

Oman Banking Primer

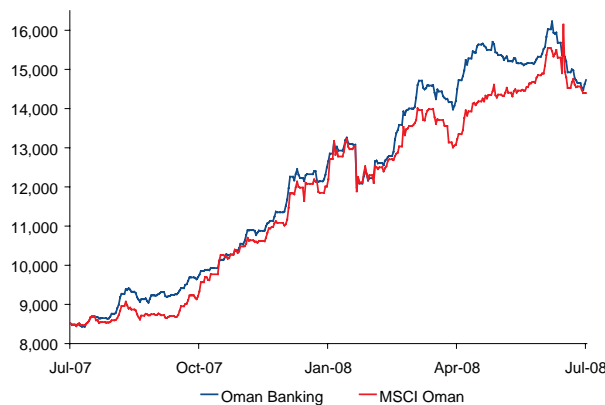
Room for Growth

Key Data

General	
FX Rate	USD 1 = RO 0.385
GDP (2007)	USD 40 billion
GDP per Capita (2007)	USD 15,523
Population (2007 Estimate)	2.6 million
As of December 2007	
Total Assets-to-GDP	67%
Total Loans-to-GDP	42%
Total Deposits-to-GDP	42%
As of July 2, 2008	
Sampled Banks Market Capitalization	USD 9.9 billion
Sampled Banks Trailing P/E	19.3
Sampled Banks Trailing P/B	3.3

Sources: Banks' financial statements, Reuters, Central Bank of Oman, and NBK Capital

Relative Performance of the Sector



Sources: Reuters, MSCI, and NBK Capital

Highlights

- With assets of USD 29.3 billion at the end of March 2008, the Omani banking sector is the smallest in the GCC. Oman has also the lowest commercial banking penetration rates in the GCC, naturally translating into growth potential for the banking sector.
- The net profits of our sampled banks increased by a robust 39% compound annual growth rate (CAGR) in the three years ending in 2007, driven by rapid lending growth, low net provisioning, strong growth in income from fees and commissions, and a controlled cost expansion.
- Omani banks tend to have weaker efficiency ratios as compared with their GCC peers. The cost-to-income ratio, although it has dropped in the past three years, was still high at 40% in 2007.
- Omani banks have been focusing on increasing their non-interest earnings, which have expanded by a CAGR of 49% in the past two years, increasing as a portion of total operating income from 21% in 2005 to 31% in 2007. Expanding their non-interest income is especially important given the drop in net interest margin from 4.5% in 2004 to 3.9% in 2007, driven by fiercer competition and by an increase in the cost of funds.
- Asset quality indicators have been steadily improving, driven by significant non-performing loan (NPL) recoveries and robust growth in lending, on the back of a strong operating environment.

Banks Covered in this Report* (Sorted by Assets)

Bank [RIC]	Closing Price (RO)	Market Cap. (USD millions)	Change in Price (%)		Trailing Valuation Multiples	
			YTD	1-Year	P/E	P/B
Bank Muscat [BMAO.OM]	1.826	5,110.0	-4.9%	32.3%	21.4	3.3
National Bank of Oman [NBO.OM]	0.775	2,176.6	21.3%	53.2%	18.2	3.7
Oman International Bank [OIB.OM]	3.980	944.3	9.0%	60.7%	11.3	2.4
Bank Dhofar [BDOF.OM]	0.876	1,208.1	30.4%	86.0%	18.6	4.5
Ahli Bank [ABOB.OM]	0.289	485.2	1.4%	55.8%	66.7	2.3

* Prices as of 2 July 2008. Sources: Banks' financial statements, Reuters, and NBK Capital

Analysts

Raja Ghoussoub, CFA
Direct: +971-4- 365 2857
raja.ghoussoub@nbkcapital.com

Munira Mukadam
Direct: +971-4- 365 2858
munira.mukadam@nbkcapital.com

EXECUTIVE SUMMARY	3
SECTOR OVERVIEW	4
Sector Size versus Economy Size	4
Money Supply Growth and Inflation	6
Foreign Assets and Liabilities	7
Banking Market Share	8
Asset Breakdown	9
Loans and Deposits Growth, and Bank Liquidity	12
Asset Quality	15
Profitability	16
Cost Efficiency	20
Margins and Returns	21
Capital Adequacy Ratios	24
Ratings	25
2008 First Quarter Results	26
BANK FACT SHEETS	28
Bank Muscat	28
National Bank of Oman	29
Oman International Bank	30
Bank Dhofar	31
Ahli Bank	32

EXECUTIVE SUMMARY

With assets reaching USD 29.3 billion at the end of March 2008, the Omani banking sector is the smallest in the GCC. Oman has lower commercial banking penetration rates than the rest of the GCC countries; with a loans-to-GDP ratio and a deposits-to-GDP ratio of 42% at the end of 2007, the Omani banking sector is also the smallest in the GCC in relative terms, as compared with the size of the underlying economy. This under-banked status, coupled with robust expected economic performance, translates into growth potential for the banking sector.

The sector's significant potential for growth and the relatively welcoming attitude for foreign participation in the banking sector have attracted a great deal of foreign interest and presence. The number of foreign commercial banks operating in Oman exceeds the number of local ones. Moreover, many of the local banks are partly owned by foreign partners, sometimes also signing management agreements with them, thereby bringing foreign management expertise to the banking sector.

Net profits of our sampled banks increased by a robust 39% CAGR in the three years ending in 2007. Rapid growth in lending is one driver for the increased profitability, with total net loans increasing by a CAGR of 30% in the last two years. Strong growth in income from fees and commissions, low net provisioning owing to significant non-performing loan recoveries, and a controlled cost expansion were also major drivers for the increase in net profits.

