TAIB RESEARCH

GCC EQUITY REPORT

# Qatar International Islamic Bank (QIIB.QA)

# NEUTRAL

| | |
|---|---|
| **CMP** | **QAR 38.60** |
| **Target** | **QAR 41.58** |
| **Potential Upside** | **7.7%** |

| | |
|---|---|
| MSCI GCC Index | 303.31 |
| Doha Securities Market | 4,810.0 |

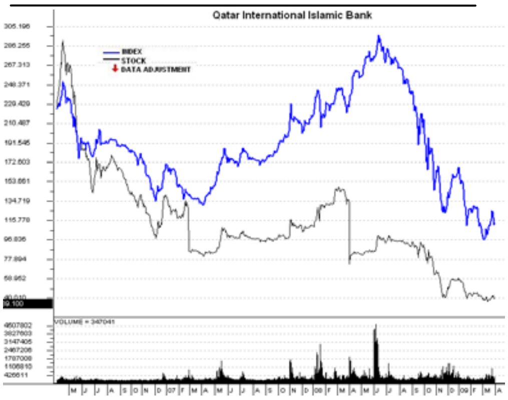
| Key Stock Data | |
|---|---|
| Sector | Banking |
| Reuters Code | QIIB.QA |
| Bloomberg Code | QIIK QD Equity |
| No. of Shares (mn) | 132.45 |
| Market Cap (QAR mn) | 5.112 |
| Market Cap (USD mn) | 1.405 |
| Avg. 12m Vol. (mn) | 0.49 |
| Volatility (30 day) | 59.047 |
| Volatility (180 day trend) | 58.149 |

**Stock Performance (%)**

| 52 week high / low (QAR) | 100.40 / 35.50 | | |
|---|---|---|---|
| | 1M | 3M | 12M |
| Absolute (%) | -2.3% | -32.0% | -48.6% |
| Relative (%) | -9.8% | -4.1% | 3.1% |

| **Shareholding Pattern** | **(%)** |
|---|---|
| Government | 5.00 |
| Corporate | 39.67 |
| Public | 55.33 |

**QIIB and DSM Movement**




## Executive Summary

Established in January 1991, Qatar International Islamic Bank (QIIB) operates through a network of 13 branches and 50 ATMs. In accordance with Islamic Shariah principles, its service spectrum includes commercial banking services and investment advisory services. It is one of the founders of the Islamic Bank of Britain and of the Syria International Islamic Bank. Part from this, QIIB is also a founding shareholder of the sole Islamic stock brokerage firm in Qatar.

### Falling net spread, high operating expenses and provisions impacted net profit

Declining net spread along with sharp increases in operating expenses and impairment provisions considerably impacted QIIB's net profit growth in FY, which increased a marginal 4.4% to QAR 501.16 million. Despite a healthy 36.5% increase in non-profit sharing income, QIIB's total operating income growth was restricted to 19.8% YoY reaching QAR 728.31 million, mainly impacted by falling net spread. For FY08, a 72 bps decline in yield on average profit sharing income earning assets outplayed the advantage of 33 bps improvement in cost of average profit sharing liabilities. As a result, both net spread and net profit sharing margin dropped by 39 bps and 38 bps to 3.8% and 4.3%, respectively. Similarly, the lender's cost-to-income ratio increased to 18.9% in FY08 from 16.6% in FY07, well above the 4-year average of 17.1% over 2005-2008.

## Outlook and valuation

QIIB, the smallest Islamic Shariah-compliant bank in Qatar, presently accounts for 3.2%, 3.7% and 4.3% of the Qatari banking sector's total assets, total credit facilities and customers' deposits. We believe the bank's increasing emphasis on branch/distribution network expansion and consistent offering of new value added products and services, may further improve its loan and deposit market shares. However, the ongoing global economic crisis and the liquidity-hit financial markets have forced the bank to provide for huge impairment provision of QAR 86.95 million, which has considerably limited its bottom-line growth. We expect, the bank's earnings growth may continue to be under pressure at least in the near to medium-term, on higher impairment provisions on financial investments and financing & investing activities. Further, lending to the housing sector presently dominates the bank's loan book and its growth, thereby any slow down of the real estate activities in Qatar may limit its loan book. Further, the bank's deteriorating cost-to-income ratio and net spread is also a matter of concern. Currently, QIIB is trading at a P/E multiple of 10.12x and 9.47x on 2009E and 2010E earnings and at a P/B multiple of 1.83x and 1.82x on 2009E and 2010E BVPS, respectively. Based on our valuation methods and considering the prevailing global and regional financial crisis, we have arrived at a weighted average fair value per share of QAR 41.58, which exhibits a 7.7% potential upside from its closing price of QAR 38.60 (as of March 30, 2009). **Therefore, we initiate our coverage with a NEUTRAL investment opinion on QIIB.**

| QAR Million | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| Total Operating Income | 607.9 | 728.3 | 830.1 | 914.0 | 1,057.6 |
| % Change YoY | 21.2 | 19.8 | 14.0 | 10.1 | 15.7 |
| Net Profit | 480.0 | 501.2 | 529.3 | 565.4 | 661.1 |
| % Change YoY | 20.3 | 4.4 | 5.6 | 6.8 | 16.9 |
| Total Assets | 9,951.2 | 12,842.5 | 14,774.4 | 16,945.1 | 19,351.3 |
| % Change YoY | 18.5 | 29.1 | 15.0 | 14.7 | 14.2 |
| Net Spread (%) | 4.2 | 3.8 | 3.5 | 3.2 | 3.3 |
| Adj. EPS (QAR) | 3.81 | 3.97 | 3.81 | 4.07 | 4.76 |
| ROAE (%) | 25.4 | 19.5 | 18.5 | 19.3 | 22.1 |

*Offering a whole gamut of Shariah-compliant products*

*Strategic ties with local and regional players*

*Actively evaluating regional expansion opportunities.*

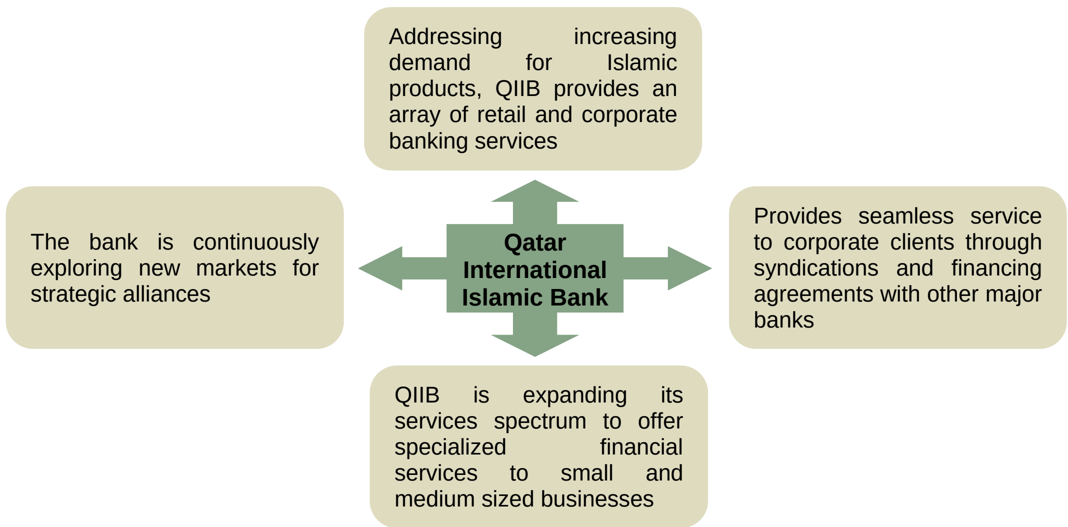
## Background

Established in January 1991, Qatar International Islamic Bank (QIIB) operates through a network of 13 branches and 50 ATMs. In accordance with Islamic principles, QIIB's service spectrum includes commercial banking services comprising loans and deposits, personal and consumer banking, credit cards and money transfers; retail financing and housing mortgages; investment advisory services, corporate finance and investment advisory on mergers and acquisitions, initial public offerings and underwriting.

Expanding its regional footprint, the bank entered into a number of strategic alliances to set up Islamic institutions in the Middle East and beyond. It is one of the founders of the Islamic Bank of Britain and of the Syria International Islamic Bank. In 2006, QIIB along with its partners established an Islamic insurance firm in Pakistan - the Pak-Qatar Takaful Ltd, which incorporated two entities: Pak Qatar Family Takaful Ltd. and Pak Qatar General Takaful Ltd. Additionally, QIIB is a founding shareholder of the sole Islamic stock brokerage firm - Qatar Islamic Financial Securities Company in Qatar. The bank is also a founding partner of 'Tasheelat', a Shariah–compliant finance company providing consumer finance.

