encourages industrial and economic development through financing small to medium-sized joint venture industrial projects. In addition to financing, QDB provides assistance with project development, including project assessments and feasibility studies, obtaining legal documentation and government approvals. However, QNB and CBQ intend to expand into SME financing, because of the higher margins and growth prospects of this market segment.

Funding

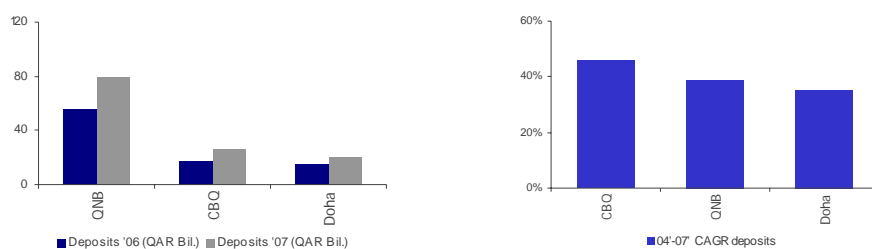
Total deposits grew at a slower pace compared to credit facilities, recording a 2002 - 2007 CAGR of 29.6%, experiencing the highest growth levels in 2006 with a penetration of 63% of GDP. Total deposits in the system reached QAR167 billion in 2007 up from QAR46 billion in 2002, where private sector deposits comprised almost two thirds of total sector deposits versus a third for government and public sector deposits. This allocation has remained almost unchanged since 2000.

Figure 14 | Deposit growth and penetration



Source: Central Bank of Qatar, Beltone Financial

Figure 15 | Deposit growth amongst our Qatari coverage universe



Source: Banks' financial statements, Beltone Financial

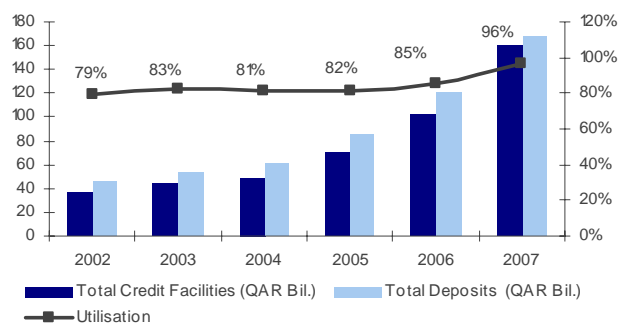
Similar to assets and loans, QNB has the highest deposit base in our coverage universe, while CBO scored the highest 2004-07 deposit CAGR

Utilisation

Utilisation (total credit facilities/deposits) has been rising to, but has not yet crossed, 100%. It stood at 96% in 2007, which would pose a funding pressure on banks in the next two to three years, where banks would need to secure other sources of funding, putting pressure on spreads and margins. Qatari banks are experiencing maturity mismatches, given the long-term nature of financing energy, infrastructure and construction projects. Meanwhile the maturity of deposits is mostly between three months and three years. Some banks have already started resorting to other funding sources including the EMTN programme (aided by their strong credit rating), syndicated loans and medium term notes. CBO is one of the first banks to resort to the EMTN programme raising US\$1.5 billion, while QNB borrowed US\$1.85 billion worth of syndicated loans.

Some banks would need to resort to higher cost funding to fix the asset/liability mismatch and the high utilisation

Figure 16 | Utilisation in the Qatari banking sector



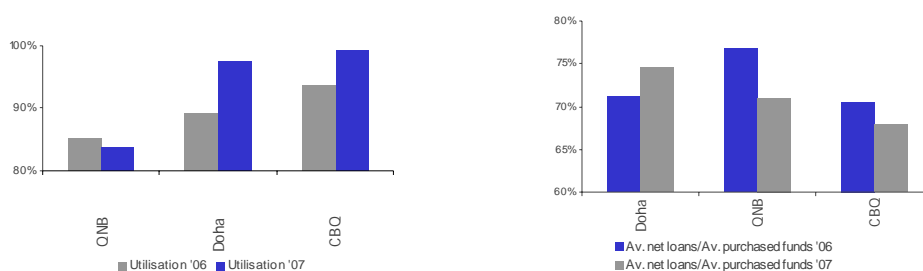
Source: Central Bank of Qatar, Beltone Financial

Figure 17 | Outstanding medium term funding as at 2007

US\$ million	EMTNs	Syn. Loans	Medium-term loan	Sub. Notes
Commercial Bank of Qatar	1,500	800	800	-
Qatar National Bank	-	1,850	-	-
Doha Bank	-	-	-	340

Source: Banks' financial statements, Beltone Financial

Figure 18 | Utilisation amongst our Qatari coverage universe



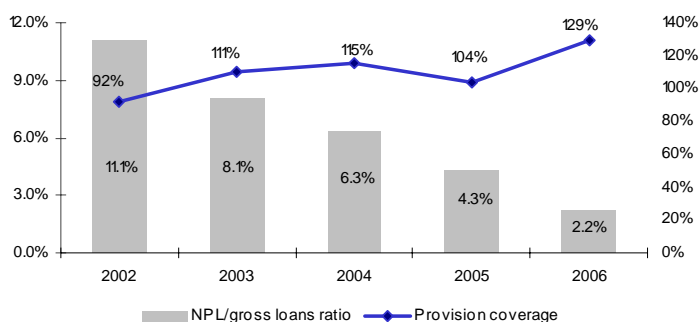
Source: Banks' financial statements, Beltone Financial

Doha Bank has the highest average net loans to average total funding, which would create funding pressure in the medium-term

Asset Quality

Qatari banks have been enjoying low levels of non-performing loans (NPLs), with an average of 2.2% for the whole sector in 2006, down from 11.1% in 2002. These low levels have been driven by the strong economic growth in Qatar over the last few years. Although Qatari banks enjoy low NPL levels, they are over-provisioning because they are building adequate levels of provisions should conditions worsen. Provision coverage reached 129% in 2006, and we estimate the ratio to be slightly higher in 2007. We believe that asset quality might be subject to a slight deterioration in the medium to long-term, given the expected competition and the shift of Qatari banks to a much riskier business, looking for more market share. However, we also believe that the central bank is prudent, putting in place adequate restrictions with regards to lending to individuals, stock market trading and real estate (see Central Bank regulations).

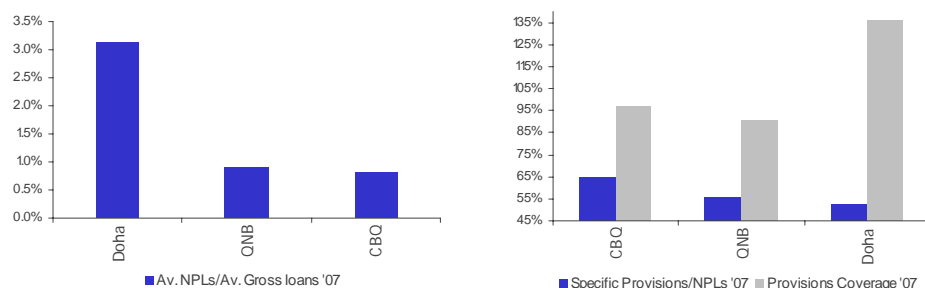
Figure 19 | NPL versus provision coverage in the whole sector



NPLs/gross loans reached 2.2% in 2006, down from 11.1% in 2002

Source: Central Bank of Qatar, International Monetary Fund

Figure 20 | NPL and provision coverage amongst our coverage universe



Amongst our coverage universe, Doha Bank shows higher NPLs/gross loans ratio, but with the highest provision coverage ratio

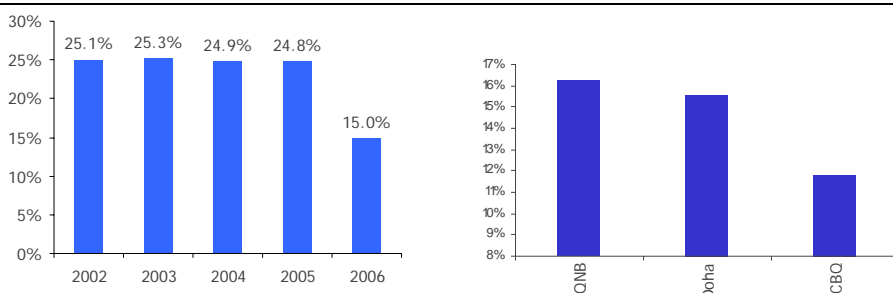
Source: Banks' financial statements, Beltone Financial

Capitalisation

The Qatar Central Bank was one of the first regulators in the region to implement Basel II standards in the banking system. Qatari banks started to comply with Basel II in 2006. By putting Basel II into practice, the banking system's financial strength is largely enhanced and should also be less susceptible to shocks. Banks in Qatar have been building up adequate capital levels for further expansion. Historically, banks have maintained high ratios of capital adequacy, reaching 24.8% in 2005. However, it fell to 15% in 2006, with the implementation of Basel II, although this is still well above the minimum ratio of 10%.

Qatari banks started to comply with Basel II in 2006

Figure 21 | Capital adequacy levels in the system and amongst our coverage universe



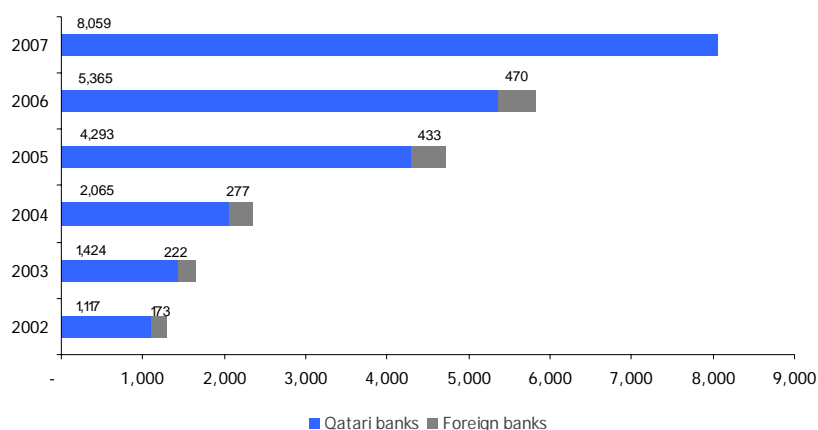
QNB has the highest capital adequacy ratio, recording 16% in 2007

Source: Central Bank of Qatar, Banks financial statements

Profitability

The Qatari banking sector witnessed strong growth in profits, which grew at a 2002 - 2007 compounded annual rate of 48.5%. In 2005, Qatari banks reported significant growth in investment gains fueled by the boom witnessed in the stock market, similar to all GCC banks. However, a correction in the stock market took place in early 2006, affecting the sector's profitability, but the sector was back on track in 2007, reporting high profit growth.