To address inflation, which soared to 11% in 2007, the Central Bank of Oman (CBO) has been trying to limit the strong growth in credit. It recently decreased the cap on the regulatory "loans-to-deposits ratio" from 87.5% to 82.5%, and has raised banks' reserve requirement two times in a span of six months.

Omani banks tend to have weaker efficiency ratios as compared with their GCC peers. Although it has dropped over the past three years, the cost-to-income ratio was still high at 40% in 2007. Historically low levels of non-interest income are one reason for the high cost-to-income ratio that characterizes the Omani banking sector. Hence, Omani banks are focusing on increasing their non-interest earnings, especially through fees and commissions. They have been successful in this regard, as total non-interest income has expanded by a CAGR of 49% in the past two years, driving up its share of total operating income from 21% in 2005 to 31% in 2007. Expanding non-interest income is especially important given the drop in interest margins in the past three years. The net interest margin (NIM) has dropped from 4.5% in 2004 to 3.9% in 2007, driven by fiercer competition in the sector, and by an increase in the cost of funds due to rising interest rates during that period.

The Omani banking sector faced significant asset quality problems after several large corporate clients experienced financial trouble in the early 2000s. Nevertheless, asset quality indicators have been steadily improving, driven by significant NPL write-offs and recoveries, and robust growth in lending, on the back of a strong operating environment. The NPLs-to-gross loans ratio dropped from 12% in 2004 to 3% in 2007, while NPL coverage increased from 87% in 2004 to 125% at the end of 2007.

SECTOR OVERVIEW

The Omani banking sector comprises 19 banks, nine of which are locally owned while the remaining 10 are branches of foreign banks. Of the nine local banks, two are specialized, namely, Oman Housing Bank and Oman Development Bank. The other seven are commercial banks, six of which are listed on the Muscat Securities Market (MSM), while only Oman Arab Bank is not. Oman still does not have any Islamic banking institution. In addition, traditional commercial banks do not offer Shari'a compliant products.

In this report, we focus our analysis on local commercial banks that are listed on the MSM, excluding Bank Sohar, as it only began operations in April 2007. This sample accounted for 78% of the total banking assets as of December 2007. Total market capitalization of the covered banks stands at USD 9.9 billion, representing 34% of the total market capitalization of the MSM. Some of the new players in the sector, in addition to Bank Sohar, are Bank of Beirut, Qatar National Bank, and Oman Merchant Bank. The latter will be set up by Gulf Merchant Group of Dubai, which plans to offer 40% of the capital to the public in 2008. Moreover, during 2007, Alliance Housing Bank converted from a mortgage bank to a commercial bank, and was rebranded as Ahli Bank in January 2008 after Bahrain's Ahli United Bank bought a 35% stake in it.

The sector's significant potential for growth and the relatively welcoming attitude for foreign participation in the banking sector have attracted a great deal of foreign interest and presence. As previously mentioned, the number of foreign commercial banks operating in Oman exceeds the number of local ones. Moreover, many of the local banks are partly owned by foreign partners, sometimes also signing management agreements with them, thereby bringing foreign management expertise to the banking sector.

The stock market in Oman has mirrored the growth potential of the Omani economy in general and the banking sector in specific. In 2006, the year regional stock markets crashed with the MSCI GCC Index plummeting by 46%, the MSM 30 Index and the MSM Banking and Investment Index gained 14% and 5%, respectively. Since the end of 2006, both indices have more than doubled, dwarfing the 34% increase in the MSCI GCC Index.

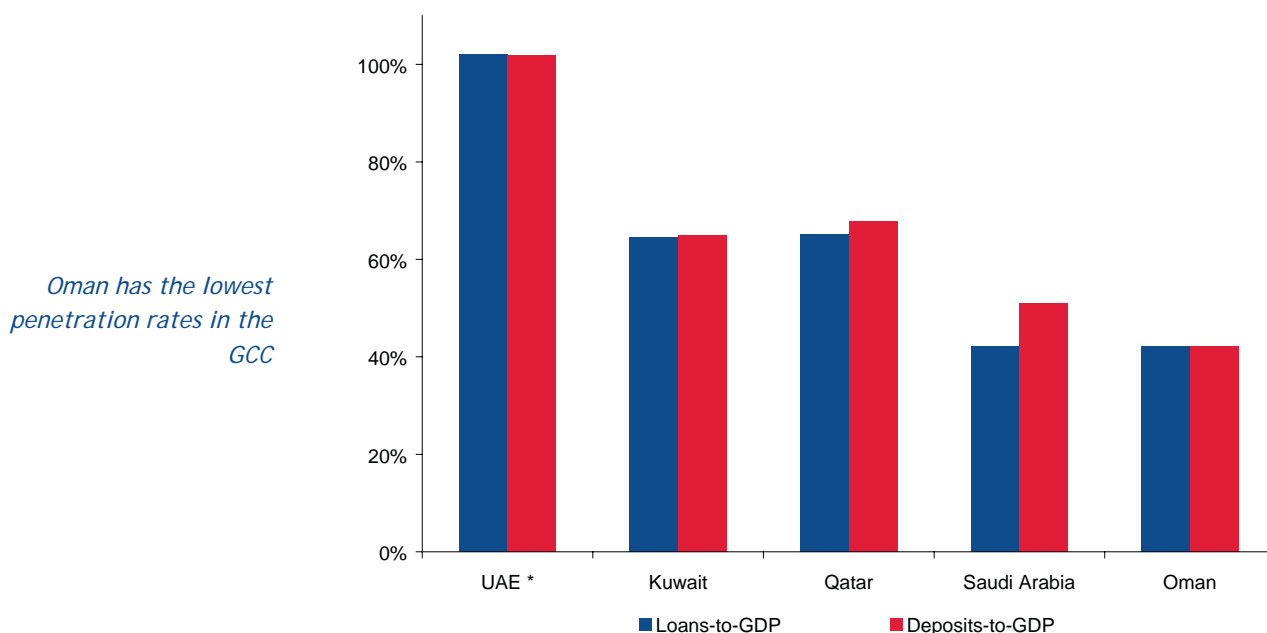
Omani banks are relatively smaller than their GCC peers. The assets per bank stood at USD 1.4 billion at the end of 2007 in Oman, compared to USD 7.3 billion in the United Arab Emirates (UAE) and USD 17.8 billion in Saudi Arabia. Serving a population of around 2.6 million, the Omani banking sector is considered fairly crowded, with an average of one bank per 137,000 individuals, compared to one bank for every 1.43 million individuals in Saudi Arabia.