In September 2007, QIIB partnered with several key government departments to establish a real estate investment and development company - Mackeen Real Estate Investment & Development. The company's principal activities include buying and selling real estate within and outside Qatar, provide real estate consultancy, trade in construction materials, and engage in contracting. Further, the bank is continuing to explore new markets for strategic alliances. Presently, it is actively evaluating opportunities in Mauritania, Morocco and Kuwait.

## Business Model




### Board of Directors

- HH Sheikh khalid Bin Thani A. Al.Thani – Chairman
- HH Sheikh Abdullah Bin Thani A. Al Thani - Vice Chairman
- HH Sheikh Thani Bin Khalifa Al Thani
- Mr. Abdullah Mohamed Al Emadi
- Dr. Yousuf Ahmed Al-Naama
- Mr. Ali Abd Al Rahman Al Hashmi
- Mr. Abdullah Mohamed Al Suwaidi
- Mr. Hisham Mustafa Al Sohtari
- Mr. Abdulbasit Ahmed Al Shaiebie

*Source: QIIB*

## Subsidiaries/Affiliates of Qatar International Islamic Bank

QIIB has a number of affiliates and strategic investments.

| SUBSIDIARIES / ASSOCIATES / AFFILIATES | COUNTRY | % SHARE |
|---|---|---|
| Al Moqawil Company | Qatar | 49.00 |
| Al Tashelat Trading Company | Qatar | 49.00 |
| Mackeen Investment and Real Estate Development Company | Qatar | 49.00 |
| Qatar Islamic Financial Securities Company | Qatar | 20.00 |
| Syrian International Islamic Bank | Syria | 30.00 |
| Syrian Islamic Insurance Company | Syria | 20.00 |
| Pak Qatar Takaful | Pakistan | 49.00 |

*Source: Zawya*

| INVESTMENTS | COUNTRY | % SHARE |
|---|---|---|
| Syrian Qatar Takaful Insurance | Syria | 15.00 |
| Islamic Bank of Britain | UK | 14.63 |
| Pak Qatar Family Takaful (via Pak Qatar Takaful) | Pakistan | 8.00 |
| Pak Qatar General Takaful (via Pak Qatar Takaful) | Pakistan | 8.00 |
| National Leasing Holding | Qatar | 2.67 |
| Care Holding | Qatar | - |
| Gulf Holding Company – Qatar | Qatar | - |
| Islamic Bank of Yemen for Finance and Investment | Yemen | - |

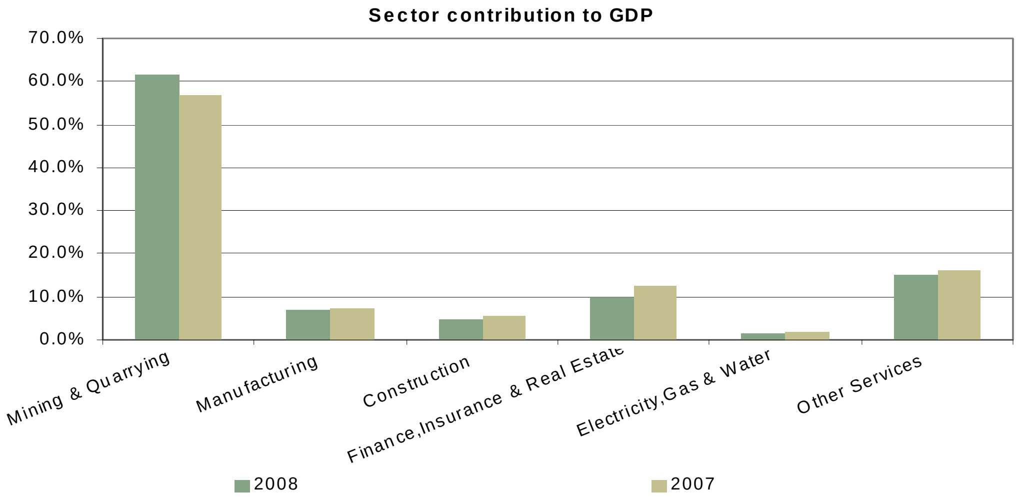
*Source: Zawya*

## Industry Scenario

The International Monetary Fund (IMF) forecasts a global growth of 0.5% for 2009 down from an estimated 3.75% in 2008 and 5.0% in 2007, which is expected to rebound to 3.0% in 2010. The expected lower growth is on account of the global economic slowdown triggered by the US subprime crisis. It is now evident that the GCC economies are also not immune from the financial turmoil that has hit other major economies of the world. In December 2008, Fitch downgraded the Individual Rating of 17 GCC banks. While the average rating remains 'C', indicating adequate strength, most banks face renewed vulnerabilities as a few face risks of default and government support to faltering banks is not guaranteed.

***For full year 2008, Qatar's nominal GDP was up 44.0% at QAR 372.4 billion***

Given its massive non-associated gas reserves and high exports, being the leading exporter of liquefied natural gas, Qatar witnessed strong growth in its revenues supported by huge energy demand and surging prices, from 2003 till mid-2008. On the back of robust energy revenues, sound economic reforms, and increased government & public sector spending, the country's nominal GDP witnessed a strong three-year CAGR growth of 34.4% during 2005-2008. The provisional estimate of GDP at current price for 4Q08 is QAR 83.2 billion, up from QAR 77.2 billion in the same quarter of 2007. For the full year 2008, nominal GDP was up 44.0% at QAR 372.4 billion, compared to QAR 258.6 billion in 2007. However, the GDP at current price in the fourth quarter of 2008 was 23.2% lower than in the third quarter, mainly due to a 31.1% decline in the value of output from the mining and quarrying sector which in turn is dominated by the oil and gas related activities. Furthermore, Economic Intelligence Unit (EIU) forecasts Qatar's real GDP growth to fall from an estimated 13.4% in 2008 to 10.8% in 2009 and increase to 21.8% in 2010 as LNG production nears its maximum planned capacity and the first train of the Pearl gas-to-liquids project comes on stream.




*Source: Qatar Statistical Authority*

***Budgetary expenditures amount to QAR 41 billion for 2008-09***

Meanwhile, the Qatari government's planned capital expenditure, in its budget for 2008-09, amounts to QAR 40.50 billion for the year on its budgeted revenues of QAR 103.30 billion, based on the oil price assumption of USD 55.00 per barrel. Further, natural gas prices averaged USD 8.89 per MMBTU in 2008 as against an average of USD 6.97 MMBTU in 2007. However, prices have halved since the beginning of this year to hover at an average of USD 4.58 MMBTU as of March 30, 2009. Meanwhile, inflation during the 4Q08 was 1.4% Q-o-Q, the CPI index reached 180.31 in 4Q08 as against 177.89 in 3Q08. Though the current financial turmoil forced the government to make cautious investment decisions, it does not hamper the enormous investment opportunities available in the country.

*In 2008, total assets to GDP ratio stood at 108.9%*

The banking sector in Qatar includes 11 local banks registered with the Qatar Central Bank (QCB) and 7 foreign banks with branches in the country. The banking system in the country includes Islamic banks fully operating under Islamic Shariah principles, conventional banks with Islamic windows, and pure-play conventional banks. Despite the fact that the Qatari banking sector is one of the smallest in the GCC region, in terms of total assets, loans and deposits, it witnessed significant growth supported by rapid economic expansion. Over the last few years, the country's banking penetration has gradually increased. The penetration level – total assets to GDP ratio – was 108.9% during 2008 as against 69.7% in 2004. The ratio of credit deployment to GDP in Qatar grew to 65.2% in 2008 from 62.2% in 2007 and 49.7% in 2006.

*Total banking assets grew at a staggering CAGR of 52% over 2005-2008*

The nation's total banking assets grew at a staggering 3-year CAGR of 52.1% reaching QAR 405.52 million during 2005-2008; it increased 37.0% in 2008. Total credit facility of banks rose 51.1% YoY to QAR 242.95 million in 2008, while banks total deposits attained an YoY growth of 27.1% to QAR 212.48 million. Moreover, amidst the ongoing crisis, as of February 2009, the banking systems' total assets dipped 4.6% to stand at QAR 386.89 million compared to December 2008. In tandem, during the same period, the system's total credit and deposits were QAR 227.46 million and QAR 206.53 million, respectively.

**Snapshot of the Qatari Banking Industry**

| Performance of All Banks in Qatar | | | | | | | |
|---|---|---|---|---|---|---|---|
| QAR Billions | Dec-07 | Mar-08 | Jun-08 | Sep-08 | Dec-08 | Jan-09 | Feb-09 |
| Total Assets | 296 | 342 | 374 | 378 | 406 | 376 | 387 |
| Deposits | 167 | 190 | 216 | 213 | 212 | 206 | 207 |
| Credit Facilities | 161 | 181 | 202 | 223 | 243 | 234 | 227 |

*Source: Central Bank of Qatar*

The principal loan exposures are to the public sector, consumption, real estate and the services sector; the banking sector's domestic credit accounted for 91.0% of the total banking credit facilities. Out of the total deposits, private sector deposits accounted for 66.1% and public sector deposits accounted for 24.9%, whilst the remaining deposits are through non-residents.