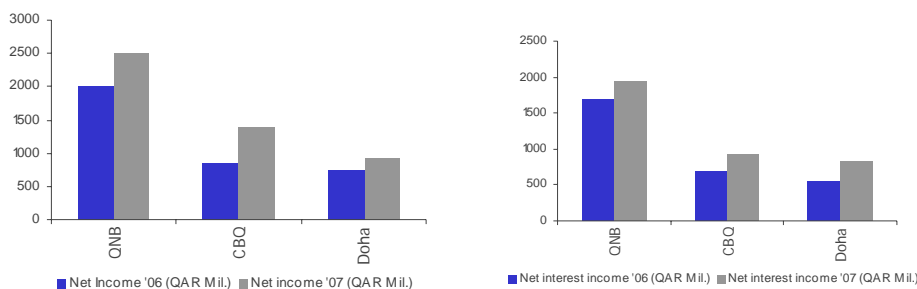
Figure 22 | Bank's profits in the Qatari banking sector



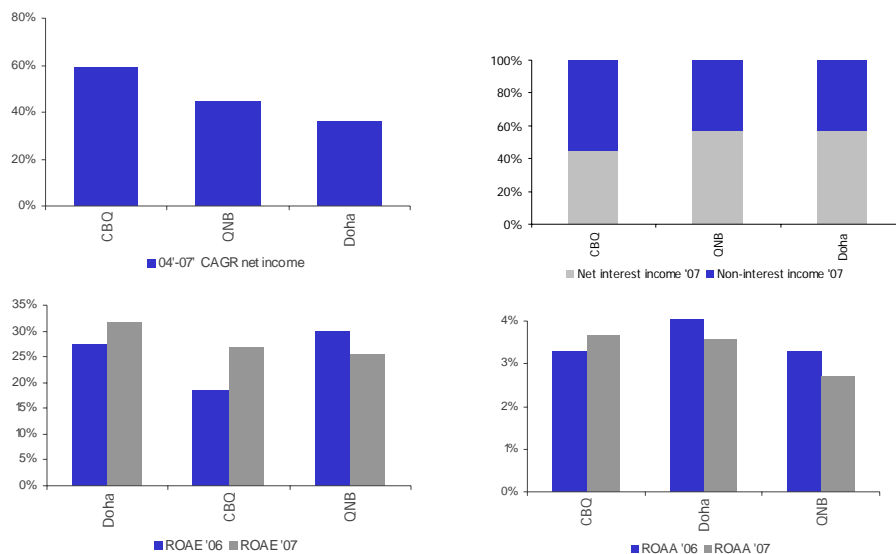
Note: Foreign banks' profits in 2007 are not available yet.

Source: Banks financial statements

Figure 23 | Profitability amongst our coverage universe



Amongst our coverage universe, QNB has been achieving the highest net income in 2006 and 2007



CBO scored the highest compounded bottom line growth and the highest non-interest income as a % of operating income

Doha Bank delivered the highest ROAE while CBO had the highest ROAA in 2007

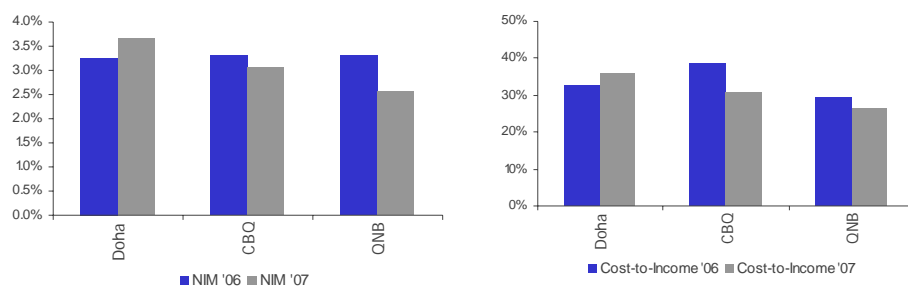
Source: Banks' financial statements, Beltone Financial

Healthy margins and adequate efficiency ratios

Margins have been diminishing over the past few years in Qatar, experiencing slight drops in 2006 versus 2005. Currently, banks in Qatar enjoy high margins, averaging 3%, which we expect to be squeezed slightly given the intensifying competition.

Qatari banks have managed to maintain moderate cost-to-income levels amid the rising staff costs in response to inflation and escalating competition. The average cost-to-income ratio for the three banks that we cover is 31%.

Figure 24 | Net interest margins and efficiency amongst our coverage universe



Doha Bank enjoys the highest net interest margin, while QNB is the most efficient amongst our coverage universe

Source: Banks' financial statements, Beltone Financial

Business Performance: Going Forward

Regarding the banking sector's balance sheet, we expect deposits to grow at a pace slightly higher than that of loans, thus increasing utilisation marginally, as banks implement their expansion plans, whether locally, regionally, or internationally. We have assumed a stable funding and investment mix for our forecast period, which focuses on deposits and medium-term notes as the major source of funds, and loans and investments in financial instruments as the major sources of investments.

We estimate a squeeze in the net interest margin (NIM) for banks in the sector, driven by competition and the lower interest rate expectations. However, we estimate the squeeze to be larger for Qatar National Bank (QNB), than that of Commercial Bank of Qatar (CBQ) and Doha Bank, because of QNB's lower focus on retail and SME financing. In addition, we forecast a higher cost-to-income ratio, for all banks in the sector, on the back of planned expansion. However, we estimate non-interest income, as a percentage of total operating income, to increase steadily, to alleviate the effects of the lower NIM and the higher cost-to-income ratios on the bottom line.

Central Bank Regulations

Statutory reserve	Banks are required to transfer 20% of net profit each year into a statutory reserve until this makes up 100% of paid up capital
Minimum capital adequacy ratio	Banks apply Basel II, therefore, CAR is a minimum of 10% of risk weighted assets
Real estate exposure	Should not exceed 150% of the bank's equity or 15% of total deposits (whichever is less)
Single obligor limit	Funding a single customer must not exceed 20% of the bank's equity
Credit Ratio [Gross Loans/ (deposits + EMTNs)]	A maximum of 90%
Security trading financing limits	<ul style="list-style-type: none"> • Financing provided to customers for the purpose of purchasing securities should not exceed 50% of the market value of the securities purchased for financial markets outside Qatar and 40% for securities purchased on the DSM • Banks should sell the related securities and liquidate the customer's debt in case the market value of the securities declines by 30%, unless agreed otherwise with the customer
Personal lending	Total amount of a customer's payments (monthly loan installment + monthly interest + credit card payments + overdrafts + other debts) should not exceed 50% of customer's total monthly salary and allowances
Investment limits in corporate equity	<ul style="list-style-type: none"> • Total investments should not exceed 30% of the bank's equity • Investment in a single company or single fund should exceed 5% of the bank's equity • Unlisted investments should not exceed 15% of the bank's equity • Participation in any company's capital should not exceed 50% unless QCB grants approval
Non performing assets	<p>Substandard accounts: Inability to pay one installment or more for three or more months</p> <p>Doubtful accounts: Failure to pay one installment or more for six or more months</p> <p>Bad debt: Failure to pay one installment or more for one year or more</p>
Liquidity ratio	Not less than 100%

Source: Central Bank of Qatar

Recommendation

Buy*

Upside/Downside

25.3%

One-Year Fair Value⁺

QAR256.08

Current Price

QAR204.40**



Qatar National Bank (QNB)

Banking sector | Qatar

Riding the Wave to Success

DCF Target Price

QAR286.17

Comparative Valuation Price

QAR225.99

PEG09E Comparative Valuation

QAR240.00

P/B08-09E Comparative Valuation

QAR211.98

EPS FY08E

QAR13.90

Reuters Code

QNBK.QA

Bloomberg Code

QNBK.QD

Market Cap

QAR44.8 billion

US\$12.2 billion

Number of Shares Outstanding

218,996,940

Average Daily Turnover

QAR12.2 million

52-Week high/ low

QAR215.00/131.00

Shareholder Structure

50% | Qatar Investment Authority

50% | Free Float

Foreign Ownership Limit

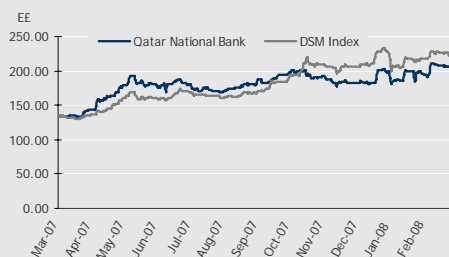
25%

- **Qatar National Bank (QNB) is the largest bank in Qatar, with strong government and public sector ties.** QNB enjoys a very strong brand name in Qatar, and had a total asset market share of 39% in 2007. The bank relies on its brand equity, ownership, rating, and on its relatively larger local and international presence to attract and maintain clients. Historically, the bank was 'the government bank,' which secured a very significant source of business for the bank. However, the bank has been losing market share, because the government has started to shift its financing from lending to cash flows. QNB's business with the government has been shrinking, but it is worth noting that QNB's business with the public sector (government and semi-government agencies) has been increasing.
- **QNB has been growing fast, and at a steady pace.** QNB's total assets grew at a CAGR of 42% between 2004 and 2007 to reach QAR114 billion, while loans and deposits grew at a CAGR of 34% and 39% over the same period, respectively, to record QAR66 billion and QAR79 billion. QNB has the largest asset, loan, and deposit books in the sector. We estimate, however, that the bank will continue to witness lower growth than that of Commercial Bank of Qatar on the lending and deposit sides, given the difference in the balance sheet size of both banks.
- **QNB has a solid local strategy.** QNB is set to exploit the full potential of its leading position in the Qatari banking sector. With regard to corporate banking, QNB, in our view, will continue to demonstrate a strong corporate lending performance, given its prime position in the sector, its strong government and public sector ties and its high capital base. QNB is also focused on expanding its retail banking, SME financing, and Islamic banking, and management has taken steps to expand its capital market activities, specifically asset management and trading. We believe that the focus on retail banking and capital markets will boost the bank's non-interest income and maintain good bottom line growth over the medium-term.
- **QNB is eyeing international expansion.** Management is reviewing regional and international markets for selective overseas expansion opportunities. QNB started operating in the mid-1970s in London and Paris, and from 2004 until 2007, it opened branches in Yemen, Oman and Kuwait, as well as representative offices in Singapore, Iran, and Libya. QNB acquired 50% of the Tunisian-Qatari Bank, and will hold a 49% stake in a newly established bank in Syria. QNB has also recently obtained a licence to open a branch in Mauritania and secured authorisation for banking operations in Sudan.
- **DCF target price and comparative valuation offer high upside potential.** QNB's DCF target price is QAR286.17, which offers 40% upside potential. However, the bank is trading at a fair P/B FY08E (3.0x), compared to a regional and emerging market average of 3.1x. QNB is trading at a P/E FY08E of 14.7x, which is slightly higher than the regional and emerging market average of 13.2x. However, when taking earnings growth into consideration, QNB is trading at a low PEG09E ratio of 0.64x, compared to a regional average of 0.7x.

Selected Indicators

FY ends December	2006a	2007a	2008e	2009e	2010e	2011e
NII (QAR million)	1,687	1,932	2,325	2,727	3,137	3,534
NIM (%)	3.3	2.6	2.2	2.2	1.8	1.7
Operating income (QAR million)	2,635	3,407	4,378	5,321	6,274	7,194
Net income (QAR million)	1,998	2,508	3,046	3,638	4,201	4,693
Net income growth (%)	30.0	25.5	21.5	19.4	15.5	11.7
EPS (QAR)	9.1	11.4	13.9	16.6	19.2	21.4
P/E (x)	22.4	17.9	14.7	12.3	10.7	9.5
ROAA (%)	3.3	2.7	2.3	2.0	1.9	1.7
ROAE (%)	25.6	24.3	21.8	22.6	22.8	22.2
BVPS (QAR)	35.0	59.1	68.5	78.4	89.9	102.8
P/BV (x)	5.8	3.5	3.0	2.6	2.3	2.0
DPS (QAR)	3.6	4.2	5.6	6.6	7.7	8.6
Dividend yield (%)	1.7	2.0	2.7	3.3	3.8	4.2
Av. net loans/Deposits	84.0	83.1	82.9	82.2	81.5	80.9
Av. net Loans/Avg. Purchased Funds	76.7	71.0	67.2	65.9	65.7	65.7
Cost-to-Income (%)	29.7	26.4	27.2	28.9	30.6	32.1
CAR (%)	16.8	16.3	15.1	13.5	12.5	12.0
Av. NPLs/Av. Gross loans (%)	1.6	0.9	0.6	0.5	0.5	0.4
Provisions Coverage (%)	85.9	90.5	112.8	119.0	124.1	122.6

Source: QNB and Beltone Financial



* Refer to back cover for investment recommendations
+ Fair value is a weighted average of DCF target price and comparative valuation price (which is a weighted average of PEG comparative valuation and P/B comparative valuation)

**Closing of March 20th, 2008

Investment Considerations

Strengths

- QNB is the largest bank in Qatar, with a 2007 loan and deposit market share of 41% and 48%, respectively.
- QNB is the main bank used by the Qatari government and public sector, since the government is the largest shareholder of the bank, providing it with large and secured business, with a lower risk profile, compared to its peers.
- With a strong credit rating assigned by the different agencies and a large capital base (CAR of 16% in 2007), QNB has the required infrastructure for strong growth over the medium-term.
- QNB demonstrated strong growth between 2004 and 2007, for assets (42%), loans (34%), deposits (39%), and net income (45%). Despite this, QNB ranked third in terms of lending growth over the period and second in terms of assets, deposits, and net income growth, amongst our Qatari coverage universe. This highlights the strength of the overall sector.
- QNB's asset quality is very high, with an average NPLs to average gross loans ratio of 0.9% in 2007; which is 91% covered by provisions. Due to the high provisions coverage, management has been reversing provisions for the last four years.
- Being the largest bank in the market, QNB holds the largest corporate and retail banking market shares, of 32% and 33%, respectively.
- QNB has been operating very efficiently, reflected by its low cost-to-income ratio (26.4% in 2007). QNB is the most efficient amongst our Qatari banks coverage universe.
- QNB has the largest branch network in Qatar and the largest number of branches overseas. This will support the bank's plan to expand retail business, SME financing and Islamic banking. QNB has the second highest profits per branch (QAR48 million), with a minor difference to first rank value (QAR56 million), which shows the bank is making efficient use of its network and IT infrastructure to better serve clients.
- QNB has the largest international presence, compared to its peers (please see following page).