SECTOR SIZE VERSUS ECONOMY SIZE

Despite being relatively crowded, the Omani banking sector remains the smallest in the GCC with total banking assets of USD 26.8 billion at the end of 2007. Penetration rates in Oman, as measured by the loans-to-GDP and deposits-to-GDP ratios, have consistently been the lowest in the GCC. Therefore, the Omani banking sector is the smallest in the GCC, not only in absolute terms but also in relative terms, as seen in Figure 1. This underbanked status of the economy translates into growth potential for the banking sector. The absence of Islamic banking in Oman is partly responsible for the low penetration rates, as Omani banks lose Shari'a compliant business to Islamic banks in neighboring countries,

especially the UAE. Another growth driver for the banking sector is the fact that around half of the population is young (below the age of 20) which provides ample room for growth in retail banking, especially with the continuous increase in the GDP per capita, which reached USD 15,522 in 2007, up from USD 8,822 in 2003.

Figure 1 Loans-to-GDP and Deposits-to-GDP – December 2007

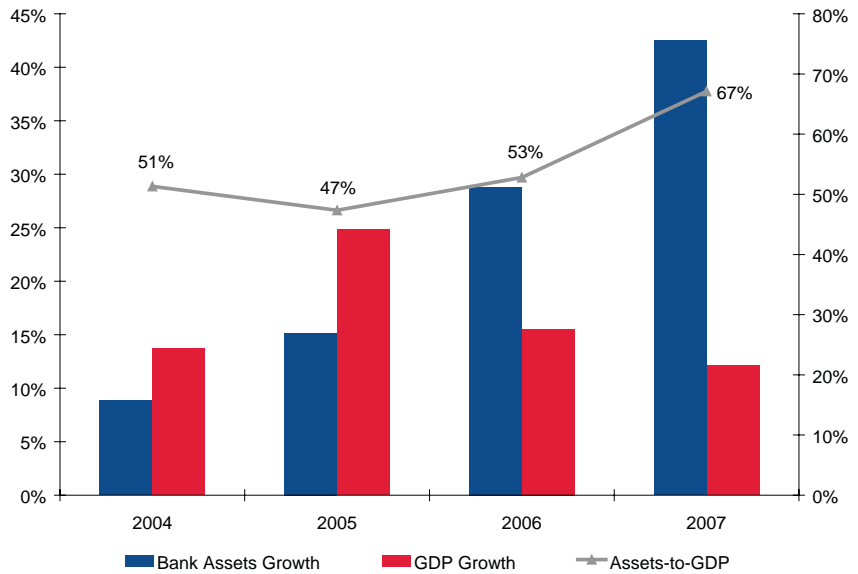


* Estimate. Sources: GCC central banks and NBK Capital

Like its GCC counterparts, the Omani economy has witnessed robust growth over the past few years, driven by the increase in the price of oil. The government's efforts to diversify the economy away from the oil sector are proving successful. The share of petroleum activities in total real GDP has dropped from 28% in 2003 to 23% in 2006. In 2007, it is estimated that the non-hydrocarbon real GDP expanded by 9%, while the hydrocarbon real GDP witnessed a slight drop. There is greater need for Oman to diversify its economy, as its oil reserves are lower and its oil production smaller than its GCC counterparts. Nevertheless, the country still largely depends on the hydrocarbon sector as petroleum activities accounted for 45% of nominal GDP in 2007. Moreover, oil and gas revenues accounted for 76% of the government's total revenues in 2007. The resulting high liquidity from surging oil prices supported the growth of the banking sector. Growth in bank assets was moderate in 2004 and 2005 at 9% and 15%, respectively, but increased to 29% and 43% in 2006 and 2007, respectively. GDP growth, on the other hand, peaked in 2005, registering 25%, but dropped to 16% and 12% in 2006 and 2007, respectively. On average, in the past four years, bank assets in Oman have grown at a CAGR of 23%, higher than the country's four-year GDP CAGR of 16%.