**Breakdown of credit facility by economic sectors**


*Source: Central Bank of Qatar*

*Moody's changed the fundamental credit outlook for the Qatari banking system to negative*

In February 2009 in its new Banking System Outlook on Qatar, Moody's changed the fundamental credit outlook for the Qatari banking system to negative, reflecting its expectations of deteriorating operating conditions. The negative outlook also reflects Moody's expectations that Qatari banks will experience a reduction in their profitability levels, mostly due to reduced growth in business volumes, squeezed interest rate margins (a reflection of increased domestic competition for customer deposits and higher credit spreads in the wholesale market) and potentially increased credit costs. Further, the agency predicts that going forward the global recession will have an adverse effect on economic activity and the private sector's performance, including retail consumers.

### The growth of the global Islamic banking industry

*Global Islamic banking assets to grow by 10-15% in 2009*

According to the International Monetary Fund (IMF), there are now over 300 Islamic financial institutions operating across 51 countries, vying for the business of approximately 1.39 billion Muslims worldwide. As per a recently released report on Islamic finance by International Financial Services London (IFSL), the global market for Islamic financial services rose by 37% to USD 729 billion at 2007-end. However, as a result of the global credit crunch and unfavourable economic conditions, like most other asset classes, the growth of Islamic finance decelerated last year. In 2008, new Sukuks issuance dropped to USD 14 billion down from a high of USD 31 billion in 2007. Industry experts are anticipating a slowdown in annual growth in global Islamic banking assets to 10–15% in 2009, compared with a growth of 20–30% in 2008. An expected growth rate of 10–15% for global Islamic finance industry is robust by any standard, and especially so when set against the strong shrinkage in other areas of finance. Further, a healthy stock of Sukuks issuance in the pipeline for this year would provide a good market to tap. According to industry reports, it is estimated that planned or announced Sukuks for 2009 is in excess of USD 45 billion.

*Despite adverse economic conditions, the top-ten Islamic banks registered a yearly growth of around 30% for 2008*

The Middle East is currently one of the most developed Islamic banking markets, with more than USD 255.8 billion in Islamic banking assets. Over the last decade with the expansion of economies, the region witnessed tremendous growth, both in terms of financial institutions providing Islamic products and services, and assets under management. Furthermore, Islamic banking assets have grown more rapidly than conventional assets in the Middle East region. However, Islamic banking is not equally developed across all countries. According to Celent, a Boston-based financial research and consulting firm, Islamic banking markets in Saudi Arabia and Kuwait are reaching their maturity phase, with Islamic banking assets growing less rapidly than other countries in the region and representing 42.5% of total banking assets in Saudi Arabia and nearly 30% in Kuwait. On the other hand, Islamic banking markets in Qatar and the UAE are currently in the growth phase. In the UAE, Islamic banking assets represent less than 15% of the total banking assets, growing at a CAGR of 48.1% between 2003 and 2007. More impressively, in Qatar, Islamic banking assets grew by a CAGR of 54.3% between 2003 and 2007, reaching 18.4% of total banking assets. In addition, despite adverse economic conditions, the top-ten Islamic banks continued to show encouraging performance by recording an average annual growth of around 30% for 2008. While conventional banks consolidate and retrench staff, Islamic banks, particularly in the GCC, countries continued to expand and recruit new staff.

*Total Islamic banking assets in Qatar reached QAR 61 billion by August 2008*

Meanwhile, driven by increased demand for Shariah-based products and government willingness to promote the Islamic banking industry, the Islamic banking assets in Qatar witnessed a strong growth over past couple of years; with total assets reaching QAR 61.25 billion as of August 2008, witnessing an upsurge of 60.0% from QAR 38.29 billion as of August 2007. In tandem with increased demand during 2007 and 1H08, the domestic Islamic credit (accounting for 19.1% of the sector's aggregate domestic credit) surged 83.2% to QAR 37.39 billion in August 2008 YoY. As of August 2008, deposits with Islamic banks advanced 58.2% to QAR 31.08 billion, and Islamic credit facilities increased 86.2% reaching QAR 39.93 billion as compared to QAR 21.44 billion in the same period last year. The expansion of Islamic finance is largely centered on retail and consumer finance especially housing finance and current accounts and savings products; infrastructure and project finance; and real estate development finance.

*Banking activities likely to expand significantly on the back of over USD 140 billion investments in Qatar over the next 5 years*

The increasing popularity of Islamic finance, especially in the GCC region, has prompted the banks in Qatar to venture into Islamic banking as a window within the conventional banking framework. This is fuelling competition in both the conventional and Islamic banking sectors. In particular, QNB Al Islami now has substantial market share in Islamic banking, while Doha Bank (Doha Islamic), CBQ (Al Safa Islamic) and others are aiming to increase the competitiveness of their Islamic offerings. Alongside, the government has established the Qatar Financial Centre (QFC) to attract international financial institutions and multi-national corporate to the country and encourage them to participate in a long-term and mutually beneficial relationship with Qatar. QFC is expected to provide access to investment worth over USD 140 billion in Qatar over the next five years and over USD 1 trillion of planned investment across GCC. While positive factors contribute to strong performance of the sector, new entrants into the market are heating the competitive atmosphere.

In an effort to increase liquidity levels and boost confidence in the banking system, the Qatar Investment Authority (QIA) announced a plan to inject a total of USD 5.3 billion into the local banking system by buying stakes of up to 20% in some Qatari banks. The government's presence as a key shareholder will back the performance and stability of the banking sector by strengthening the banking system's funding and capitalization levels, especially during the current critical situation.

*Qatar purchases QAR 6.5 billion shares in investment portfolios*

In a move allowing some banks and investors to wipe their slate clean, Qatar directly injected cash from the state coffers to the banks, in a step not seen in the region. On March 23, 2009, Qatar's government completed the purchase of listed shares worth QAR 6.5 billion (USD 1.8 billion) within investment portfolios of local lenders, paying in cash and bonds. The government will hold the banks' investment portfolios for a five-year period, after which the lenders can purchase back the shares for the original price they bought them for. The government bought the shares at the cost of the portfolio registered in the banks' records on February 28, 2009, minus allocations accumulated by the end of December 31, 2008. The banks involved in the deal include Qatar National Bank, Commercialbank of Qatar, Doha Bank, Qatar Islamic Bank, Qatar International Islamic Bank, Ahli Bank and Al Khalij Commercial Bank.

According to Moody's, the relatively buoyant gas export receipts will continue to represent a strength for the Qatari economy and would offset to a certain extent potential weaknesses in other sectors of the economy. In addition, the region as well as the country has huge investment potential. Multi-billion-dollar projects are in the pipeline at various stages across various sectors. Qatar has launched an impressive domestic investment program aimed at diversifying its economic base from the hydrocarbon sector. The banking sector would be one of the major beneficiaries. The government expenditure will continue to create business opportunities for the large Qatari banks, particularly in the hydrocarbons sector. Additionally, with many projects underway, including petrochemical, housing and construction projects looking for Shariah-based products would act as a future driver for Islamic banking. According to the Oxford Business Group (OBG), Qatar is well-placed to take advantage of the global Sukuk (Islamic bond) market, which is expected to grow around 35% globally over the next few years. All economies are reeling under the ongoing financial crisis. However, Qatar government's initiatives to strengthen and satbilise the economy have been successful to an extent.

## Financial Performance FY08

*Falling net spread squeezed total operating income growth*

### Operating Income

Despite a healthy 36.5% increase in non-profit sharing income, QIIB's total operating income growth was restricted to 19.8% YoY reaching QAR 728.31 million, mainly impacted by falling net spread. The share of non-profit sharing income in the bank's total operating income significantly bettered by 504 bps to 41.1%, led by higher net commission & fees income (up 26.0%) along with soaring investment revenues (up 60.0%) and gain on sale of investments (up 75.7%). Despite a healthy 27.4% increase in total profit sharing income earning assets, the declining net spread further limited the bank's net profit sharing growth to 10.3% to reach QAR 428.64 million, thereby dipping its respective share in total operating income by a similar 504 bps to 58.9%.

### Net Spread and Net Profit Sharing Margin

For FY08, a considerable 72 bps decline in yield on average profit sharing income earning assets to 6.3%, outplayed the advantage of 33 bps improvement in cost of average profit sharing liabilities to 2.5%. Consequently, both net spread and net profit sharing margin dropped 39bps and 38 bps to 3.8% and 4.3%, respectively.