Weaknesses

- QNB has an undiversified business portfolio because of its strong alliance with the government and the public sector, where most of the bank's deposits and loans (around 40% of each) are sourced from and channeled to these entities. However, this reduces the overall risk profile of the bank's loan portfolio.
- QNB has been losing market share, especially on the lending side, because of its business concentration on the government, which has started to finance its operations from cash flows rather than lending.
- QNB is more of a corporate bank (76% of the loan portfolio in 2007), but QNB has been working on developing its retail banking, SME financing and Islamic lending, which should gradually improve the mix, and consequently profitability and

BANK PROFILE

Brief History

Qatar National Bank (QNB) was established in 1964 as the country's first Qatari-owned commercial bank, QNB has steadily grown to be among the largest banks in the region and is by far the leading financial institution in the country with a market share above 40% of banking sector assets.

Ownership

Qatar Investment Authority	50%
Free float	50%
Note: Each investor can own up to 2% only	
Foreign Ownership Limit	25%
GCC Investors' Ownership Limit	25%

Activities

Activities:	% of net income	% of assets	% of liabilities
- Conventional Banking	94.6%	92.7%	95.0%
- Islamic Banking	5.9%	6.3%	0.9%
- Wealth Management (subsidiary)	-0.5%	4.2%	4.6%
- Intra Group	0.0%	-3.1%	-0.5%

Subsidiaries:

Subsidiaries:	Country of inc.	% Ownership
Mansour Bank	Iraq	23.1%
Ansbacher Subsidiary (Asset Management)	UK	100.0%
Housing Bank for Trade and Finance	Jordan	31.0%
Aljazeera Islamic Company	Qatar	20.0%
New Private Bank in Syria (to be established)	Syria	49.0%
Tunisian-Qatari Bank	Tunisia	50.0%

Network

Domestic Branches	52	(41 conventional and 11 Islamic)
Overseas Branches	14	(overseas branches, affiliates and rep offices)
Domestic ATMs	130+	

Credit Rating

	Long term	Outlook	Short term
S&P	A+	Stable	A1
Moody's	Aa3	Stable	P1
Fitch	A+	Stable	F1
Capital Intelligence	A+	Stable	A1

Employees

Number of Employees	1,337
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Market Share and Ranking

	2007	2006	2005	2004
Total Gross Loans (QAR Mil.)	66,472	46,702	32,114	27,389
Loans Market Share	41.4%	45.5%	46.1%	55.3%
Growth	42.3%	45.4%	17.3%	
Total Deposits (QAR Mil.)*	79,364	55,790	36,706	29,614
Deposits Market Share	47.5%	46.3%	43.0%	48.7%
Growth	42.3%	52.0%	23.9%	
Total Assets (QAR Mil.)	114,361	71,663	50,060	39,548
Assets Market Share	38.6%	37.8%	38.4%	43.0%
Growth	59.6%	43.2%	26.6%	

* Deposits include Islamic deposits.

margins, since QNB has been witnessing a sharper drop in margins compared to peers.

- Concerning currency risk, QNB has a long USD position, equivalent to US\$3.3 billion in 2007, but which the bank has been reducing. The position has been cut from US\$10.2 billion in 2006.

Differentiation and Future Growth Strategy

QNB has the highest credit rating in Qatar, and its geographical dispersion and branch network provide it with wide access and high reach to existing and potential customers both domestically and overseas. The bank is trusted by the market for its strong rating, expertise, large capital base and brand equity.

For future growth, the bank intends to:

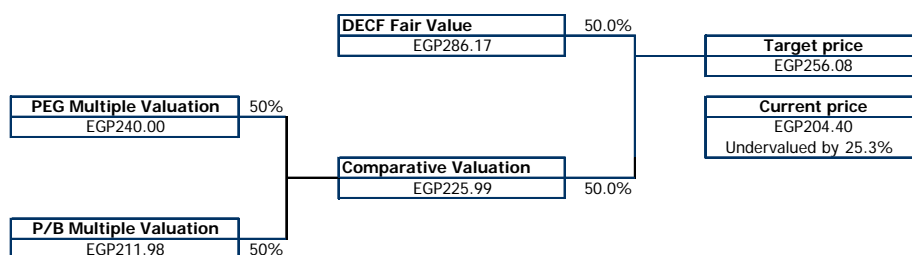
- Strengthen its local market dominance and attempt to maintain its market share, amongst fierce competition, mostly from other local players. This will be achieved through building on its strengths and expanding its retail banking services, especially to high net worth individuals, and expanding SME financing focus within corporate banking.

QNB will also focus on expanding its investment banking activities and management has announced that it had reached an advanced stage in obtaining the necessary approval from the regulatory and other authorities to establish a company at the Qatar Financial Centre, under the name of QNB Capital, with a capital of US\$150 million. QNB Capital will provide investment banking services and direct investments.

- Diversify its revenue stream between local and international operations, although for QNB, the focus will remain in the MENA region. The target is to secure 20%-25% of income from international operations, which we believe is achievable, given that the bank is expanding its shareholding in foreign banks, and as it moves gradually to markets with low financial penetration, like Jordan, Tunisia, and Iraq. QNB has obtained all the necessary approvals for the acquisition of a 50% stake in the Tunisian-Qatari bank. The Tunisian bank started as an investment bank in 2004 and was later transformed into a commercial bank to offer comprehensive banking products and services. In addition, QNB recently invested in a 49% stake in a Syrian bank; 31.5% in Jordan-based The Housing Bank for Trade and Finance (which has operations in Palestine, Bahrain, Algeria, Syria, UAE, Libya, Iraq and Jordan); and 20% in Al Jazeera Islamic Company. In 2004, QNB acquired a 23% stake in Mansour Bank of Iraq, and 100% of the London-based Ansbacher Group, which is QNB's wealth management and private banking subsidiary. It has operations in Switzerland, the Channel Islands, the Bahamas, Dubai International Financial Center and the Qatar Financial Center. QNB has branches in Yemen, Oman and Kuwait, as well as representative offices in Singapore, Iran, and Libya. QNB has recently obtained the licence to open a branch in Mauritania and secured the authorisation for banking operations in Sudan. Within Islamic banking, QNB has entered into a strategic partnership with a group of Kuwaiti companies to establish a Kuwaiti-Qatari company for ijara and investment with a participation of 30% of the capital, which amounts to KWD 24 million (QAR 321 million). The new company will offer its Islamic financing services within GCC countries.

Valuation Summary

Figure 25 | Valuation Matrix



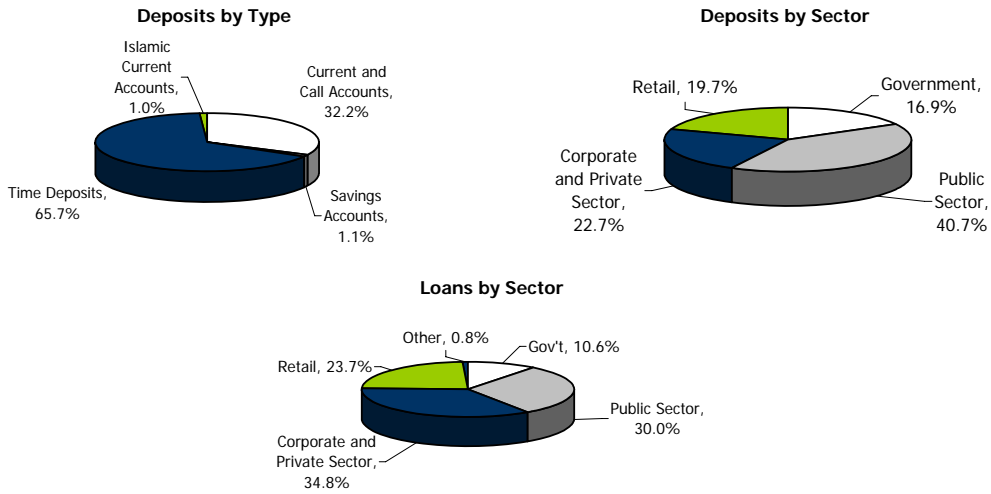
Source: Beltone Financial estimates

Business Performance and Forecasts Summary

Balance Sheet

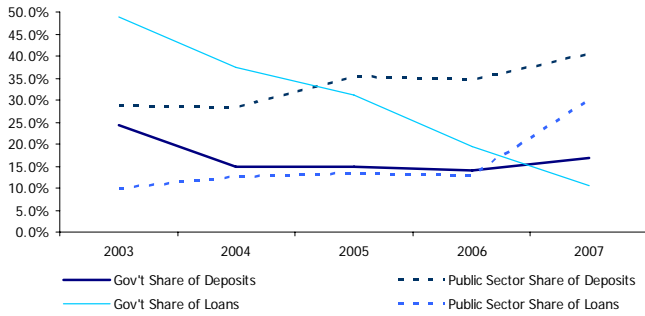
With regard to the balance sheet, we expect deposits to grow at a 2007–2013 CAGR of 23.2% and loans to grow at a compounded rate of 22.2% over the same period, thus pushing utilisation up further. The bank is currently a corporate bank, with corporate lending comprising around 76% of the bank's portfolio. We expect a greater focus on retail lending, especially given the focus on Islamic banking, mortgage lending and private banking, coupled with a planned expansion within Qatar, and regionally.