Figure 2 Growth in Bank Assets and GDP

Growth in bank assets has been quicker than growth in GDP in the past two years



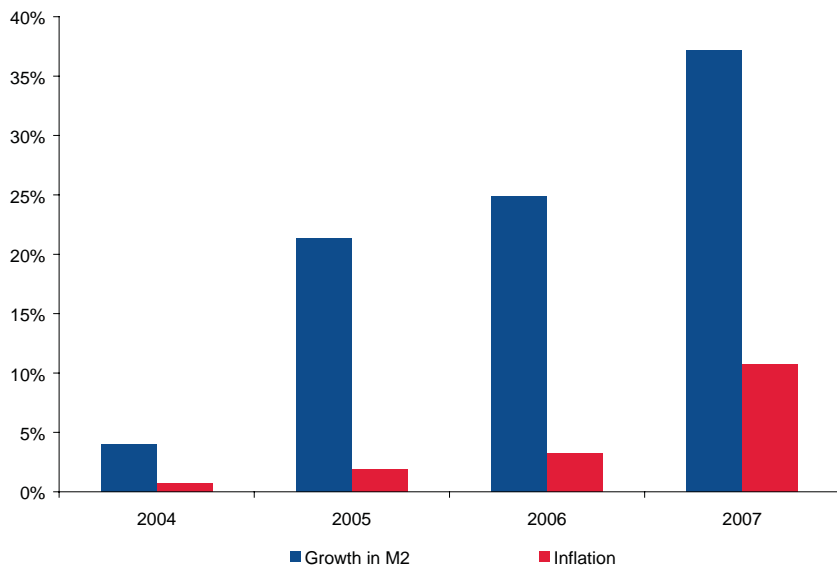
Sources: CBO and NBK Capital

MONEY SUPPLY GROWTH AND INFLATION

The money supply, as measured by M2, reported a CAGR of 21% in the four years ending in 2007. Inflation has increased significantly, reaching 10.8% in 2007, after averaging 2% in the previous three years. Inflation remained high in 2008, reaching 12.4% by April, on an annual basis.

Figure 3 Money Supply Growth and Inflation

M2 jumped by 37% in 2007 while inflation soared to 11%



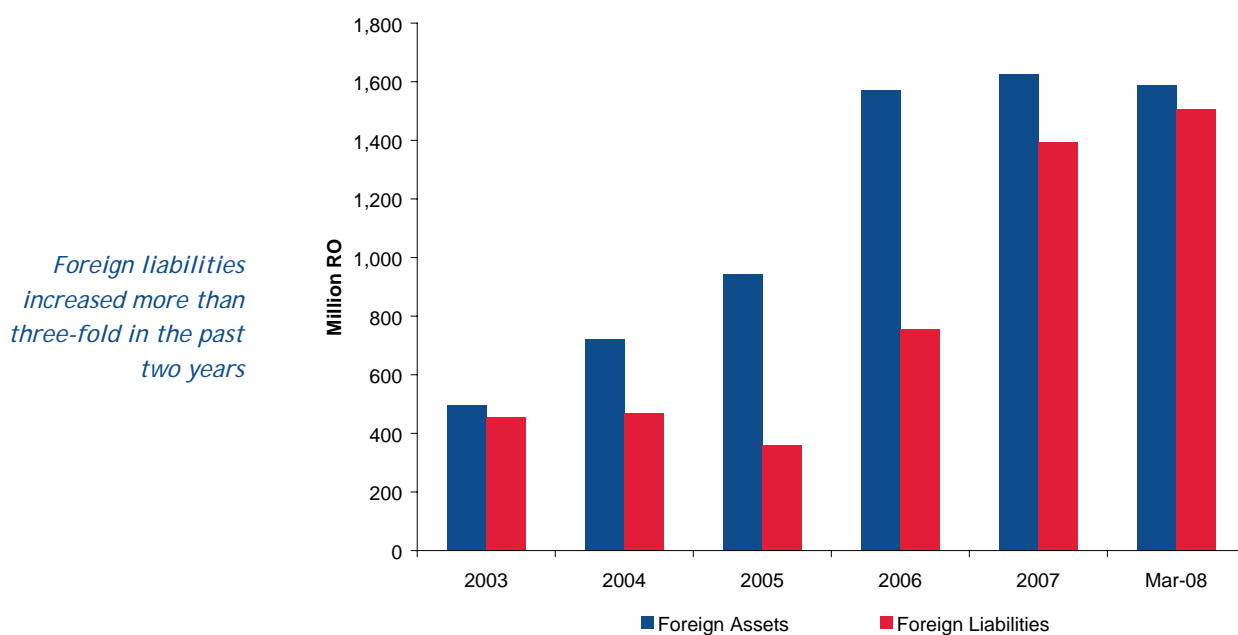
Sources: CBO and NBK Capital

Due to the RO-USD peg, Oman, like its GCC counterparts, faced the dilemma of having to cut interest rates (when the US Federal Reserve slashed interest rates between September 2007 and May 2008) at a time of high inflation and abundant liquidity. To lessen credit growth, the CBO has increased the issuing of Certificates of Deposits (CDs). The value of CDs outstanding rose to RO 1.1 billion at the end of 2007, up from RO 249 million one year earlier. The CBO also issued additional CDs worth RO 3.4 billion during the first quarter of 2008 (1Q2008). The CBO also raised banks' minimum reserve requirement from 5% to 8%, effective August 2008. This followed a prior increase in December 2007, when the reserve requirement was raised from 3% to 5%. Other measures taken by the government to combat the high-inflation environment include a 7% cap on rent increases, for each of the next two years.

FOREIGN ASSETS AND LIABILITIES

Foreign assets held by Omani banks have grown at a CAGR of 47% in the three years ending 2006. Nevertheless, growth subsided in 2007 and into 2008 as foreign assets increased by a slim 1% between December 2006 and March 2008. Foreign liabilities, on the other hand, increased very rapidly in the past two years (+287%).

