

June 15, 2009

BANK MUSCAT (BMAO.OM)

- Bank Muscat was the first GCC bank to confirm its exposures to the Al Gosaibi Group and the Saad Group in Saudi Arabia amounting to RO 66 million (directly and indirectly).
- While we view favorably Bank Muscat's efforts in being transparent, it is still unclear as to what amount of provisions the bank will take, if any, on these exposures.
- Given the limited information available at this time, we will be monitoring the matter closely and update our forecasts if needed. At the end of 1Q2009, Bank Muscat's NPL coverage ratio had reached 150% which certainly provides a cushion for the bank. Moreover, we were already anticipating a deterioration of NPLs in 2009 and 2010 to reach 2.6% and 3.2% of gross loans, respectively. Accordingly, we forecast an increase of loan loss provisions by RO 37.9 million in 2009 and an additional RO 34.2 million in 2010.
- Following the announcement on June 11th, Bank Muscat's stock price has dropped by 6.6% to RO 0.678. Our current fair value of RO 0.990 stands 46% above the share's closing price. We expect the share price to continue to face more pressure in the short term until the market has more visibility on the matter.
- Bank Muscat's total exposures amounted to approximately RO 66 million; RO 49 million directly through its Riyadh branch and RO 17 million indirectly through its unconsolidated Bahraini subsidiary, namely Bank Muscat International Bank (BMI). Bank Muscat's exposure of RO 49 million to the groups represents almost a fifth of the net loans extended outside of Oman as of December 2008. However, it only represents 1.3% of the bank's net loans and advances. BMI's RO 17 million exposure as a share of net loans is slightly higher, at around 4%. The bank has indicated that both the exposures are to operating companies of the group and that they have no exposure to International Banking Corporation, Bahrain and Awal Bank, Bahrain, which are a part of these groups. Furthermore, the groups are in the process of restructuring their debts with the help of advisors.

Raja Ghoussoub, CFA

T. +971 4 365 2857

E. raja.ghoussoub@nbkcapital.com

Munira Mukadam

T. +971 4 365 2858

E. munira.mukadam@nbkcapital.com

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NBK CAPITAL**Kuwait****Head Office**

17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research

19th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq,
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage

8th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

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

Turkey**NBK Capital**

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

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