Figure 26 | Loan and Deposit Classification (December 31st, 2007)



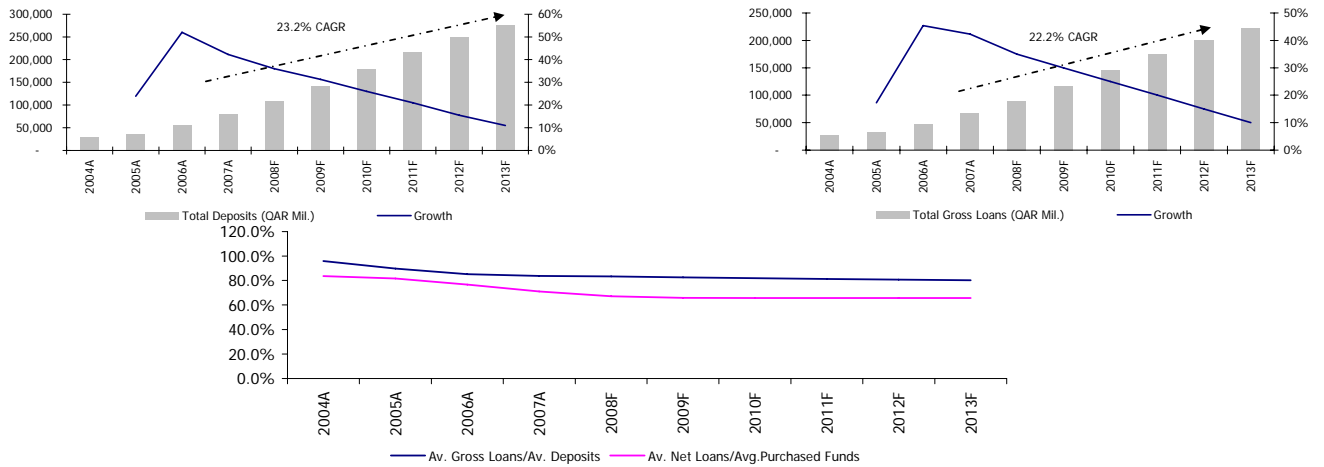
Source: QNB and Beltone Financial

Figure 27 | Government and Public Sector Share in Funding and Lending of QNB



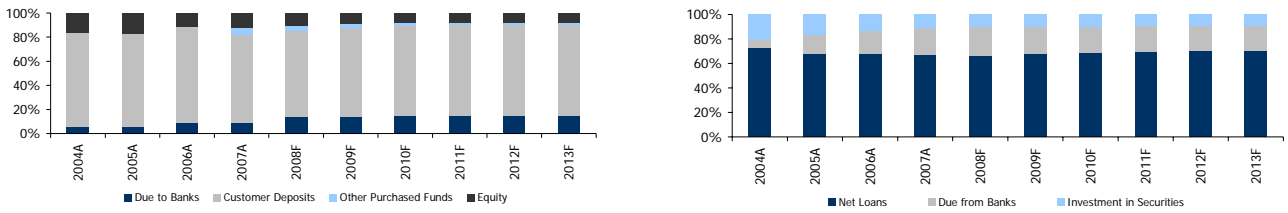
Source: QNB and Beltone Financial

Figure 28 | Loan and Deposit Growth, and Utilisation



Source: QNB and Beltone Financial estimates

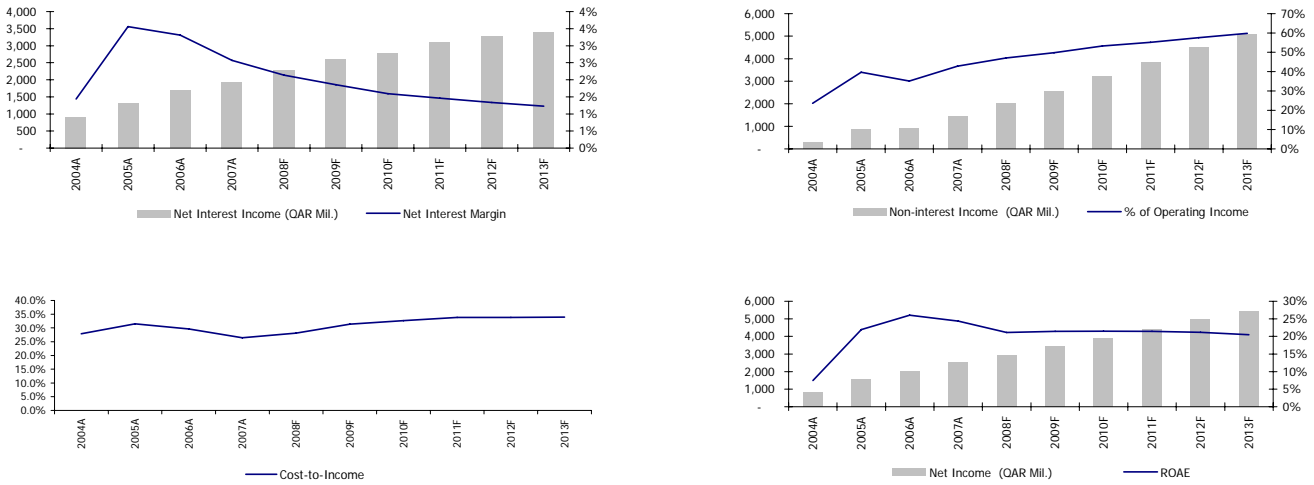
Figure 29 | Funding and Investment Mix



Source: QNB and Beltone Financial estimates

Income Statement

Figure 30 | Profitability and Efficiency



Source: QNB and Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (QAR '000)	2006A	2007A	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	2,481,218	10,948,569	13,086,754	17,359,418	22,032,992	26,053,451
Interbank Deposits	12,780,711	21,302,608	31,527,860	37,833,432	46,156,787	53,541,873
Short-Term Investments in Securities	4,412,388	6,800,672	9,520,941	12,377,223	15,471,529	18,565,835
Gross Loans & Advances	46,701,646	66,472,455	89,737,814	116,659,159	145,823,948	174,988,738
(Loan-Loss Provisions)	-475,036	-408,318	-534,858	-660,850	-797,341	-966,497
Net Loans & Advances	46,226,610	66,064,137	89,202,956	115,998,309	145,026,607	174,022,241
Investments in Subsidiaries	32,810	2,703,546	5,407,092	8,110,638	10,138,298	12,672,872
Investments in Securities	2,920,913	2,947,124	3,241,836	3,566,020	3,922,622	4,314,884
Net Fixed Assets	589,093	651,496	698,291	739,031	771,385	792,804
Other Assets	674,889	1,381,387	2,072,081	2,693,705	3,232,446	3,717,312
Total Assets	71,663,033	114,360,668	156,308,276	200,218,109	248,283,374	295,202,838
Liabilities						
Due to Banks	6,254,842	9,928,352	20,452,405	27,713,009	35,749,782	41,827,244
Customer Deposits	55,790,063	79,363,881	107,934,878	141,664,528	178,497,305	215,981,739
Other Purchased Funds	0	6,714,819	6,714,819	6,714,819	6,714,819	6,714,819
Total Liabilities	64,000,737	101,415,296	141,316,295	183,043,352	228,588,092	272,691,817
Common Stock	1,297,760	2,189,970	2,408,967	2,408,967	2,408,967	2,408,967
Total Reserves	4,903,099	9,301,839	9,555,308	9,834,123	10,140,821	10,478,188
Total Net Worth	7,662,296	12,945,372	14,991,981	17,174,757	19,695,282	22,511,021
Total Liabilities & Net Worth	71,663,033	114,360,668	156,308,276	200,218,109	248,283,374	295,202,838
Contra Accounts	46,724,630	64,613,557	87,228,302	109,035,377	130,842,453	150,468,821

Source: QNB and Beltone Financial Forecasts

Income Statement

Fiscal Year Ends December (QAR '000)	2006A	2007A	2008F	2009F	2010F	2011F
Interest Income	3,674,847	5,040,305	6,600,286	8,468,427	10,442,585	12,443,094
Interest Expense	-1,988,100	-3,108,177	-4,275,519	-5,741,538	-7,305,798	-8,908,663
Net Interest Income	1,686,747	1,932,128	2,324,767	2,726,890	3,136,787	3,534,431
Fees & Commissions, Net	453,273	726,300	1,022,013	1,282,336	1,525,546	1,733,070
Investment Income, Net	472,684	732,629	1,012,976	1,291,771	1,590,183	1,902,369
Other Operating Income	22,267	16,233	17,856	19,642	21,606	23,767
Net Operating Income	2,634,971	3,407,290	4,377,612	5,320,639	6,274,122	7,193,637
Administrative Expenses	-728,341	-842,295	-1,119,487	-1,457,517	-1,823,400	-2,203,820
Depreciation	-53,025	-57,293	-71,702	-82,632	-94,274	-106,456
Total Operating Expenses	-781,366	-899,588	-1,191,189	-1,540,149	-1,917,674	-2,310,276
Loan-Loss Provisions	139,194	19,709	-126,540	-125,992	-136,491	-169,156
Net Operating Profit	1,992,799	2,527,411	3,059,882	3,654,498	4,219,957	4,714,204
Income Taxes	-8,567	-19,339	-13,769	-16,445	-18,989	-21,214
NPAUI	1,997,863	2,507,508	3,046,020	3,637,960	4,200,874	4,692,898

Source: QNB and Beltone Financial Forecasts

Financial Ratios

Fiscal Year Ends December	2006A	2007A	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	45.4%	42.3%	35.0%	30.0%	25.0%	20.0%
Deposits	52.0%	42.3%	36.0%	31.3%	26.0%	21.0%
Assets	43.2%	59.6%	36.7%	28.1%	24.0%	18.9%
Net Income	30.0%	25.5%	21.5%	19.4%	15.5%	11.7%
Profitability Ratios						
Return on Average Assets	3.3%	2.7%	2.3%	2.0%	1.9%	1.7%
Return on Average Shareholders Equity	25.6%	24.3%	21.8%	22.6%	22.8%	22.2%
Net Spread	3.4%	2.8%	2.6%	2.4%	2.3%	2.2%
Net Interest Margin	3.3%	2.6%	2.2%	2.2%	1.8%	1.7%
Efficiency Ratios						
Cost -to- Income	29.7%	26.4%	27.2%	28.9%	30.6%	32.1%
Liquidity Ratios						
Average Gross Loans -to- Average Deposits	85.2%	83.7%	83.4%	82.7%	82.0%	81.3%
Average Net Loans -to- Average Deposits	84.0%	83.1%	82.9%	82.2%	81.5%	80.9%
Average Net Loans -to- Average Purchased Funds	76.7%	71.0%	67.2%	65.9%	65.7%	65.7%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	63.8%	60.4%	57.4%	57.6%	58.2%	58.7%
Average NPLs -to- Average Gross Loans	1.6%	0.9%	0.6%	0.5%	0.5%	0.4%
Provisions Coverage	85.9%	90.5%	112.8%	119.0%	124.1%	122.6%
Capitalization Ratios						
Capital Adequacy Ratio	16.8%	16.3%	15.1%	13.5%	12.5%	12.0%
Dividend Payout Ratio	39.0%	36.4%	40.0%	40.0%	40.0%	40.0%

Source: QNB and Beltone Financial Forecasts

Recommendation

Buy*

Upside/Downside

39.7%

One-Year Fair Value⁺

QAR204.78

Current Price

QAR146.60**



Commercial Bank of Qatar (CBQ)