### Operating Expenses and Provisions

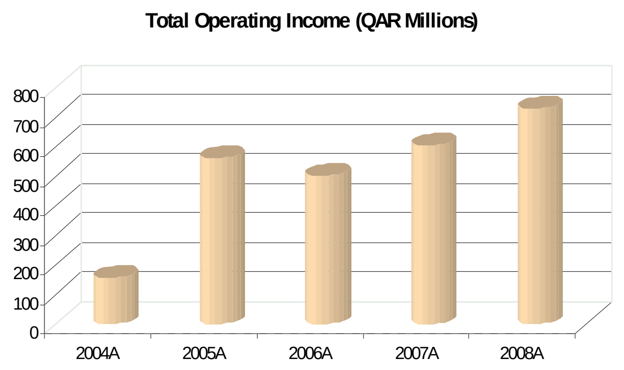
On the other hand, general & administrative expenses sharply jumped 37.4% to QAR 129.27 million, in tandem with the bank's expansion plan together with increasing investment in technology and employee development. As a result, the lender's cost-to-income ratio increased to 18.9% in FY08 from 16.6% in FY07, well above the 4-year average of 17.1% over 2005-2008. Moreover, the ongoing global economic crisis and the liquidity-hit financial markets forced the bank to provide for huge impairment provisions to the tune of QAR 86.95 million (accounting for 17.4% of the bank's net profit), which significantly limited the bank's bottom-line growth.

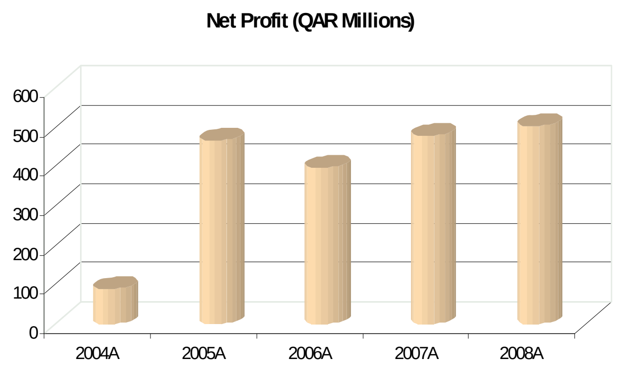
*Falling net spread, higher operating expenses and provisions impacted bottom -line growth*

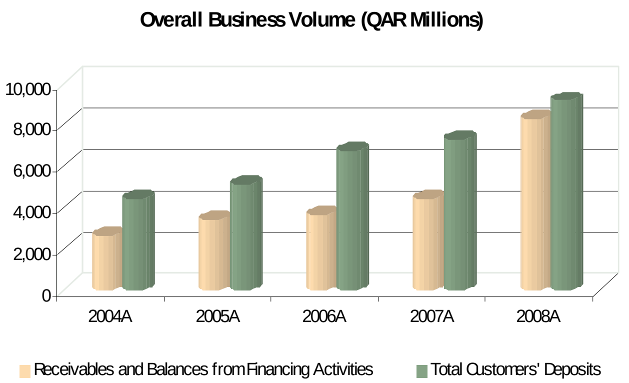
### Net Profit

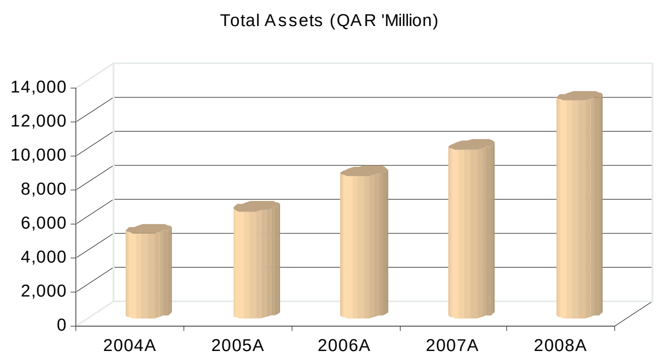
The falling net spread along with sharp increase in operating expenses and impairment provisions, further impacted QIIB's net profit growth, which increased a marginal 4.4% to QAR 501.16 million. In tandem, adjusted EPS marginally improved to QAR 3.97 from QAR 3.81 in FY07. On the other hand, return on average equity (RoAE) fell to 19.5% from 25.4%, while return on average assets (RoAA) declined to 4.4% from 5.2% in FY07, respectively.

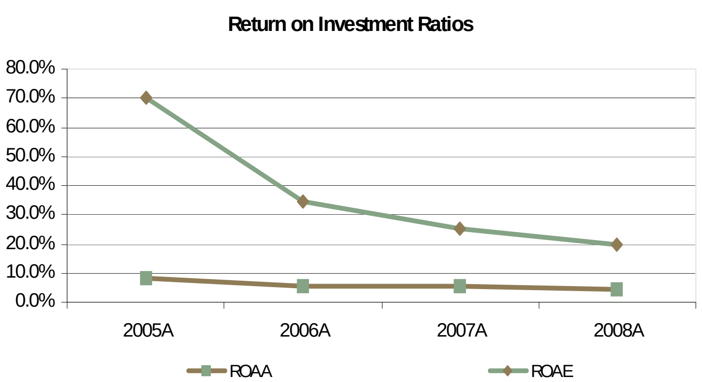
# Chart Gallery

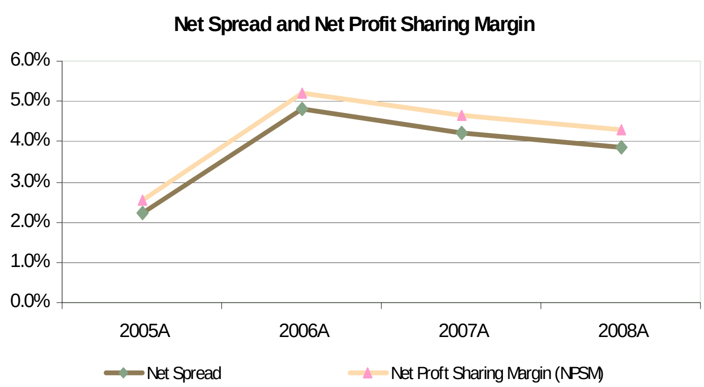


## Size of the Company

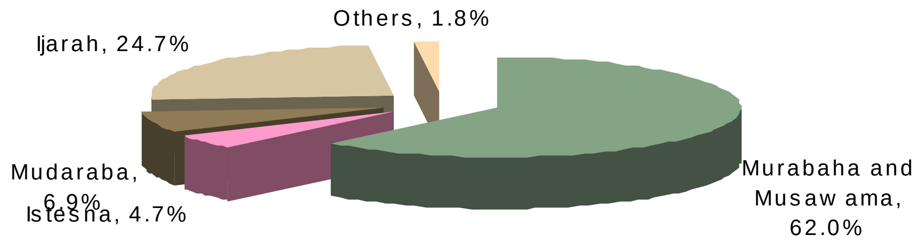
The salient points about the balance sheet of Qatar International Islamic Bank (QIB) are as follows:

*Total assets advanced 29% surpassing the 4-year CAGR of 27%*

- Surpassing the 4-year CAGR of 26.6% over 2004-2008, QIIB's total assets base accelerated 29.1% to reach QAR 12.84 billion during FY08, mainly driven by a healthy growth in receivables and balances from financing activities, investment in associates, investment properties (for leasing and trading) and property & equipment.

- During FY08, the lender's gross receivables and balances from financing activities nearly doubled (jumping 78.9%) to QAR 9.09 billion, well above the sector's YoY increase of 51.1% in credit facilities, primarily spurred by upsurge in international Murabaha financing, together with domestic Murabaha & Musawama, Mudaraba and Ijarah financing. Consequently, its loan market share bettered to 3.7% in FY08 from 3.2% in the previous year.

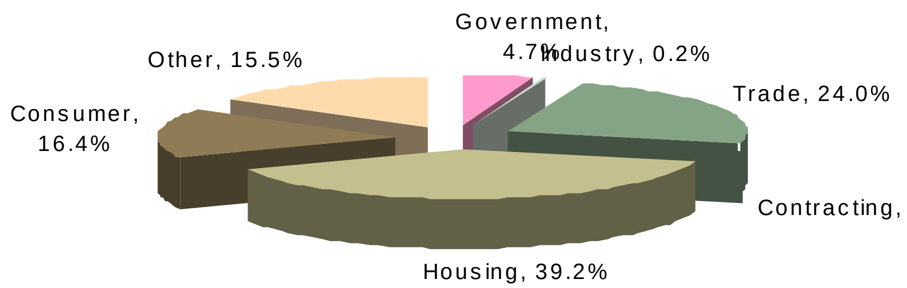
**Total Receivables and Balances from Financing Activities (by Type)**




*Loan book – primarily dominated by lending to trade and housing sectors*

- Sector-wise, the bank's loan book was mainly dominated by lending to trade and housing sectors, together they accounted for 63.2% of its loan book, further improving from 52.4% in FY07. In tandem with the increasing real estate activities, the respective share of financing activities to housing sector considerably accelerated to 39.2% in FY08 from 24.4% in FY07. However, the respective contribution of lending to trade sector and consumer loans dropped to 24.0% and 16.4% in FY08 from 28.0% and 32.1% in FY07, respectively.