Figure 4 Foreign Assets and Foreign Liabilities of Omani Banks

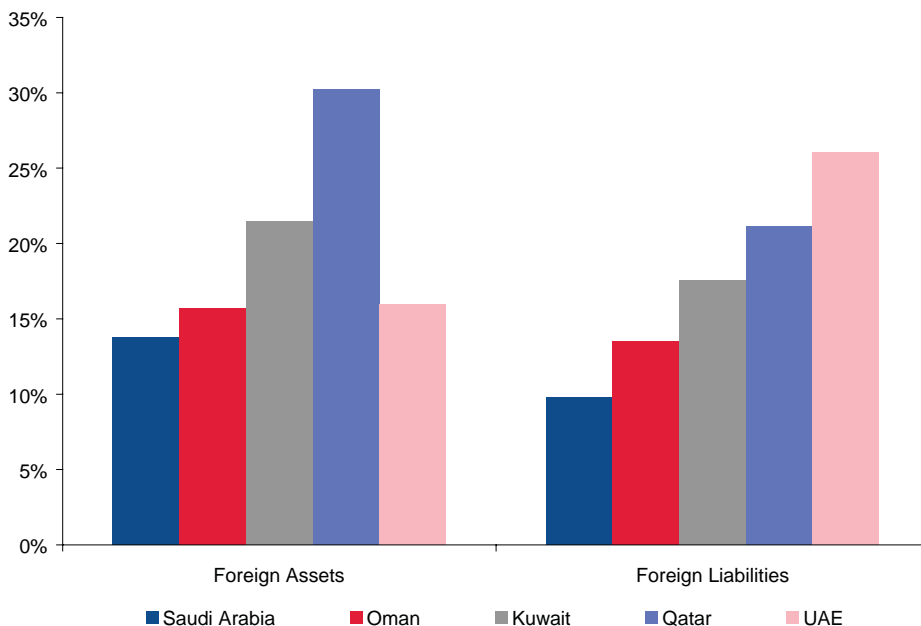


Sources: CBO and NBK Capital

Despite the recent rapid growth in foreign assets and foreign liabilities, the banking sector in Oman is still less involved in transactions beyond its borders than are other GCC banking sectors. As of the end of 2007, Omani banks had the second lowest level of foreign assets and foreign liabilities as a share of total assets. Foreign liabilities in the Omani banking sector represent only 14% of total assets. In comparison, foreign liabilities in the UAE banking sector constitute a quarter of the total assets (Figure 5).

Figure 5 Foreign Assets and Foreign Liabilities as a Share of Total Assets – 2007

Omani banks had the second lowest level of foreign assets and foreign liabilities as a share of total assets among its GCC peers



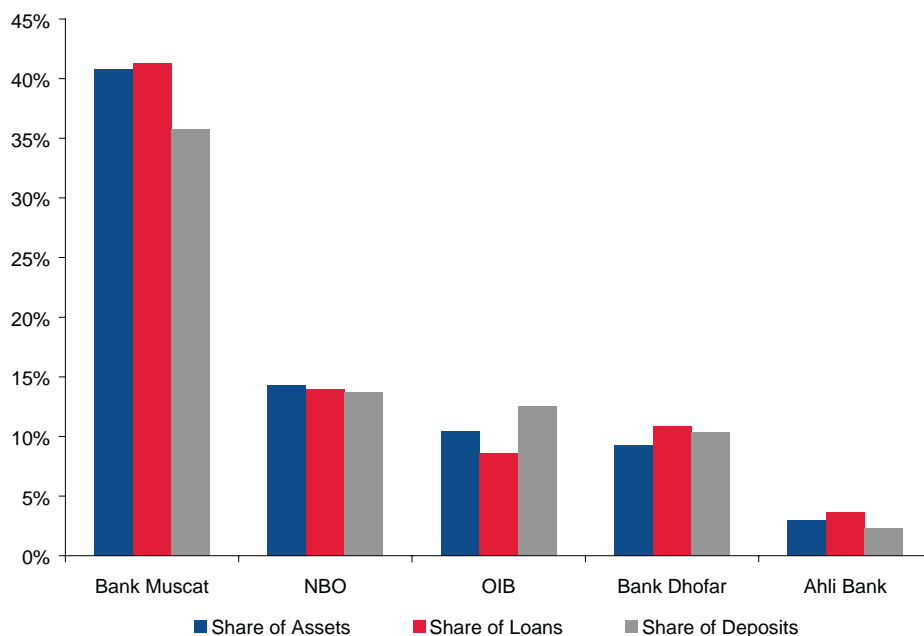
Sources: GCC central banks and NBK Capital

BANKING MARKET SHARE

The banks covered in this report are Bank Muscat, National Bank of Oman (NBO), Oman International Bank (OIB), Bank Dhofar, and Ahli Bank. This sample represented, at the end of 2007, 78% of total banking assets in Oman. This sample also accounts for 78% of total loans in the sector and 75% of total deposits. Bank Muscat is the heavyweight of the Omani banking sector, holding 41%, 41% and 36% of total assets, loans, and deposits, respectively. Nevertheless, Bank Muscat is small when compared to the region’s biggest banks as its asset base was only 16% of that of UAE’s Emirates NBD and 20% of that of Saudi Arabia’s National Commercial Bank, as of December 2007.