Banking sector | Qatar

The Fast Tracker

DCF Target Price

QAR227.48

Comparative Valuation Price

QAR182.09

PEG09E Comparative Valuation

QAR221.00

P/B08-09E Comparative Valuation

QAR143.17

EPS FY08E

QAR10.20

Reuters Code

CBQK.QA

Bloomberg Code

CBQK QD

Market Cap

QAR26.7 billion

US\$7.3 billion

Number of Shares Outstanding

182,208,312

52-Week high/ low

QAR160.69/60.77

Average Daily Turnover

QAR24.8 million

Shareholder Structure

10% | **Hussein Ibrahim Al Fardan and family**

3% | **Qatar Insurance Company**

87% | **Free Float**

Foreign Ownership Limit

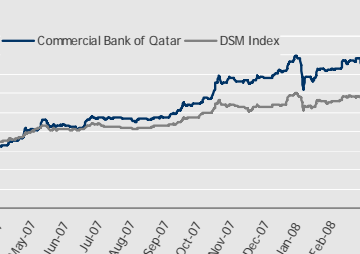
25%

- Commercial Bank of Qatar (CBQ) is the fastest growing bank in Qatar, and is set to benefit from the growth in the Qatari economy.** CBQ is the second largest bank by total assets within our Qatari coverage universe, with a loan and deposits market share of 16% each. CBQ is the largest private sector player in Qatar, and is the fastest growing amongst our Qatari coverage universe. CBQ achieved significant compounded growth in assets (52%), loans (55%), and deposits (46%) over 2004-2007. CBQ achieved a compounded annual growth in net income of 59%, over the same period. We believe that CBQ will continue to benefit from the strong growth in the Qatari economy, given its strong brand name and presence in the project finance market across all segments, including commercial, real estate, contracting, and given its solid retail and Islamic banking activities.
- Highest profitability per branch and best diversification between interest and non-interest income.** In 2007, CBQ achieved the highest profits per branch (QAR56 million), demonstrating the bank's strong IT infrastructure and capability to reach out to customers, with a limited number of branches. The bank has the highest non-interest income as a percentage of operating income, achieving 54.3% in 2007. This makes the bank less susceptible to slow bottom line growth as a result of a squeeze in net interest margin.
- Locally focused strategy, with a target to become a key regional player.** CBQ will continue to concentrate on the local market, strengthening its project finance, retail, and Islamic banking market shares and expanding its client base. At the same time, CBQ is also planning on international expansion, and has so far acquired stakes in National Bank of Oman and United Arab Bank of the UAE. Management announced a new 'Group' organization structure which will manage banking activities of all three entities, across Qatar, UAE and Oman. Each bank will continue to pursue selective and aggressive organic expansion in each of its home markets and also combine to pursue other regional risk participation opportunities as they arise.
- Attractive DCF and PEG ratio valuation, but trading at high P/B.** CBQ's DCF, QAR227.48, offers a 55.2% upside potential to the current market price. However, CBQ is trading at high P/B FY08E (3.9x) and P/E FY08E (14.4x), compared to a regional and emerging market average P/B FY08E of 3.1x and P/E FY08E of 13.2x. However, CBQ's PEG09E ratio (0.5x) supports the DCF valuation, since it is significantly lower than the regional average of 0.7x. We assign CBQ a 'Buy' recommendation, based on a target price of QAR204.78, offering a 39.7% upside potential to the current market price.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (QAR million)	704	929	1,203	1,477	1,682	1,980
NIM (%)	3.3	3.1	2.8	2.6	2.4	2.3
Operating income (QAR million)	1,413	2,076	2,835	3,601	4,364	5,227
Net income (QAR million)	863	1,391	1,860	2,299	2,723	3,221
Net income growth (%)	15.1	61.2	33.8	23.6	18.5	18.3
EPS (QAR)	4.7	7.6	10.2	12.6	14.9	17.7
P/E (x)	31.0	19.2	14.4	11.6	9.8	8.3
ROAA (%)	3.3	3.7	3.5	3.3	3.1	3.1
ROAE (%)	17.3	27.0	29.9	30.8	30.3	29.9
BVPS (QAR)	25.5	31.1	37.2	44.8	53.8	64.4
P/BV (x)	5.7	4.7	3.9	3.3	2.7	2.3
DPS (QAR)	5.4	3.1	4.1	5.0	6.0	7.1
Dividend yield (%)	3.7	2.1	2.8	3.4	4.1	4.8
Av. net loans/Av. deposits	92.8	98.5	97.0	97.0	96.9	96.9
Av. net Loans/Avg. Purchased Funds	70.5	68.0	64.4	64.0	64.7	65.6
Cost-to-Income (%)	38.5	30.7	31.6	33.5	35.2	36.3
CAR (%)	15.3	11.9	11.1	10.4	10.1	10.1
Av. NPLs/Av. Gross loans (%)	0.9	0.8	0.9	0.9	0.9	0.9
Provisions Coverage (%)	99.0	96.9	94.7	94.9	94.4	94.7

Source: CBQ and Beltone Financial



* Refer to back cover for investment recommendations

+ Fair value is a weighted average of DCF target price and comparative valuation price (which is a weighted average of PEG comparative valuation and P/B comparative valuation)

**Closing of March 20th, 2008

Investment Considerations

Strengths

- CBQ has the second largest asset, loan, and deposit books, after QNB. CBQ is the largest private sector bank in Qatar and the fastest growing amongst our Qatari banking coverage universe, with an asset, loan and deposit 2004 - 2007 CAGR of 52%, 55%, and 46%, respectively.
- CBQ's decision to acquire stakes in National Bank of Oman (around 35%) and United Arab Bank in Sharjah (around 40%) has been a significant contributor to investment income and further emphasises the bank's strategy of becoming a key regional player. We believe that this will continue to improve the bank's non-interest income as a percentage of operating income (54.3% in 2007), and makes it less susceptible to a squeeze in profitability, given the expected lower margins in the future.
- CBQ has the largest profits per branch, standing at QAR56 million per branch in 2007, which shows that CBQ capitalizes on its IT infrastructure to outreach its clients.
- CBQ is operating at high efficiency, reflected by its low cost-to-income ratio (30.7% in 2007).
- CBQ has strong credit ratings, which supports its ability to raise funds from international markets at favourable rates and terms.
- CBQ holds the second highest corporate lending market share in Qatar, 12% in 2007, and the third largest retail lending market share, 14% in 2007, amongst our Qatari coverage universe.
- CBQ has very high asset quality with average-NPLs-to-average-gross-loans of 0.8% in 2007, and which are 96.9% covered with provisions.

Weaknesses

- CBQ's equity base might need further building in order to support future expansion plans, especially with the tighter risk management regulations being implemented in Qatar.

Differentiation and Future Growth Strategy

The bank's strategy is to strengthen further its local market position, through focusing on the following business segments:

- Corporate banking as a very significant portion of the market, with the high growth in the economy and the significant infrastructure spending that Qatar is witnessing.
- The bank will continue to emphasise its retail-banking focus through product development and cross-selling enhancement.
- CBQ will focus on strengthening and expanding its treasury and investment banking activities.
- Management is seeking a stronger presence in the Islamic banking segment, which the bank commenced in early 2007.
- In the long run, CBQ will increase its focus on SME financing.

In addition, CBQ complements its organic growth with strategic regional acquisitions, to diversify its business operations, and achieve the target of becoming a key regional player.

BANK PROFILE

Brief History

The Commercial Bank of Qatar was established in 1975 as the first wholly owned private commercial bank in Qatar. Initially capitalised at QAR 10 million, it has grown and prospered over the years to become an important regional bank.

Ownership

Hussein Ibrahim Al Fardan and family	10%
Qatar Insurance Company	3%
Free Float	87%

Note: Each investor can own up to 5% only

Foreign Ownership Limit	25%
GCC Investors' Ownership Limit	25%

Activities

Activities:	% of net income	% of assets	% of liabilities
- Corporate Banking	75.12%	80.74%	80.77%
- Consumer Banking	12.83%	10.56%	14.11%
- Islamic Banking	1.96%	2.81%	2.40%
- Orient 1	-0.02%	0.25%	0.02%
- Head Office	10.11%	5.48%	2.71%

Subsidiaries:

Subsidiaries:	Country of inc.	% Ownership
- Orient 1	Bermuda	100%
- Diners Club Services	Bahrain	100%
- Diners Club Services	Egypt	100%
- Global Card Services LLC	Oman	100%
- National Bank of Oman	Oman	35%
- United Arab Bank	UAE	40%

Network

Domestic Branches	25
Overseas Branches & Rep. Offices	0
Domestic ATMs	115

Credit Rating

	Long term	Outlook	Short term
S&P	A-	Stable	A2
Moody's	A1	Stable	P1
Fitch	A	Stable	F1
Capital Intelligence	NA	NA	NA

Employees

Number of Employees	1,007
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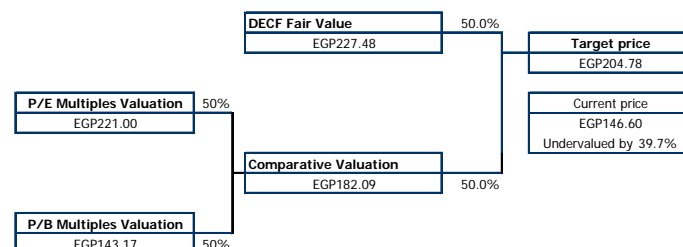
Market Share and Ranking

	2007	2006	2005	2004
Total Gross Loans (QAR Mil.)	25,224	17,500	11,010	6,835
Loans Market Share	15.7%	17.1%	15.8%	13.8%
Growth	44.1%	59.0%	61.1%	
Total Deposits (QAR Mil.)*	25,796	17,209	13,238	8,304
Deposits Market Share	15.4%	14.3%	15.5%	13.7%
Growth	49.9%	30.0%	59.4%	
Total Assets (QAR Mil.)	45,397	30,358	22,182	12,940
Assets Market Share	15.3%	16.0%	17.0%	14.1%
Growth	49.5%	36.9%	71.4%	

* Deposits include Islamic deposits.

Valuation Summary

Figure 31 | Valuation Matrix



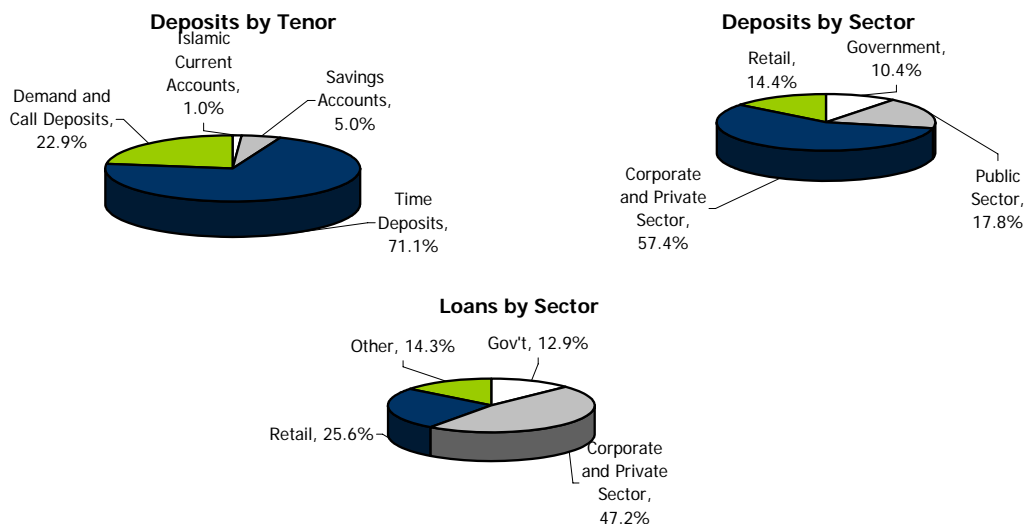
Source: Beltone Financial estimates

Business Performance and Forecasts Summary

Balance Sheet

The majority of CBQ's deposits are time (71.1%), which gives deposits a more stable tenor, and provides CBQ with a better asset-liability-management. CBQ relies more on private sector deposits and lending, rather than government and public sector, which has a higher risk profile, but higher returns and margins.