**Receivables and Balances from Financing Activities (by Economic Sectors)**



*C/D ratio considerably improved to 99.5% in FY08 from 70.4% in FY07*

- Similarly, total investment properties almost doubled (up 91.1%) to QAR 0.27 billion, mainly led by an over 2-fold increase in investment properties held for trading. In tandem with the management's branch expansion plan, the bank's property & equipment jumped nearly 7-fold to QAR 0.24 billion. Investment in associates jumped 68.6% to QAR 0.27 billion, mainly on the back of additional investments in three associates during FY08 - Al Tasheelat Islamic Co. (QAR 9.80 million), Syria Islamic Insurance Co. (QAR 15.85 million), and Macken Investment and Real Estate Development (QAR 73.50 million). On the other hand, balances and investments with banks and other financial institutions plunged 43.0% to QAR 2.12 billion, on sharp fall in metals and commodities Murabaha balances.

- On the liabilities side, customers' current accounts rose 14.4% to QAR 2.33 billion, while unrestricted investment accounts jumped 31.4% to QAR 6.81 billion, lead by soaring time accounts from government & government institutions, individuals and financial institutions. Moreover, the bank's healthy loan book growth further supported the upward momentum in credit to deposits (C/D) ratio, which significantly improved to 99.5% in FY08 from 70.4% in FY07 and 63.6% in FY06.

- During FY08, shareholders' equity went up 18.0% to QAR 2.78 billion, primarily on the back of an 80% bonus shares issuance during April 2008 for FY07 along with nearly 5-fold increase in retained earnings. However, relatively slower growth in total equity as compared to total assets plunged its shareholders' equity to total assets ratio by 203 bps to 21.6%, which still stands nearly 2-times the sector's average of 12.8%. In addition, the bank's both Tier 1 capital and total capital ratios stand at satisfactory level, at 19.8% and 20.1% in FY08 (as against 24.6% and 25.1% in FY07, respectively), well above the minimum regulatory requirement of 10% by the Qatar Central Bank and 8% by the Basel Committee.

## Peer Comparison

In order to do a peer comparison of the Islamic banks of Qatar, we have considered the full-fledged Islamic banks operating in the country; Qatar Islamic Bank (QIB), Masraf Al Rayan (MARK), and Qatar International Islamic Bank (QIIB).

| Peer Analysis | | | |
|---|---|---|---|
| (QAR Million) | QIB | MARK | QIIB |
| | 2008A | 2008A | 2008A |
| Net Profit Sharing Income | 1,286.42 | 522.67 | 428.64 |
| % YoY Growth | 41.2 | NA | 10.3 |
| Total Operating Income | 2,489.57 | 1,428.54 | 728.31 |
| % YoY Growth | 48.3 | NA | 19.8 |
| Net Profit | 1,642.54 | 917.04 | 501.16 |
| % YoY Growth | 30.8 | NA | 4.4 |
| Total Financing and Investing Activities | 22,522.90 | 13,556.65 | 9,093.16 |
| % YoY Growth | 65.3 | NA | 78.9 |
| Total Assets | 33,543.16 | 16,769.08 | 12,842.46 |
| % YoY Growth | 57.2 | NA | 29.1 |
| Customers’ Deposits & Unrestricted Investments Accounts | 16,591.85 | 10,897.82 | 9,139.15 |
| % YoY Growth | 36.0 | NA | 26.6 |
| Shareholders’ Equity | 7,142.89 | 5,694.27 | 2,780.29 |
| % YoY Growth | 54.3 | NA | 18.0 |
| Credit to Deposit (C/D) Ratio (%) | 135.7 | 124.4 | 99.5 |
| Shareholders' Equity to Total Assets Ratio (%) | 21.3 | 34.0 | 21.6 |
| Capital Adequacy Ratio (%) | 23.0 | 33.1 | 20.1 |
| ROAE (%) | 27.9 | 16.9 | 19.5 |
| ROAA (%) | 6.0 | 6.8 | 4.4 |
| *Sources: Zawya, Bank’s Financial Statements* | | | |

## New Projects and Strategies

QIIB continued to tread on the path of success supported by a number of strategic initiatives. The lender embarked on optimizing performance levels, expansion of client base, upgrading quality of service, enhancement of local presence and engaged in a number of overseas expansion projects.

*Participated in some of the biggest financing deals*

Despite the recessionary pressures that forced many banks to tighten their lending norms, QIIB did not alter any of its policies. The bank did not raise the salary limit for customers to access its Shariah-compliant loan schemes. Further, lending for real estate also remained unaltered in accordance with the guidelines set by the Qatar Central Bank. Similarly, amidst these turbulent times of global financial meltdown, squeezing credit facilities and slowing down of property market, when several projects in the region were cancelled or put on hold, Qatar's real estate projects continued to expand. In December 2008, the Islamic branch of Qatar National Bank (QNB Al Islami) and QIIB provided Shariah-compliant financing (Ijara) worth QAR 1 billion to Qatar Real Estate Investment Company for its real estate projects. Earlier, QIIB participated in financing other projects alongside QNB Al Islami in 2008, including a QAR 182.5 million Islamic facility for the Sudanese Telecommunications Company (Sudatel), in which the two banks partnered with Al Salam Bank. The facility was in the form of 'lease ended by ownership' for a five-year term. Elsewhere, the bank signed a cooperative agreement with Kuwait-based Global Investment House (GIH) in which the bank will act as the marketing agent of Global Real Estate Ijarah Fund in Qatar. The fund has a capital of USD 300 million and a term of 4 years.

*Plans to open more branches and expand ATM network*

In a bid to expand in Qatar and get closer to its customers, the lender revealed plans to open more branches and put up ATMs at different locations. At this front, in February 2009, QIIB inaugurated a new branch in Al Muntazah area. Meanwhile, offering highest possible returns on deposits among all the banks in Qatar, QIIB launched a new scheme, Budding Deposits, of short and long term deposits with attractive returns. This scheme targets a large segment of clients who would be interested in deposits for periods ranging from six months to one year; and 18 months to two years. Further, the estimated return would be not less than 6.75% for each scheme.

*Widening its operational reach at a faster pace*

Moreover, in order to widen its geographical foot print, in November 2008, QIIB announced plans to set up an Islamic bank in Sudan. The lender was in discussion with the Sudanese central bank to get the license for the same. The new bank will be established in partnership with Sudanese investors. Earlier, in August, Syrian International Islamic Bank (SIIB), an affiliate of QIIB received preliminary approval from the Syrian market regulator to set up a brokerage and financial consultancy unit named Islamic Brokerage & Financial Services Co., in the country. SIIB owns 51% of the new firm with another 40% also held by Syrian investors. In January, the Syrian Islamic Insurance Company was launched in which QIIB holds 20% stake.

*Implementation of latest technology to improve its business efficiency*

As part of the bank's strategy to become a customer-centric organisation, in March 2008, QIIB signed an agreement with Performance Inc. to develop the skills of its employees. As per the agreement, Performance Inc., would conduct a one-year programme for QIIB's front line staff - from branch managers, assistant managers, customer service representatives to tellers. The firm will also conduct a dedicated programme for the call centre employees with a new approach to performance development. This is a vital step in achieving business needs of various divisions at QIIB. In addition, making significant progress in its drive for Qatarisation, in August 2008, QIIB signed a memorandum of understanding (MoU) with the Institute of Administrative Development (IAD) to train Qataris for a career in banking. Furthermore, in June 2008, keeping itself technologically upgraded, QIIB adopted Misys Equation 3.9 across 10 branches in the region. The implementation of the latest version of Misys Equation is an important part of QIIB's overall growth strategy and helps the lender to improve its business by increasing customer revenues, reducing risk and driving business efficiency. Misys Equation is an integrated, real-time, multi-currency banking system that helps organisations to deliver competitive products and excellent service to customers. It supports consumer and corporate banking within a single platform.