Figure 6 Market Shares of Assets, Loans, and Deposits – December 2007

Bank Muscat is the sector's heavyweight



Sources: Banks' financial statements, CBO, and NBK Capital

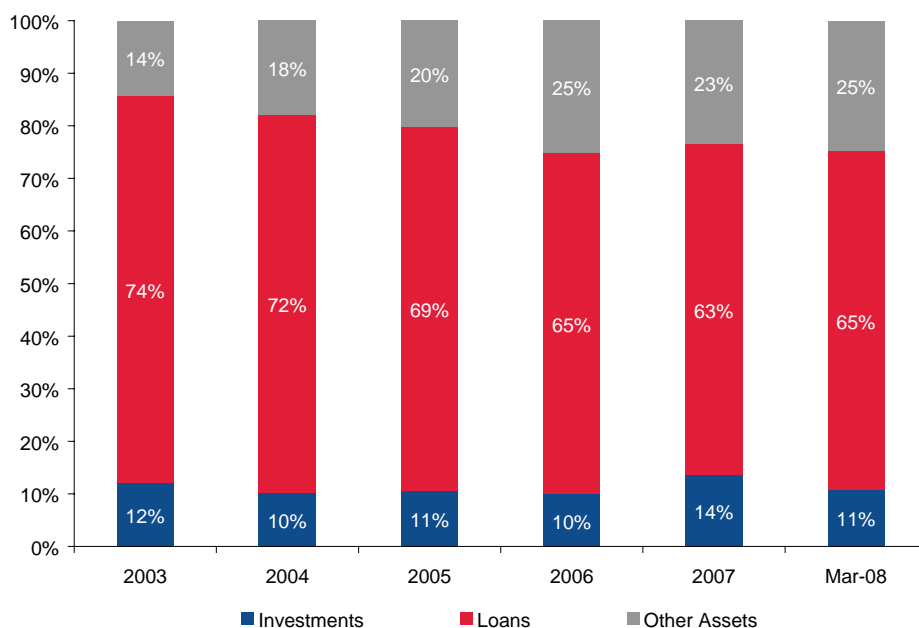
Bank Muscat dwarfs its Omani peers in terms of size and branch network. With assets of RO 4.22 billion at the end of 2007, Bank Muscat is almost three times bigger than NBO, the second biggest bank in the sector. Bank Muscat also has the most extensive branch network in Oman, with 113 branches as of March 2008 (having opened six new branches in 1Q2008 alone), compared with a total of 189 branches for the other four banks in our sample.

ASSET BREAKDOWN

Total assets in the overall sector grew by a CAGR of 23% in the four years ending in 2007. After slow growth in 2004 and 2005, asset growth picked up and reached 29% and 43% in 2006 and 2007, respectively. Net loans as a share of total assets gradually dropped from 74% in 2003 to 65% by March 2008. On the other hand, "other assets," including cash and deposits with the CBO, interbank balances, and fixed assets, increased their share of total assets from 14% in 2003 to 25% in 2007. The increase in "other assets" has come primarily from growing balances held with the CBO. For our sampled banks, balances with the CBO more than doubled in 2007. Finally, the share of investments in total assets has not varied much over the past five years, ranging between 10% and 14%.

Figure 7 Uses of Funds

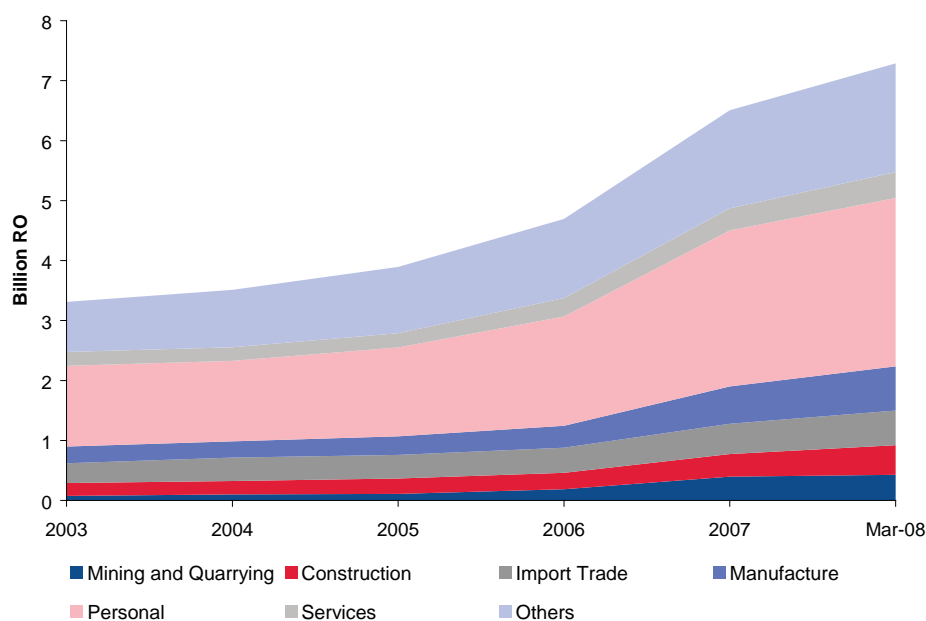
The share of loans in total assets declined gradually over the past four years



Sources: CBO and NBK Capital

Net loans in the overall sector grew by a CAGR of 18% in the four years ending in 2007. Growth was weak in 2004 and 2005, but jumped to 21% in 2006 and then rocketed to 38% in 2007. The strong growth was maintained in 1Q2008 as net loans grew by 12%. Project financing and infrastructure developments are primary growth drivers. According to the Middle East Economic Digest (MEED), projects worth around USD 55 billion are underway or planned in Oman, providing significant potential for the growth of the corporate book. Figure 8 shows the breakdown of total bank credit by economic activity.

Figure 8 Breakdown of Total Bank Credit



The share of personal lending has remained constant at around 40% of total credit

Sources: CBO and NBK Capital

Lending to the mining and quarrying sector saw the fastest growth in 2006 and 2007 at 72% and 112%, respectively. Personal lending accounted for 43% and 27% of the total increase in lending in 2007 and 1Q2008, respectively, and continues to make up the biggest share (38.5% as of March 2008) of total credit.