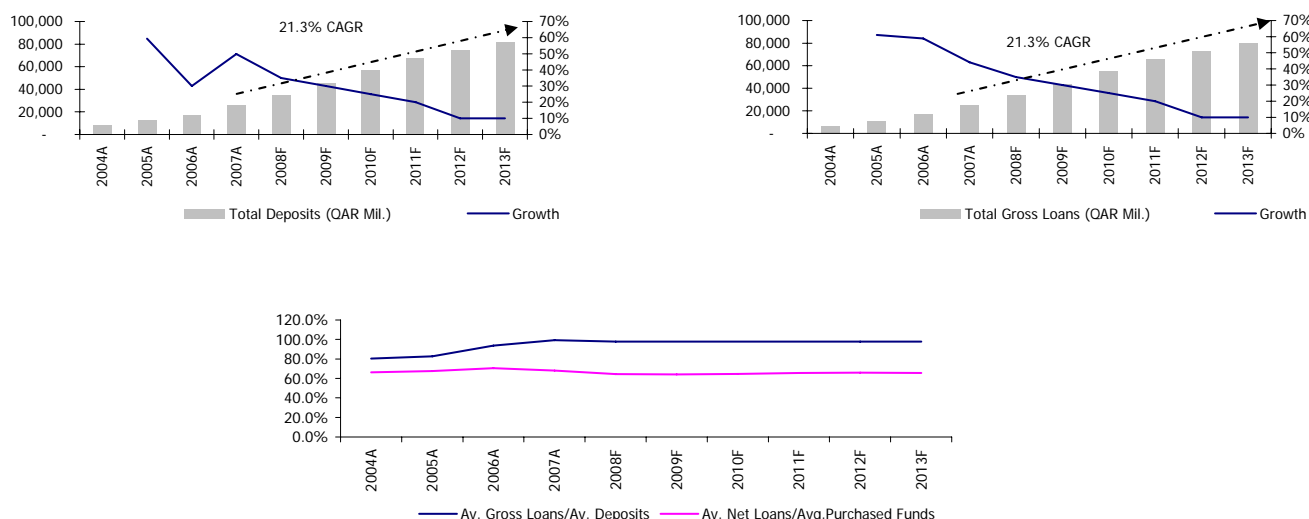
Figure 32 | Loan and Deposit Classifications



Source: CBQ and Beltone Financial

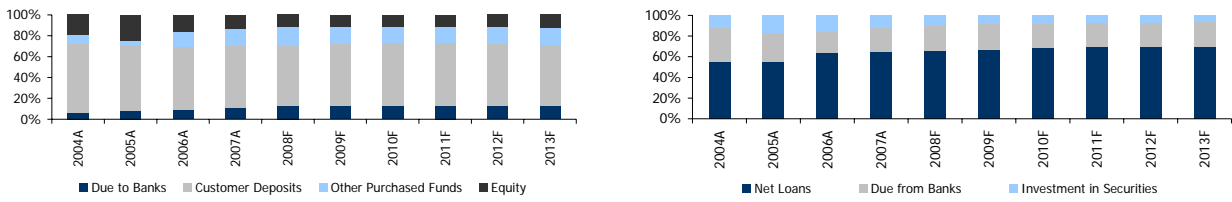
On the balance sheet, we expect deposits and lending to grow at a 2007-2013 CAGR of 21.3%, maintaining the current utilisation levels.

Figure 33 | Loan and Deposit Growth and Utilisation



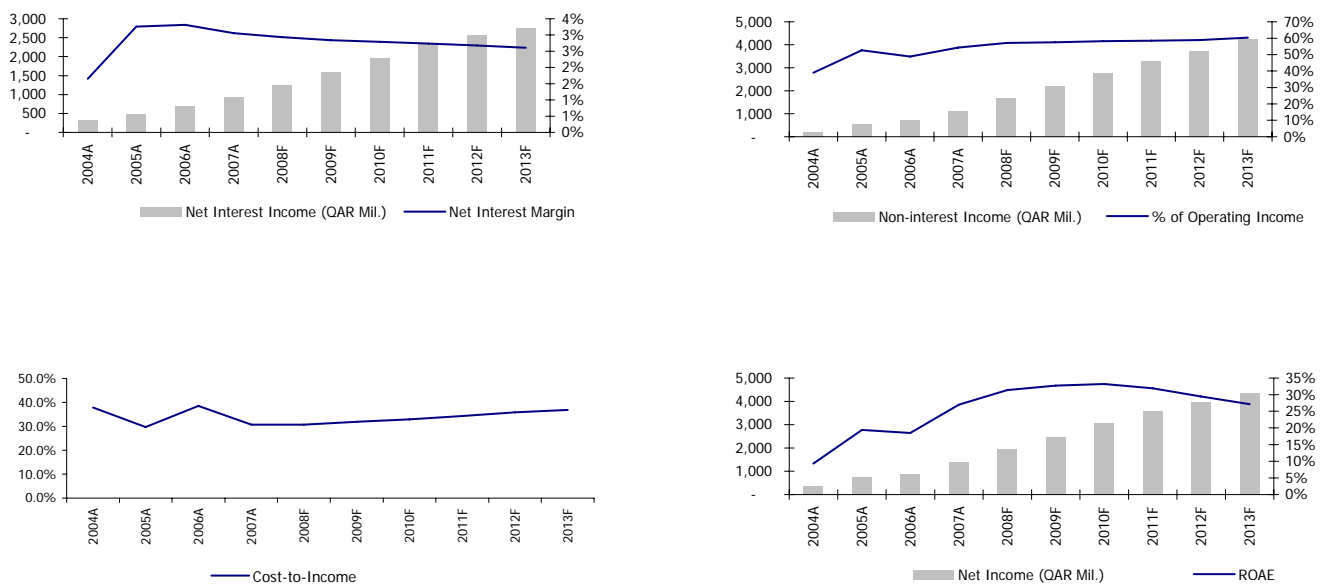
Source: CBQ, Beltone Financial estimates

Figure 34 | Funding and Investment Mix



Source: CBQ, Beltone Financial estimates

Figure 35 | Profitability and Efficiency



Source: CBQ, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (QAR 000)	2006A	2007A	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	1,017,893	2,248,858	4,283,238	5,563,382	6,981,243	8,430,979
Inter-bank Deposits	5,493,323	9,019,483	12,627,276.2	16,415,459	19,698,551	22,653,334
Short-Term Investments in Securities	2,047,769	2,169,384	2,277,853	2,391,746	2,511,333	2,636,900
Gross Loans & Advances	17,500,396	25,223,762	34,052,079	44,267,702	55,334,628	66,401,553
(Loan-Loss Provisions)	-140,648	-202,275	-281,263	-378,779	-481,373	-587,709
Net Loans & Advances	17,359,748	25,021,487	33,770,816	43,888,923	54,853,255	65,813,845
Investments in Subsidiaries	1,285,158	3,329,900	4,162,375	5,202,969	6,503,711	8,129,639
Investments in Securities	431,867	411,902	494,282	593,139	711,767	854,120
Net Fixed Assets	558,213	721,393	905,046	1,117,075	1,311,279	1,496,936
Other Assets	322,220	391,486	469,783	563,740	676,488	811,785
Total Assets	30,357,935	45,397,279	61,378,888	78,430,207	96,208,541	114,082,419
Liabilities						
Due to Banks	2,694,520	4,907,743	7,656,079	10,106,024	12,329,350	14,425,339
Customer Deposits	17,208,882	25,796,339	34,825,058	45,272,575	56,590,719	67,908,862
Other Purchased Funds	4,135,688	7,623,105	10,443,654	12,950,131	15,281,154	17,496,922
Total Liabilities	25,707,635	39,730,094	54,595,445	70,267,435	86,411,682	102,352,803
Common Stock	1,401,579	1,822,053	1,822,083	1,822,083	1,822,083	1,822,083
Total Reserves	3,204,372	3,648,731	3,668,571	3,690,396	3,714,402	3,740,810
Total Net Worth	4,650,300	5,667,185	6,783,443	8,162,772	9,796,859	11,729,616
Total Liabilities & Net Worth	30,357,935	45,397,279	61,378,888	78,430,207	96,208,541	114,082,419
Contra Accounts	18,278,512	26,664,920	37,330,888	48,530,154	60,662,693	72,795,232

Source: CBQ and Beltone Financial

Income Statement

Fiscal Year Ends December (QAR 000)	2006A	2007A	2008F	2009F	2010F	2011F
Interest Income	1,455,669	2,327,770	3,226,605	4,136,025	4,988,136	5,923,217
Interest Expense	-751,374	-1,398,704	-2,023,718	-2,658,756	-3,306,430	-3,943,307
Net Interest Income	704,295	929,066	1,202,888	1,477,269	1,681,706	1,979,910
Fees & Commissions, Net	386,073	666,217	1,025,427	1,387,331	1,812,293	2,224,819
Investment Income, Net	303,450	461,961	588,876	719,628	853,598	1,007,118
Other Operating Income	19,030	18,860	17,917	17,021	16,170	15,362
Net Operating Income	1,412,848	2,076,104	2,835,108	3,601,249	4,363,767	5,227,209
Administrative Expenses	-408,995	-487,925	-724,729	-1,011,715	-1,319,913	-1,656,194
Depreciation	-37,832	-52,492	-75,041	-98,128	-123,723	-150,299
Total Operating Expenses	-446,827	-540,417	-799,771	-1,109,843	-1,443,636	-1,806,492
Loan-Loss Provisions	-5,538	-48,034	-78,988	-97,516	-102,593	-106,336
Net Operating Profit	862,686	1,390,715	1,860,380	2,298,881	2,723,479	3,221,262
Income Taxes	0	0	0	0	0	0
NPAUI	862,686	1,390,715	1,860,380	2,298,881	2,723,479	3,221,262

Source: CBQ and Beltone Financial

Financial Ratios

Fiscal Year Ends December	2006A	2007A	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	59.0%	44.1%	35.0%	30.0%	25.0%	20.0%
Deposits	30.0%	49.9%	35.0%	30.0%	25.0%	20.0%
Assets	36.9%	49.5%	35.2%	27.8%	22.7%	18.6%
Net Income	15.1%	61.2%	33.8%	23.6%	18.5%	18.3%
Profitability Ratios						
Return on Average Assets	3.3%	3.7%	3.5%	3.3%	3.1%	3.1%
Return on Average Shareholders Equity	17.3%	27.0%	29.9%	30.8%	30.3%	29.9%
Net Interest Margin	3.3%	3.1%	2.8%	2.6%	2.4%	2.3%
Efficiency Ratios						
Cost -to- Income	38.5%	30.7%	31.6%	33.5%	35.2%	36.3%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	93.6%	99.3%	97.8%	97.8%	97.8%	97.8%
Average Net Loans -to- Average Customer Deposits	92.8%	98.5%	97.0%	97.0%	96.9%	96.9%
Average Net Loans -to- Average Total Purchased Funds	70.5%	68.0%	64.4%	64.0%	64.7%	65.6%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	53.8%	55.9%	55.1%	55.5%	56.5%	57.4%
Average NPLs -to- Average Gross Loans	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%
Provisions Coverage	99.0%	96.9%	94.7%	94.9%	94.4%	94.7%
Capitalization Ratios						
Capital Adequacy Ratio	15.3%	11.9%	11.1%	10.4%	10.1%	10.1%
Dividend Payout Ratio	113.7%	40.3%	40.0%	40.0%	40.0%	40.0%

Source: CBQ and Beltone Financial

Recommendation

Add*

Upside/Downside

22.5%

One-Year Fair Value[†]

QAR120.28

Current Price

QAR98.20**



Doha Bank

Banking sector | Qatar

A private sector, retail, and Asia story

DCF Target Price

QAR119.72

Comparative Valuation Price

QAR120.84

PEG09E Comparative Valuation

QAR129.10

P/B08-09E Comparative Valuation

QAR112.58

EPS FY08E

QAR9.00

Reuters Code

DHBK.QA

Bloomberg Code

DHBK QD

Market Cap

QAR12.3 billion

US\$3.3 billion

Number of Shares Outstanding

124,817,515

Average Daily Turnover

QAR20.1 million

52-Week high/ low

QAR107.00/59.90

Shareholder Structure

15% | Individuals and Institutions, each owning less than 2%

80% | Free Float

Foreign Ownership Limit

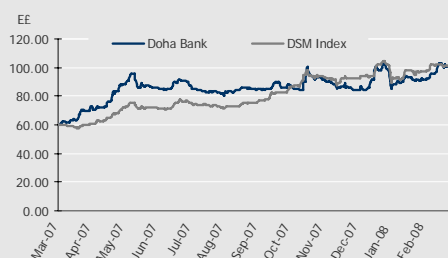
25%

- Doha Bank is the third largest conventional bank in Qatar, with significant private sector and retail banking business.** Doha Bank is the third largest conventional bank in Qatar by market capitalisation and balance sheet size. Doha Bank's corporate banking business is mostly with the private sector (49.3% of lending in 2007), and the bank has the highest retail lending to total lending ratio of 46.1%, which is higher than that of CBQ (26%) and QNB (24%). Doha Bank has the second highest retail lending market share amongst our Qatari banks coverage universe (19%).
- The bank has been growing slower than its peers, but with the highest ROAE.** Doha Bank has been growing at a fast pace, represented by the 2004 - 2007 compounded annual growth rate for assets (40%), loans (47%), deposits (45%) and net income (36%). Despite growing at high rates, Doha Bank ranked third amongst its peers when comparing growth rates, except for loan growth, where it achieved second rank. Doha Bank has achieved the highest ROAE among its peers in 2006 and 2007, but will lower efficiency, given the bank's high expansion in the previous two years.
- Doha Bank has a solid strategy, locally and for international expansion.** Doha Bank is set to build a full services financial group. The first step is to offer insurance services, creating a bancassurance model. In addition, the bank intends to continue with its overseas expansion strategy. Doha Bank has already established presence in New York, Dubai and Kuwait (overseas branches), in addition to representative offices in Turkey, China, Japan, Singapore, and Romania. We believe that Doha Bank's focus on Asia is a strong competitive edge against peers, given the large trade business between Qatar and Asian countries, including Japan and China.
- Attractive DCF and comparative valuation.** Doha Bank's DCF target price is QAR119.72. Based on regression analysis between ROAE and P/B, the bank is trading at a low P/B FY08E (3.6x), given its ROAE08E (32.5%). In addition, Doha Bank is trading at a low P/E FY08E of 11.1x, compared to a regional and emerging market average of 13.2x. Further, Doha Bank is trading at an attractive PEG09E (0.58x), compared to a regional average of 0.7x.