## SWOT Analysis

### STRENGTHS

- QIIB has a rich experience of nearly two-decades in the Islamic banking industry
- Strategic alliance with local and regional players
- Continuous drive to expand its operations in the Middle East and beyond

### WEAKNESS

- Deteriorating net spread and cost to income ratio is a cause of concern
- lending to housing sector dominates its loan book, any slow down in real estate activities may limit its loan book

### THREATS

- Many regional banks are opening their Islamic banking window
- Mounting competition driven by expansion initiatives taken by local conventional & Islamic bank and foreign banks
- Prevailing financial crisis may further impair provisions

### OPPORTUNITIES

- Government's initiatives to inject liquidity in the economy expected to boost credit, thereby increasing activities of banks
- The country's diversification strategy expected to provide impetus for growth as USD 140 billion will likely be invested over the next five years

## Risks and Concerns:

- The bank's net spread and net profit sharing margin would be affected by any further cut in the Qatari policy base interest rate.
- Decline in oil revenues is driving away investments from the real estate and infrastructure sector, likely to decrease the credit requirements of the sector, thereby limiting the bank's loan book.
- The ongoing global economic crisis along with liquidity hit financial markets, may further impairment provisions on financial investments and financing & investing activities, impacting the bank's earnings growth.

*Cost of Equity: 9.80%*

## Valuation Methodology:

We have used two valuation methods for arriving at the fair value of QIIB, as explained below:

I. Target P/BV approach based on the Gordon Growth Model (GGM), and
II. TTM P/E valuation approach.

### Target P/BV Multiple Approach using the Gordon Growth Model (GGM)

The model uses the sustainable return on average equity (ROAE), cost of equity (Ke) and expected growth in earnings (g) to arrive at the target P/BV of the bank under review using the formula:

**Target P/BV = (ROAE - g) / (Ke - g)**

Subsequently, we have multiplied the target P/BV multiple for 2009E with the 2009E BVPS to arrive at the fair value of the bank over a medium-term investment horizon.

We have made the following assumptions to arrive at the target P/B multiple for 2009E of the bank:

i. For sustainable ROAE, we have considered the 5-year average return on average equity (ROAE) of the bank over 2009E-2013E.

ii. We have estimated the cost of equity (Ke) using Capital Asset Pricing Model (CAPM):
   a. Risk free rate of return (Rf) of 3.43%, which is 12-months average yield on 10-year US T-bill.
   b. Cost of Equity – 9.80%

iii. We have assumed a terminal growth rate (g) of 2.0%.

| GGM Valuation Summary | |
|---|---|
| Sustainable ROAE (%) | 21.88 |
| Cost of Equity (Ke) (%) | 9.80 |
| Perpetual Growth Rate (%) | 2.00 |
| **Target P/BV Multiple for 2008E (x)** | **2.55** |
| 2009E BVPS (QAR) | 21.12 |
| **Fair Value per Share using Target P/BV (QAR)** | **53.84** |
| CMP (QAR) | 38.60 |
| **Upside/(Downside)** | **39.5%** |

## Sensitivity Analysis

The tables below exhibits the sensitivity analysis for the estimated fair value per share based on various terminal growth rates, cost of equity and ROAE. The shaded area represents the most probable outcomes.

| Sensitivity Analysis - GGM (Ke vs. g) | | | | | | |
|---|---|---|---|---|---|---|
| | | Terminal/Perpetual Growth Rate (g) | | | | |
| | | 1.00% | 1.50% | **2.00%** | 2.50% | 3.00% |
| Cost of Equity (Ke) | 7.80% | 64.87 | 68.34 | 72.41 | 77.25 | 83.09 |
| | 8.80% | 56.55 | 58.98 | 61.76 | 64.99 | 68.77 |
| | **9.80%** | 50.13 | 51.87 | **53.84** | 56.08 | 58.66 |
| | 10.80% | 45.01 | 46.29 | 47.72 | 49.33 | 51.14 |
| | 11.80% | 40.84 | 41.80 | 42.86 | 44.02 | 45.32 |

| Sensitivity Analysis - GGM (Ke vs. ROAE) | | | | | | |
|---|---|---|---|---|---|---|
| | | Return on Average Equity (ROAE) | | | | |
| | | 19.88% | 20.88% | **21.88%** | 22.88% | 23.88% |
| Cost of Equity (Ke) | 7.80% | 65.13 | 68.77 | 72.41 | 76.05 | 79.69 |
| | 8.80% | 55.55 | 58.66 | 61.76 | 64.87 | 67.97 |
| | **9.80%** | 48.43 | 51.14 | **53.84** | 56.55 | 59.26 |
| | 10.80% | 42.92 | 45.32 | 47.72 | 50.13 | 52.53 |
| | 11.80% | 38.54 | 40.70 | 42.86 | 45.01 | 47.17 |

| Sensitivity Analysis - GGM (ROAE vs. g) | | | | | | |
|---|---|---|---|---|---|---|
| | | Terminal Growth Rate (g) | | | | |
| | | 1.00% | 1.50% | **2.00%** | 2.50% | 3.00% |
| Return on Average Equity (ROAE) | 19.88% | 45.32 | 46.78 | 48.43 | 50.30 | 52.44 |
| | 20.88% | 47.72 | 49.33 | 51.14 | 53.19 | 55.55 |
| | **21.88%** | 50.13 | 51.87 | **53.84** | 56.08 | 58.66 |
| | 22.88% | 52.53 | 54.42 | 56.55 | 58.98 | 61.76 |
| | 23.88% | 54.93 | 56.96 | 59.26 | 61.87 | 64.87 |

## TTM P/E Multiple Based Valuation

| TTM P/E Multiple Based Valuation Summary | |
|---|---|
| QIIB's 2009E EPS (QAR) | 3.81 |
| Target P/E (x) | 7.69 |
| **Fair Value per Share using Target P/E** | **29.32** |
| CMP (QAR) | 38.60 |
| **Upside/(Downside)** | **-24.0%** |

| Banks | Outstanding Shares (Millions) | CMP (QAR) | Market Cap. (QAR Millions) | EPS (TTM) (QAR) | P/E (TTM) (x) |
|---|---|---|---|---|---|
| Qatar International Islamic Bank | 132.45 | 38.60 | 5,112.48 | 3.97 | 10.20 |
| Qatar Islamic Bank | 206.76 | 58.00 | 11,991.88 | 8.34 | 7.30 |
| Masraf Al Rayan | 749.94 | 10.00 | 7,499.37 | 1.22 | 8.18 |
| Qatar National Bank | 301.12 | 91.70 | 27,612.77 | 15.16 | 7.56 |
| Doha Bank | 180.86 | 26.40 | 4,774.72 | 5.48 | 5.04 |
| Ahli Bank | 61.32 | 54.40 | 3,335.72 | 7.16 | 7.83 |
| **Average TTM P/E** | | | | | **7.69** |

*Sources: Zawya Site, Doha Securities Market and Banks' Financial Statements*
*# CMP as on March 30, 2009*

## Weighted Average Fair Value

On an equal weight basis (GGM – 50% and P/BV – 50%), we have arrived at a weighted average final fair value or target price of QAR 41.58, which provides a potential upside of 7.7% from its current market price of QAR 38.60 (as on March 30, 2009).

| Weighted Average Fair Value | | | |
|---|---|---|---|
| **Valuation Method** | **Fair Value per Share (QAR)** | **Weight** | **Weighted Value per Share (QAR)** |
| Target P/BV Multiple Method | 53.84 | 50% | 26.92 |
| TTM P/E Multiple Method | 29.32 | 50% | 14.66 |
| **Target Price** | | | **41.58** |
| CMP | | | 38.60 |
| **Upside/(Downside)** | | | **7.7%** |

## Investment Opinion

QIIB, the smallest Islamic Shariah-compliant bank in Qatar, presently accounts for 3.2%, 3.7% and 4.3% of the Qatari banking sector's total assets, total credit facilities and customers' deposits. We believe, the bank's focus on branch/distribution network expansion and consistent offering of new value added products and services is likely to further improve its market shares. The bank also plans to establish an Islamic bank in Sudan in partnership with Sudanese investors, which in turn is expected to boost its earnings growth in the medium-term.

***Fair Value: QAR 41.58***

***Investment Opinion: NEUTRAL***

On the flip side, in the wake of the ongoing financial crisis the bank has been forced to provide for huge impairment provisions to the tune of QAR 86.95 million, which considerably limited the bank's bottom-line growth in 2008. We believe, the bank's earnings growth may continue to be under pressure at least in the near to medium-term, on higher impairment provisions on financial investments and financing & investing activities. Further, the bank's deteriorating cost-to-income ratio and net spread is also a matter of concern. We expect the cost-to-income ratio to deteriorate further in the near future, on the back of its expansion plan together with increasing investment in technology and employee development.