Personal Lending

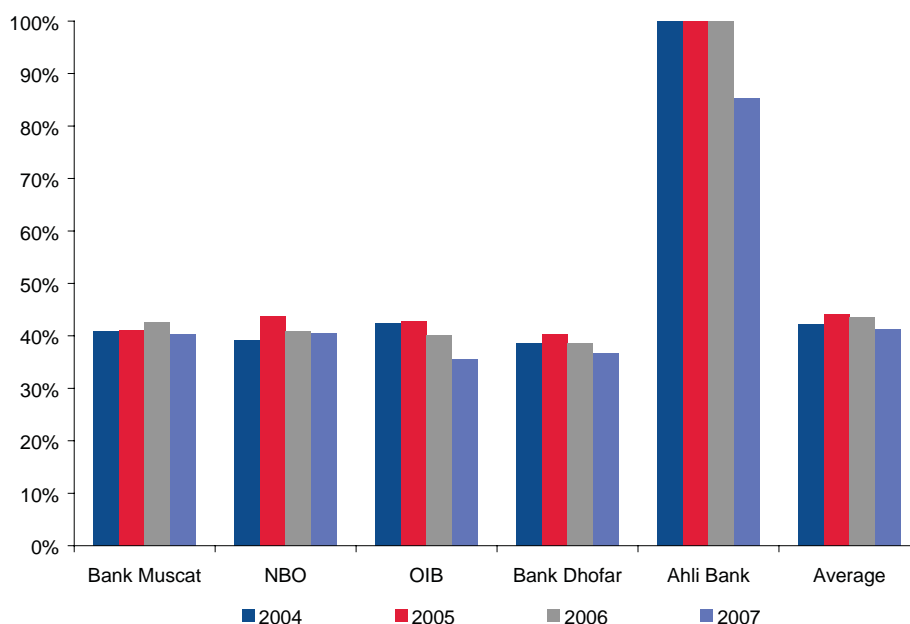
The banks' ability to expand their personal loan portfolios has been limited by a CBO regulation that puts a cap on the share of personal loans in total loans. The regulation had initially prescribed that personal loans could not exceed 42.5% of total loans. This regulation was modified in late 2006, to a 40% cap on the share of personal loans and a 5% cap on the share of mortgage loans. Very recently, in June, the cap on mortgage loans was raised to 10%. Commercial banks have only recently started offering residential mortgages. The mortgage business has significant potential to grow, owing to its current underpenetrated status. Despite the cap, personal loans still managed to grow by 42% in 2007 after they had grown by 23% in 2006. Personal lending is a lucrative business, enjoying high margins and generally low risk due to the salary assignment feature. Going forward, banks will have to grow their corporate book by a similar rate to that of their retail book if they do not wish to see a drop in the share of personal loans in total loans, and as a consequence, a drop in margins and profitability.

The CBO places a cap on the maximum interest rate that can be charged on personal loans. The interest rate cap on new personal loans has been reduced from 8.5% to 8%, effective June 2008. This followed an earlier cut from 9% to 8.5% in March 2008. As personal loans constitute a big chunk of total loans for all banks, decreasing the interest cap on personal loans will have a major impact on banks' interest margins.

Figure 9 shows gross personal loans as a share of total gross loans for the sampled banks. For all banks except Ahli Bank, the share of personal loans has been nearly constant at around 40% in the past four years (although there was a slight drop in that share in 2007 for all banks).

Figure 9 Personal Loans as a Share of Total Gross Loans

Personal loans as a share of total loans has remained fairly stable in the past few years



Sources: Banks' financial statements and NBK Capital

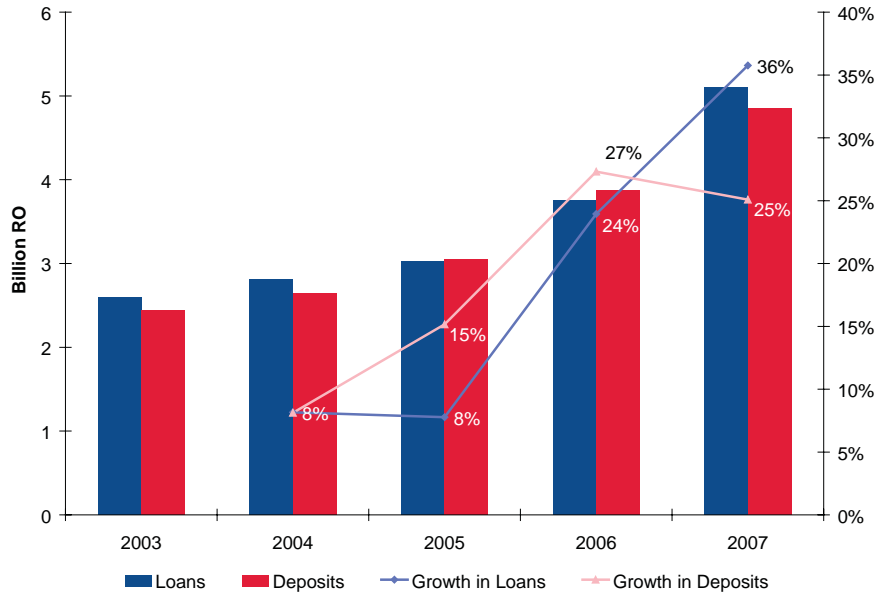
As previously mentioned, Ahli Bank was a pure mortgage player and hence all of its loans in the years before 2007 were mortgage and consumer loans. The bank is transforming into a full-fledged commercial bank and the share of consumer and mortgage loans dropped to 85% of total loans at the end of 2007. Ahli Bank undertook a capital increase, via a private placement in December 2007, whereby Bahrain's Ahli United Bank (AUB) and the World Bank's International Finance Corporation bought a 35% stake and a 10% stake, respectively. Ahli Bank is benefiting from AUB's retail and corporate banking expertise as it converts its activities to commercial banking. The increase in capital will help Ahli Bank to meet CBO's minimum capital requirements, and is expected to support additional organic growth.