Selected Indicators

FY ends December	2006a	2007a	2008e	2009e	2010e	2011e
NII (QAR million)	537	833	1,055	1,313	1,554	1,775
NIM (%)	3.3	3.7	3.5	3.4	3.2	3.1
Operating income (QAR million)	1,052	1,465	1,859	2,275	2,615	2,929
Net income (QAR million)	744	926	1,125	1,311	1,449	1,571
Net income growth (%)	(5.8)	24.5	21.5	16.5	10.5	8.4
EPS (QAR)	6.0	7.4	9.0	10.5	11.6	12.6
P/E (x)	16.8	13.5	11.1	9.5	8.6	7.9
ROAA (%)	4.0	3.6	3.2	2.9	2.6	2.3
ROAE (%)	32.2	32.5	32.5	30.4	28.2	26.7
BVPS (QAR)	20.5	23.3	28.1	35.0	41.5	47.6
P/BV (x)	4.9	4.3	3.6	2.9	2.4	2.1
DPS (QAR)	0.5	4.0	4.5	5.3	5.8	6.3
Dividend yield (%)	0.5	4.0	4.5	5.3	5.8	6.3
Av. net loans/Av. deposits	83.6	93.1	98.3	102.7	107.2	111.9
Av. net Loans/Avg. Purchased Funds	71.2	74.5	75.5	77.1	79.1	80.6
Cost-to-Income (%)	32.5	35.8	35.8	36.5	38.0	39.2
CAR (%)	18.4	15.5	14.4	13.1	11.9	11.1
Av. NPLs/Av. Gross loans (%)	6.1	3.1	2.7	2.2	1.8	1.6
Provisions Coverage (%)	116.8	136.0	139.0	149.7	164.0	181.6

Source: Doha Bank, Beltone Financial



* Refer to back cover for investment recommendations
[†] Fair value is a weighted average of DCF target price and comparative valuation price (which is a weighted average of PEG comparative valuation and P/B comparative valuation)

**Closing of March 20th, 2008

Investment Considerations

Strengths

- Doha Bank has the third largest asset, loan and deposit book in Qatar, and controls a significant market share of almost 13% for each of loans and deposits.
- Doha Bank has a strategic international presence in countries with strong trade ties with Qatar, which is, in our view, a good competitive edge for the bank.
- Doha Bank has achieved the highest profitability (measured by ROAE) in 2006 and 2007 in Qatar amongst our coverage.
- The majority of Doha Bank's business is with the private sector and is focused on retail banking (46.1% of the bank's total lending), where margins are higher, and which has significantly increased margins in 2007, compared to 2006. Doha Bank has the second highest retail banking market share of 19%, after QNB. Doha Bank was the sole bank in our Qatari coverage universe that significantly improved margins in 2007, to reach 3.7%, up from 3.3%. Its peers faced a squeeze in margins in 2007.
- Doha Bank has the second highest capital base in our Qatari coverage universe, with 15.5%. This will support the bank's strategy of further expanding its operations in Asia and regionally.
- Doha Bank's banking income is well diversified between interest and non-interest income, with a share to total operating income of 57% and 43%, respectively.

Weaknesses

- Doha Bank has the highest cost-to-income ratio amongst our Qatari coverage universe, 35.8%. It is worth noting that the ratio is not high in absolute terms however.
- Doha Bank scored the highest average NPL-to-average-gross-loans in 2007, 3.1%, compared to peers whose average was slightly less than 1%. However, Doha Bank has the highest provisions coverage of 136%.

Differentiation and Future Growth Strategy

Going forward, management is to focus on two pillars for growth. The first is enhancing the local market position and maintaining its market share amongst the increased competition in the market.

Doha Bank's management will continue to focus on retail banking, but will increase its positioning in corporate and SME financing, given the lower future prospects for growth in retail banking in Qatar generally.

The second pillar for growth is building strong strategic regional and international presence with focus on the Gulf and countries with strong trade relations with Qatar, especially in Asia.

BANK PROFILE

Brief History

Doha Bank is one of the largest private commercial bank in the State of Qatar. It was incorporated in 1978 and commenced its banking business (including its international banking services) in Doha, Qatar in 1979.

Ownership

Qatar Insurance Company	0.80%
Ahmad Abdulrahman Youssef Obeidan	
HH Sheikh Abdullah Bin Mohammed Bin Jabor Al Thani	
HH Sheikh Abdullah Bin Nasser Bin Abdullah Ahmad Al Thani	
HH Sheikh Abdulrahman Bin Mohammed Bin Jabor Al Thani	
HH Sheikh Fahad Bin Mohammed Bin Jabor Al Thani	
Hamad Mohammed Al Mana	
Jabar Bin Sultan Al Kuwari	
Qatar Flour Mills Company	
Free Float	Majority (around 80%)
Note: Each investor can own up to 2% only	
Foreign Ownership Limit	25%
GCC Investors' Ownership Limit	25%

Activities

Activities:	% of op. income	% of assets	% of liabilities
- Conventional Banking	99%	95%	95%
- Islamic Banking	1%	5%	5%

Subsidiaries:	Country of inc.	Field	% Ownership
Doha Bank Assurance Company	Qatar	Insurance	100%
Doha Brokerage and Financial Services Limited	India	Brokerage and Asset Mgmt	49%
Dbank Tech	UAE	IT	100%
Universe Investment Company	Kuwait	Investment	10%

Network

Domestic Branches	30
Overseas Branches	3
Representative Offices	5
Domestic ATMs	100

Credit Rating

	Long term	Outlook	Short term
S&P	NA	NA	NA
Moody's	A2	Stable	P1
Fitch	NA	NA	NA
Capital Intelligence	A-	Stable	A2

Employees

Number of Employees	850
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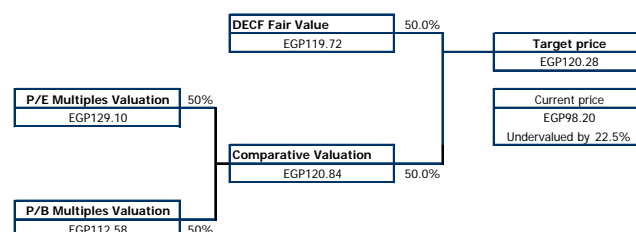
Market Share and Ranking

	2007	2006	2005	2004
Total Gross Loans (QAR Mil.)	20,021	14,342	9,083	6,248
Loans Market Share	12.5%	14.0%	13.0%	12.6%
Growth	39.6%	57.9%	45.4%	
Total Deposits (QAR Mil.)*	20,033	15,192	11,049	8,068
Deposits Market Share	12.0%	12.6%	12.9%	13.3%
Growth	31.9%	37.5%	36.9%	
Total Assets (QAR Mil.)	30,088	21,696	15,230	10,993
Assets Market Share	10.2%	11.5%	11.7%	11.9%
Growth	38.7%	42.5%	38.5%	

* Deposits include Islamic deposits.

Valuation Summary

Figure 36 | Valuation Matrix



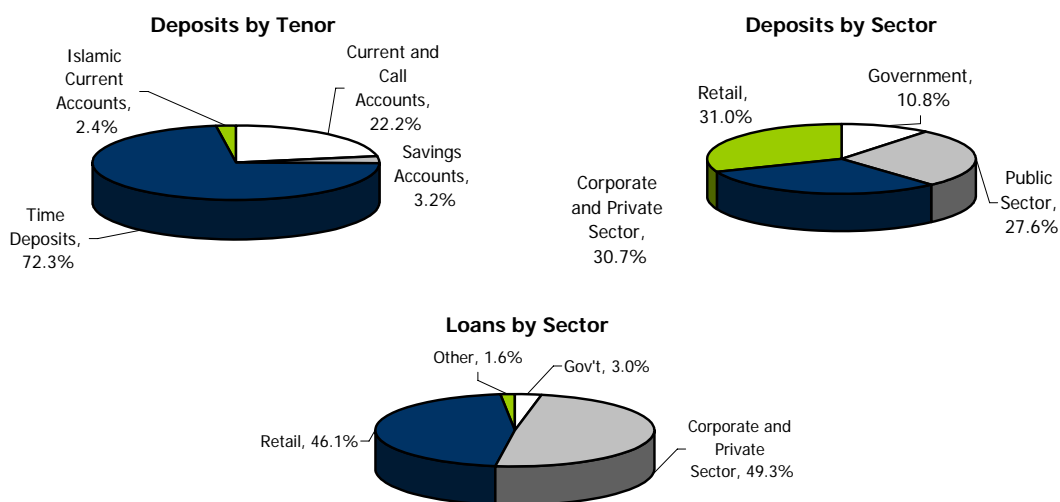
Source: Beltone Financial estimates

Business Performance and Forecasts Summary

Balance Sheet

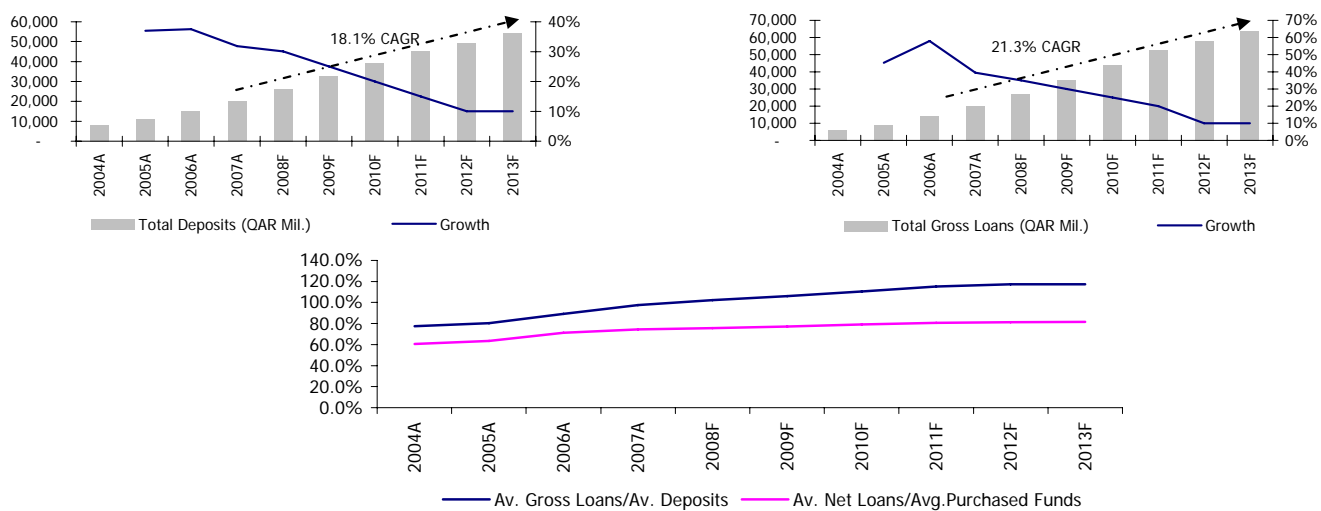
With regard to the balance sheet, we expect deposits to grow at a 2007–2013 CAGR of 18.1% and loans to grow at a compounded rate of 21.3% over the same period, thus pushing utilisation up further.