Currently, QIIB is trading at a P/E multiple of 10.12x and 9.47x on 2009E and 2010E earnings and at a P/B multiple of 1.83x and 1.82x on 2009E and 2010E BVPS, respectively. Moreover, the stock has lost 34.1% since the beginning of this year, as compared with an YTD loss of 30.1% for the DSM Index. Based on our valuation methods and considering the prevailing global and regional financial crisis, we have arrived at a weighted average fair value per share of QAR 41.58, which exhibits a 7.7% potential upside from its closing price of QAR 38.60 (as of March 30, 2009). **Therefore, we initiate our coverage with a NEUTRAL investment opinion on QIIB.**

| | | | | | |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and Balances with Qatar Central Bank | 431,483 | 599,979 | 699,046 | 777,330 | 855,226 |
| Balances and Investments with Banks and Other Financial Institutions | 3,718,681 | 2,121,449 | 2,351,946 | 2,578,879 | 2,790,269 |
| Receivables and Balances from Financing Activities | 4,388,628 | 8,252,726 | 9,627,207 | 11,194,147 | 12,957,876 |
| Financial Investments | 947,112 | 894,667 | 923,454 | 1,012,379 | 1,134,437 |
| Investment in Associates | 157,690 | 265,814 | 339,267 | 423,003 | 517,902 |
| Investment Properties (for Leasing and Trading) | 142,209 | 271,812 | 324,522 | 382,368 | 444,405 |
| Property and Equipment | 34,390 | 235,170 | 263,161 | 281,491 | 302,111 |
| Other Assets | 131,016 | 200,847 | 245,836 | 295,511 | 349,084 |
| **Total Assets** | **9,951,209** | **12,842,464** | **14,774,439** | **16,945,108** | **19,351,309** |
| **Liabilities, Holders of Unrestricted Investment Accounts and Equity** | | | | | |
| **Liabilities** | | | | | |
| Current Accounts from Banks and Financial Institutions | 54,513 | 25,094 | 20,684 | 25,418 | 30,962 |
| Customers' Current Accounts | 2,033,327 | 2,326,867 | 2,621,603 | 2,953,300 | 3,327,791 |
| Accounts Payable | 0 | 0 | 0 | 0 | 0 |
| Other Liabilities | 322,434 | 897,933 | 1,395,333 | 1,767,547 | 2,116,351 |
| **Total Liabilities** | **2,410,274** | **3,249,894** | **4,037,620** | **4,746,264** | **5,475,104** |
| **Holders of Unrestricted Investment Accounts** | **5,184,551** | **6,812,280** | **7,805,638** | **9,257,293** | **10,828,537** |
| **Equity** | | | | | |
| Authorised, Issued and Paid Up Share Capital | 700,782 | 1,261,408 | 1,387,547 | 1,387,547 | 1,387,547 |
| Proposed Bonus Shares and Cash Dividend | 560,626 | 504,562 | 555,019 | 555,019 | 555,019 |
| Reserves (Including Retained Earnings) | 1,094,976 | 1,014,320 | 988,615 | 998,985 | 1,105,103 |
| **Total Equity** | **2,356,384** | **2,780,290** | **2,931,181** | **2,941,550** | **3,047,668** |
| **Total Liabilities, Holders of Unrestricted Investment Accounts and Equity** | **9,951,209** | **12,842,464** | **14,774,439** | **16,945,108** | **19,351,309** |

| **INCOME STATEMENT** | | | | | |
|---|---|---|---|---|---|
| (in QAR '000) | **2007A** | **2008A** | **2009E** | **2010E** | **2011E** |
| Income from Financing Activities | 397,883 | 529,308 | 640,022 | 712,653 | 832,709 |
| Income from Invest. with Banks and FIs | 188,608 | 103,767 | 54,879 | 54,327 | 65,868 |
| **Total Income from Financing Activities and Investments with Banks and Financial Institutions** | **586,491** | **633,075** | **694,901** | **766,980** | **898,578** |
| Unrestricted Investment Accounts Holders' Share of Profit | -198,031 | -204,438 | -224,323 | -265,129 | -315,440 |
| **Net Profit Sharing Income** | **388,460** | **428,637** | **470,578** | **501,852** | **583,137** |
| Commission and Fees Income (Net) | 59,784 | 75,309 | 81,786 | 90,455 | 99,139 |
| (Loss) / Gain from Foreign Exchange Operations | 12,901 | -25,417 | 0 | 0 | 0 |
| Investment Revenues | 51,961 | 83,139 | 93,647 | 109,065 | 127,901 |
| Gain on Sale of Investments | 94,835 | 166,645 | 184,120 | 212,677 | 247,416 |
| **Total Non-Profit Sharing Income** | **219,481** | **299,676** | **359,553** | **412,197** | **474,456** |
| **Total Operating Income** | **607,941** | **728,313** | **830,131** | **914,048** | **1,057,593** |
| General and Administrative Expenses | -94,090 | -129,267 | -147,763 | -166,357 | -186,136 |
| Depreciation and Amortisation | -7,104 | -8,457 | -9,852 | -11,264 | -12,693 |
| Impairment of Receivables and Financing Activities | 0 | 0 | -18,808 | -21,869 | -25,315 |
| Impairment of Investment Properties | 0 | -2,477 | -3,245 | -4,206 | -5,333 |
| Impairment of Financial Investments | -26,752 | -86,954 | -121,149 | -144,964 | -166,980 |
| Recovery of Other Provisions | 0 | 0 | 0 | 0 | 0 |
| **Net Profit for the Year** | **479,995** | **501,158** | **529,314** | **565,389** | **661,136** |

| Cash Flow Statement | | | | | |
|---|---|---|---|---|---|
| (in QAR '000) | **2007A** | **2008A** | **2009E** | **2010E** | **2011E** |
| **Cash Flows from Operating Activities** | | | | | |
| Profit for the Year | 479,995 | 501,158 | 529,314 | 565,389 | 661,136 |
| **Adjustments for:** | | | | | |
| Depreciation and Amortisation | 7,104 | 8,457 | 9,852 | 11,264 | 12,693 |
| Provision for Impairment of Receivables and Financing Activities | -127 | 0 | 18,808 | 21,869 | 25,315 |
| Loss from Impairment of Financial Investments | 26,752 | 86,954 | 121,149 | 144,964 | 166,980 |
| Loss from Impairment of Investment Properties for Trading | 0 | 2,477 | 3,245 | 4,206 | 5,333 |
| Provisions Recovery of Investments | 0 | -15,000 | 0 | 0 | 0 |
| Share of Profit from Associates | 0 | -20,370 | -22,945 | -26,722 | -31,337 |
| Gain on Sale of Investment in Associate bank | -5,462 | 0 | 0 | 0 | 0 |
| Gain on Sale Investment Property for Trading | -4,724 | -99,253 | -64,640 | -76,162 | -88,519 |
| Gain on Sale of Financial Investments | -84,649 | -67,916 | -66,543 | -72,951 | -81,746 |
| **Operating Profit before Changes in Operating Assets and Liabilities** | **418,889** | **396,507** | **528,240** | **571,856** | **669,854** |
| **Net Decrease/(Increase) in Operating Assets** | | | | | |
| Cash reserve with Qatar Central Bank | -41,753 | -188,516 | -149,497 | -166,239 | -182,898 |
| Receivables and Balances from Financing Activities | -768,873 | -3,864,098 | -1,374,481 | -1,566,940 | -1,763,728 |
| Other Assets | -31,683 | -69,831 | -44,989 | -49,674 | -53,573 |
| **Net Increase/(Decrease) in Operating Liabilities** | | | | | |
| Current Accounts from Banks and Financial Institutions | -47,236 | -29,419 | -4,410 | 4,733 | 5,544 |
| Customers Current Accounts | 407,554 | 293,540 | 294,736 | 331,697 | 374,491 |
| Other Liabilities | 147,649 | 575,498 | 497,400 | 372,214 | 348,804 |
| **Net Cash from/(used in) Operating Activities** | **84,547** | **-2,886,319** | **-253,001** | **-502,354** | **-601,505** |
| | | | | | |
| **Cash Flows from Investing Activities** | | | | | |
| Net Movement in Financial Investments | -267,718 | -153,711 | -28,787 | -88,925 | -122,058 |
| Net Movement in Investment Properties | -85,056 | -186,303 | -52,710 | -57,846 | -62,037 |
| Dividends Received from Investment in Associates | 0 | 11,400 | 14,550 | 18,141 | 22,211 |
| Net Movement in Property, Furniture and Equipment | -6,377 | -11,915 | -37,843 | -29,593 | -33,314 |
| Purchase of Investments in Associates | -51,450 | -99,154 | -96,398 | -110,458 | -126,236 |
| Proceeds from Sale of Investment in an Associate Bank | 41,877 | 0 | 0 | 0 | 0 |
| **Net Cash from/(used in) Investing Activities** | **-368,724** | **-439,683** | **-201,188** | **-268,681** | **-321,433** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Net Increase in Holders of Unrestricted Investment Accounts | 97,791 | 1,708,750 | 993,358 | 1,451,655 | 1,571,244 |
| Payment towards Increase in Share Capital | 429,632 | 0 | 126,139 | 0 | 0 |
| Dividend Payment | | | -555,019 | -555,019 | -555,019 |
| **Net Cash from/(used in) Financing Activities** | **527,423** | **1,708,750** | **564,479** | **896,636** | **1,016,225** |
| **Net Change in Cash and Cash Equivalents** | **243,246** | **-1,617,252** | **110,290** | **125,601** | **93,287** |
| Cash and Cash Equivalents (Opening) | 3,671,779 | 3,915,025 | 2,297,773 | 2,408,063 | 2,533,664 |
| **Cash and Cash Equivalents (Closing)** | **3,915,025** | **2,297,773** | **2,408,063** | **2,533,664** | **2,626,950** |

## Common-Size Financial Statements

| COMMON-SIZE BALANCE SHEET | | | | | |
|---|---|---|---|---|---|
| | **2007A** | **2008A** | **2009E** | **2010E** | **2011E** |
| **Assets** | | | | | |
| Cash and Balances with Qatar Central Bank | 4.3% | 4.7% | 4.7% | 4.6% | 4.4% |
| Balances and Investments with Banks and Other Financial Institutions | 37.4% | 16.5% | 15.9% | 15.2% | 14.4% |
| Receivables and Balances from Financing Activities | 44.1% | 64.3% | 65.2% | 66.1% | 67.0% |
| Financial Investments | 9.5% | 7.0% | 6.3% | 6.0% | 5.9% |
| Investment in Associates | 1.6% | 2.1% | 2.3% | 2.5% | 2.7% |
| Investment Properties (for Leasing and Trading) | 1.4% | 2.1% | 2.2% | 2.3% | 2.3% |
| Property and Equipment | 0.3% | 1.8% | 1.8% | 1.7% | 1.6% |
| Other Assets | 1.3% | 1.6% | 1.7% | 1.7% | 1.8% |
| **Total Assets** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Liabilities, Holders of Unrestricted Investment Accounts and Equity** | | | | | |
| **Liabilities** | | | | | |
| Current Accounts from Banks and Financial Institutions | 0.5% | 0.2% | 0.1% | 0.2% | 0.2% |
| Customers' Current Accounts | 20.4% | 18.1% | 17.7% | 17.4% | 17.2% |
| Accounts Payable | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other Liabilities | 3.2% | 7.0% | 9.4% | 10.4% | 10.9% |
| **Total Liabilities** | **24.2%** | **25.3%** | **27.3%** | **28.0%** | **28.3%** |
| **Holders of Unrestricted Investment Accounts** | **52.1%** | **53.0%** | **52.8%** | **54.6%** | **56.0%** |
| **Equity** | | | | | |
| Authorised, Issued and Paid Up Share Capital | 7.0% | 9.8% | 9.4% | 8.2% | 7.2% |
| Proposed Bonus Shares and Cash Dividend | 5.6% | 3.9% | 3.8% | 3.3% | 2.9% |
| Reserves (Including Retained Earnings) | 11.0% | 7.9% | 6.7% | 5.9% | 5.7% |
| **Total Equity** | **23.7%** | **21.6%** | **19.8%** | **17.4%** | **15.7%** |
| **Total Liabilities, Holders of Unrestricted Investment Accounts and Equity** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

| COMMON-SIZE INCOME STATEMENT | | | | | |
|---|---|---|---|---|---|
| | **2007A** | **2008A** | **2009E** | **2010E** | **2011E** |
| Income from Financing Activities | 65.4% | 72.7% | 77.1% | 78.0% | 78.7% |
| Income from Invest. with Banks and FIs | 31.0% | 14.2% | 6.6% | 5.9% | 6.2% |
| **Total Income from Financing Activities and Investments with Banks and Financial Institutions** | **96.5%** | **86.9%** | **83.7%** | **83.9%** | **85.0%** |
| Unrestricted Investment Accounts Holders' Share of Profit | -32.6% | -28.1% | -27.0% | -29.0% | -29.8% |
| **Net Profit Sharing Income** | **63.9%** | **58.9%** | **56.7%** | **54.9%** | **55.1%** |
| Commission and Fees Income (Net) | 9.8% | 10.3% | 9.9% | 9.9% | 9.4% |
| (Loss) / Gain from Foreign Exchange Operations | 2.1% | -3.5% | 0.0% | 0.0% | 0.0% |
| Investment Revenues | 8.5% | 11.4% | 11.3% | 11.9% | 12.1% |
| Gain on Sale of Investments | 15.6% | 22.9% | 22.2% | 23.3% | 23.4% |
| **Total Non-Profit Sharing Income** | **36.1%** | **41.1%** | **43.3%** | **45.1%** | **44.9%** |
| **Total Operating Income** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| General and Administrative Expenses | -15.5% | -17.7% | -17.8% | -18.2% | -17.6% |
| Depreciation and Amortisation | -1.2% | -1.2% | -1.2% | -1.2% | -1.2% |
| Impairment of Receivables and Financing Activities | 0.0% | 0.0% | -2.3% | -2.4% | -2.4% |
| Impairment of Investment Properties | 0.0% | -0.3% | -0.4% | -0.5% | -0.5% |
| Impairment of Financial Investments | -4.4% | -11.9% | -14.6% | -15.9% | -15.8% |
| Recovery of Other Provisions | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Net Profit for the Year** | **79.0%** | **68.8%** | **63.8%** | **61.9%** | **62.5%** |

## Financial Ratios

| | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| **Profitability** | | | | | |
| Return on Average Assets (ROAA) | 5.2% | 4.4% | 3.8% | 3.6% | 3.6% |
| Return on Average Equity (ROAE) | 25.4% | 19.5% | 18.5% | 19.3% | 22.1% |
| Net Profit Sharing Income / Total Operating Income | 63.9% | 58.9% | 56.7% | 54.9% | 55.1% |
| Non-Profit Sharing Income / Total Operating Income | 36.1% | 41.1% | 43.3% | 45.1% | 44.9% |
| | | | | | |
| **Margins** | | | | | |
| Depositors' Profit Sharing Expense / Total Profit Sharing Income | 33.8% | 32.3% | 32.3% | 34.6% | 35.1% |
| Profit Sharing Income / Average Profit Sharing Income Earning Assets | 7.0% | 6.3% | 5.8% | 5.5% | 5.7% |
| Depositors' Profit Sharing Expense / Average Depositors' Profit Sharing Liabilities | -2.8% | -2.5% | -2.3% | -2.3% | -2.4% |
| Net Spread | 4.2% | 3.8% | 3.5% | 3.2% | 3.3% |
| Net Profit Sharing Margin | 4.7% | 4.3% | 3.9% | 3.6% | 3.7% |
| Total Operating Expenses to Total Operating Income Ratio | 16.6% | 18.9% | 19.0% | 19.4% | 18.8% |
| General & Administrative Expenses to Total Operating Income Ratio | 15.5% | 17.7% | 17.8% | 18.2% | 17.6% |
| | | | | | |
| **Liquidity & Assets Quality** | | | | | |
| Credit to Deposit (C/D) Ratio | 70.4% | 99.5% | 101.1% | 99.9% | 99.2% |
| Customers' Deposits to Shareholders' Equity Ratio | 306.3% | 328.7% | 355.7% | 415.1% | 464.5% |
| | | | | | |
| **Capital Adequacy** | | | | | |
| Shareholders' Equity to Total Assets Ratio | 23.7% | 21.6% | 19.8% | 17.4% | 15.7% |
| Shareholders' Equity to Total Gross Loans and Advances Ratio | 46.4% | 30.6% | 27.8% | 24.1% | 21.7% |
| | | | | | |
| **Operating Performance** | | | | | |
| % Change in Net Profit Sharing Income | 8.1 | 10.3 | 9.8 | 6.6 | 16.2 |
| % Change in Total Non-Interest Income | 54.2 | 36.5 | 20.0 | 14.6 | 15.1 |
| % Change in Total Operating Income | 21.2 | 19.8 | 14.0 | 10.1 | 15.7 |
| % Change in Net Profit | 20.3 | 4.4 | 5.6 | 6.8 | 16.9 |
| | | | | | |
| **Valuation Ratios** | | | | | |
| Outstanding Shares ('000) | 70,078 | 126,141 | 138,755 | 138,755 | 138,755 |
| Adj. EPS (QAR) | 3.81 | 3.97 | 3.81 | 4.07 | 4.76 |
| Adj. BVPS (QAR) | 18.68 | 22.04 | 21.12 | 21.20 | 21.96 |
| P/E (x) | 10.14 | 9.72 | 10.12 | 9.47 | 8.10 |
| P/BV (x) | 2.07 | 1.75 | 1.83 | 1.82 | 1.76 |
| CMP (QAR) (as on March 30, 2009) | 38.60 | 38.60 | 38.60 | 38.60 | 38.60 |

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