Figure 37 | Loan and Deposit Classification (December 31st, 2007)



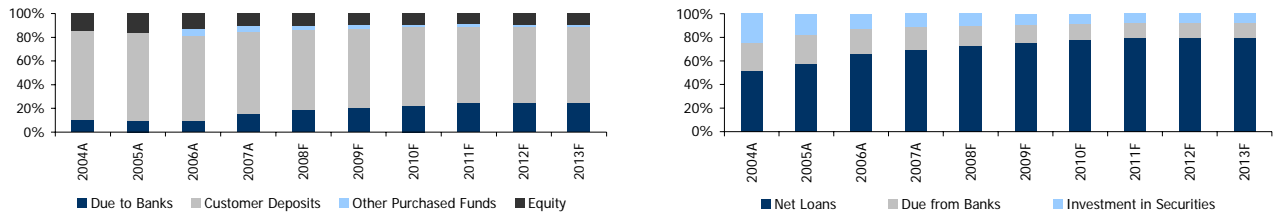
Source: Doha Bank and Beltone Financial

Figure 38 | Loan and Deposit Growth, and Utilisation



Source: Doha Bank and Beltone Financial estimates

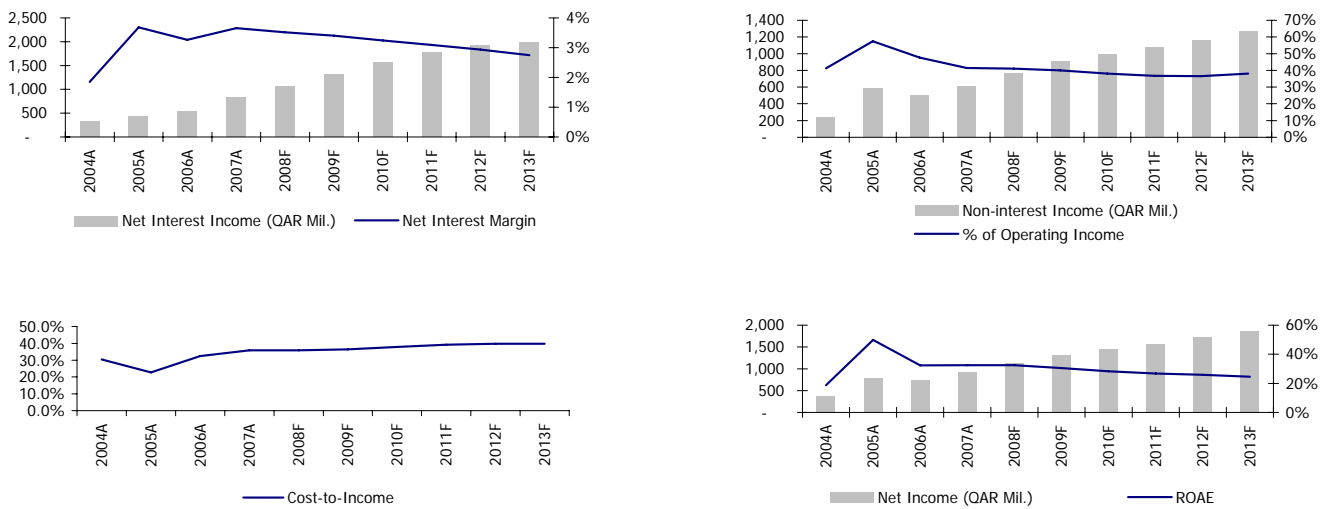
Figure 39 | Funding and Investment Mix



Source: Doha Bank and Beltone Financial estimates

Income Statement

Figure 40 | Profitability and Efficiency



Source: Doha Bank and Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (QAR 000)	2006A	2007A	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	677,017	1,918,412	3,191,394	4,077,224	4,777,036	5,549,523
Inter-bank Deposits	4,436,826	5,193,336	5,972,336	6,868,187	7,555,006	8,310,506
Short-Term Investments in Securities	1,171,738	1,392,359	1,601,213	1,841,395	2,025,534	2,228,088
Gross Loans & Advances	14,342,092	20,021,330	27,028,796	35,137,434	43,921,793	52,706,151
(Loan-Loss Provisions)	-712,033	-851,416	-918,645	-1,050,160	-1,222,638	-1,433,462
Net Loans & Advances	13,630,059	19,169,914	26,110,150	34,087,274	42,699,155	51,272,689
Investments in Subsidiaries	0	10,256	15,384	19,999	23,999	28,799
Net Fixed Assets	181,224	298,784	444,310	618,287	798,177	971,607
Other Assets	173,514	393,536	688,688	1,033,032	1,394,593	1,812,971
Total Assets	21,696,260	30,088,112	39,991,718	50,749,828	61,698,374	72,841,545
Liabilities						
Due to Banks	1,950,984	4,370,915	7,080,882	9,913,235	13,085,470	17,011,112
Customer Deposits	15,191,908	20,033,066	26,042,986	32,553,732	39,064,479	44,924,151
Other Purchased Funds	1,231,910	1,231,317	1,230,701	1,230,086	1,229,471	1,228,856
Total Liabilities	18,990,674	26,968,410	36,084,646	45,928,700	56,152,708	66,510,467
Common Stock	1,248,175	1,497,810	1,722,482	1,980,854	1,980,854	1,980,854
Total Reserves	1,457,411	1,574,406	1,826,825	2,119,173	2,397,579	2,433,968
Total Net Worth	2,705,586	3,119,702	3,907,072	4,821,129	5,545,666	6,331,078
Total Liabilities & Net Worth	21,696,260	30,088,112	39,991,718	50,749,828	61,698,374	72,841,545
Contra Accounts	8,896,248	14,999,984	22,499,976	29,249,969	35,099,963	42,119,955

Source: Doha Bank and Beltone Financial

Income Statement

Fiscal Year Ends December (QAR 000)	2006A	2007A	2008F	2009F	2010F	2011F
Interest Income	1,097,831	1,855,106	2,405,020	3,049,820	3,689,799	4,309,860
Interest Expense	-561,237	-1,022,246	-1,349,772	-1,736,649	-2,135,682	-2,534,822
Net Interest Income	536,594	832,860	1,055,248	1,313,171	1,554,116	1,775,038
Fees & Commissions, Net	235,896	297,454	376,511	462,021	493,722	523,566
Investment Income, Net	265,308	309,228	389,164	447,539	502,701	552,971
Other Operating Income	13,864	25,641	38,462	51,923	64,904	77,885
Net Operating Income	1,051,662	1,465,183	1,859,385	2,274,654	2,615,442	2,929,459
Administrative Expenses	-273,447	-453,653	-584,523	-736,662	-885,710	-1,025,931
Depreciation	-24,890	-33,712	-40,714	-49,396	-57,893	-66,577
Total Operating Expenses	-298,337	-487,365	-625,237	-786,058	-943,603	-1,092,509
Loan-Loss Provisions	34,540	-20,885	-67,229	-131,515	-172,478	-210,825
Net Operating Profit	744,490	919,697	1,125,959	1,312,026	1,449,801	1,571,608
Income Taxes	-521	-331	-563	-656	-725	-786
NPAUI	743,969	926,464	1,125,396	1,311,370	1,449,076	1,570,822

Source: Doha Bank and Beltone Financial

Financial Ratios

Fiscal Year Ends December	2006A	2007A	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	57.9%	39.6%	35.0%	30.0%	25.0%	20.0%
Deposits	37.5%	31.9%	30.0%	25.0%	20.0%	15.0%
Assets	42.5%	38.7%	32.9%	26.9%	21.6%	18.1%
Net Income	-5.8%	24.5%	21.5%	16.5%	10.5%	8.4%
Profitability Ratios						
Return on Average Assets	4.0%	3.6%	3.2%	2.9%	2.6%	2.3%
Return on Average Shareholders Equity	32.2%	32.5%	32.5%	30.4%	28.2%	26.7%
Net Interest Margin	3.3%	3.7%	3.5%	3.4%	3.2%	3.1%
Efficiency Ratios						
Cost -to- Income	32.5%	35.8%	35.8%	36.5%	38.0%	39.2%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	89.3%	97.6%	102.1%	106.1%	110.4%	115.0%
Average Net Loans -to- Average Customer Deposits	83.6%	93.1%	98.3%	102.7%	107.2%	111.9%
Average Net Loans -to- Average Total Purchased Funds	71.2%	74.5%	75.5%	77.1%	79.1%	80.6%
Asset Quality Ratios						
Average NPLs -to- Average Gross Loans	6.1%	3.1%	2.7%	2.2%	1.8%	1.6%
Provisions Coverage	116.8%	136.0%	139.0%	149.7%	164.0%	181.6%
Capitalisation Ratios						
Capital Adequacy Ratio	18.4%	15.5%	14.4%	13.1%	11.9%	11.1%
Dividend Payout Ratio	8.4%	53.9%	50.0%	50.0%	50.0%	50.0%

Source: Doha Bank and Beltone Financial

Beltone Financial

Isis Bldg., Osiris St., 8th & 9th floors
Garden City, Cairo, Egypt 11451
Tel: +20 (0)2 2792 6610
Fax: +20 (0)2 2792 6620
E-mail: research@beltonefinancial.com
Website: www.beltonefinancial.com

Beltone Enclave Securities

708 Third Avenue, 19th Floor,
New York, NY 10017
Tel: +1 6464548620

Beltone Financial Securities

The Fairmont, 2105 Sheikh Zayed Road
Dubai, UAE, 213534
Tel: +971 (4) 509 0300
Fax: +971 (4) 332 1203

Saudi Arabia Affiliate:

BMG

Financial Advisors

Al Mukhmal Plaza, 5th floor
Palestine Street
P.O. Box 52972
Jeddah 21573 Saudi Arabia
Tel: +966 (2) 668 1777
Fax: +966 (2) 668 1888
E-mail: info@bmg.com.sa
Website: www.bmg.com.sa

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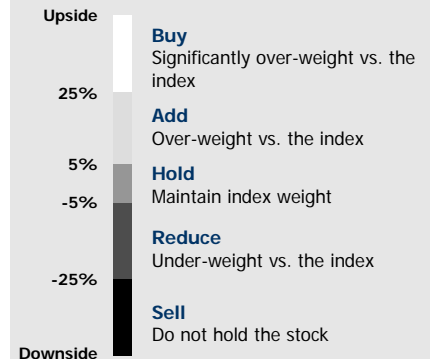
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Inv. Rating



Sales and Trading

Cairo

Dalia Sultan
dsultan@beltonefinancial.com
Ibrahim Abou-Elkheir
iabouelkheir@beltonefinancial.com
Mohamed Badawy
mbadawy@beltonefinancial.com
Mohamed Choucri
mchoucri@beltonefinancial.com
Teymour El Derini
tderini@beltonefinancial.com
Waleed Hamdy
whamdy@beltonefinancial.com
Wael El-Tahawy
weltahawy@beltonefinancial.com
Yasmeen Youssef
yyoussef@beltonefinancial.com

Dubai

Chamel Fahmy
cfahmy@beltonefinancial.com

New York

Karim Baghdady
kbaghdady@beltoneenclave.com
Albina Brady
abrady@beltoneenclave.com