LOANS AND DEPOSITS GROWTH, AND BANK LIQUIDITY

For our sample of banks, lending growth was quicker than deposit accumulation in 2007, after being slower in the previous two years. This quicker growth in lending in 2007 drove up the loans-to-deposits ratio to 105% by the end of 2007. On average, for the four years ending in 2007, total loans grew by a CAGR of 18.3% compared with a slightly higher growth of 18.7% for deposits.

Figure 10 Loans versus Deposits

Lending growth was quicker than deposit growth in 2007, after falling behind it in the previous two years

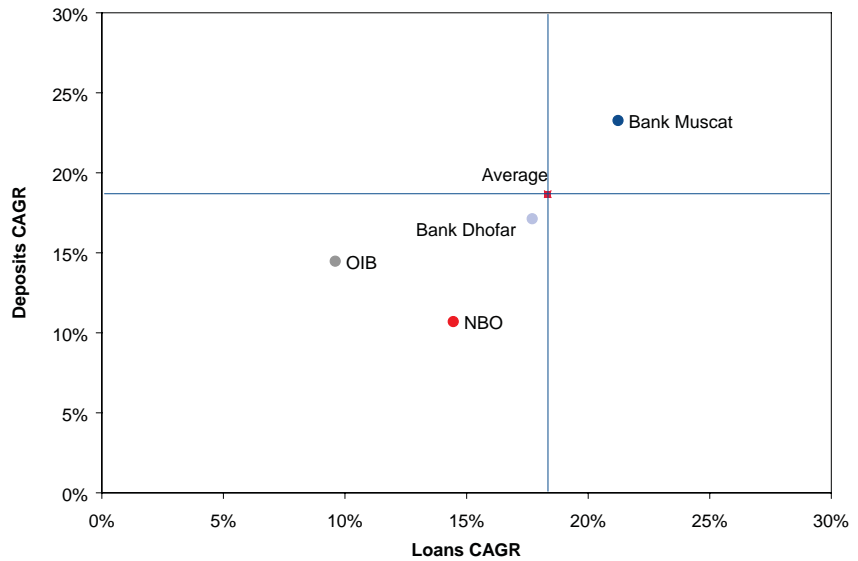


Sources: Banks' financial statements and NBK Capital

Our sampled banks exhibited wide differences in growing their loan portfolios and deposit levels. Figure 11 shows the CAGR in loans and deposits for the four years ending in 2007. Ahli Bank outperformed its peers as its loans grew by a CAGR of 35% and its deposits by 73% (not plotted in Figure 11), but from a much smaller base. Its deposits doubled in 2007 alone, driven by the rapid growth in corporate deposits as the bank transforms into a full commercial bank.

Figure 11 Growth of Loans and Deposits – 2003 to 2007

Bank Muscat grew its loans and deposits more quickly than the sector's average



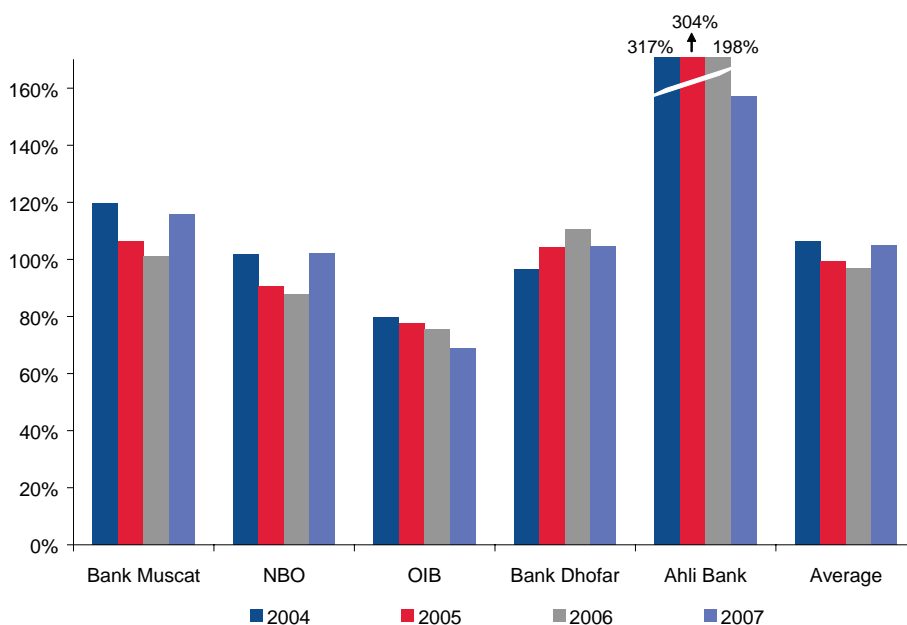
Sources: Banks' financial statements and NBK Capital

Bank Muscat was the second best performer with a CAGR of 21% and 23% in its loans and deposits, respectively. In 2007 alone, Bank Muscat's net loans grew by 46% while deposits grew by 28%. Personal lending accounted for 35% of the total increase in lending for Bank Muscat in 2007, and made up 40% of total gross loans at the end of that year. Lending to other sectors, such as mining and quarrying, and real estate, grew by 219% and 118%, respectively. Together, these two sectors accounted for 25% of the total increase in lending in 2007.

The two biggest banks, Bank Muscat and NBO, saw their loans grow faster than their deposits in 2007, hence driving up the loans-to-deposits ratio of the sample from 97% at the end of 2006 to 105% at the end of 2007.

Figure 12 Loans-to-Deposits Ratios

The sample's loans-to-deposits ratio has been relatively high, hovering around 100% in the past four years



Sources: Banks' financial statements and NBK Capital

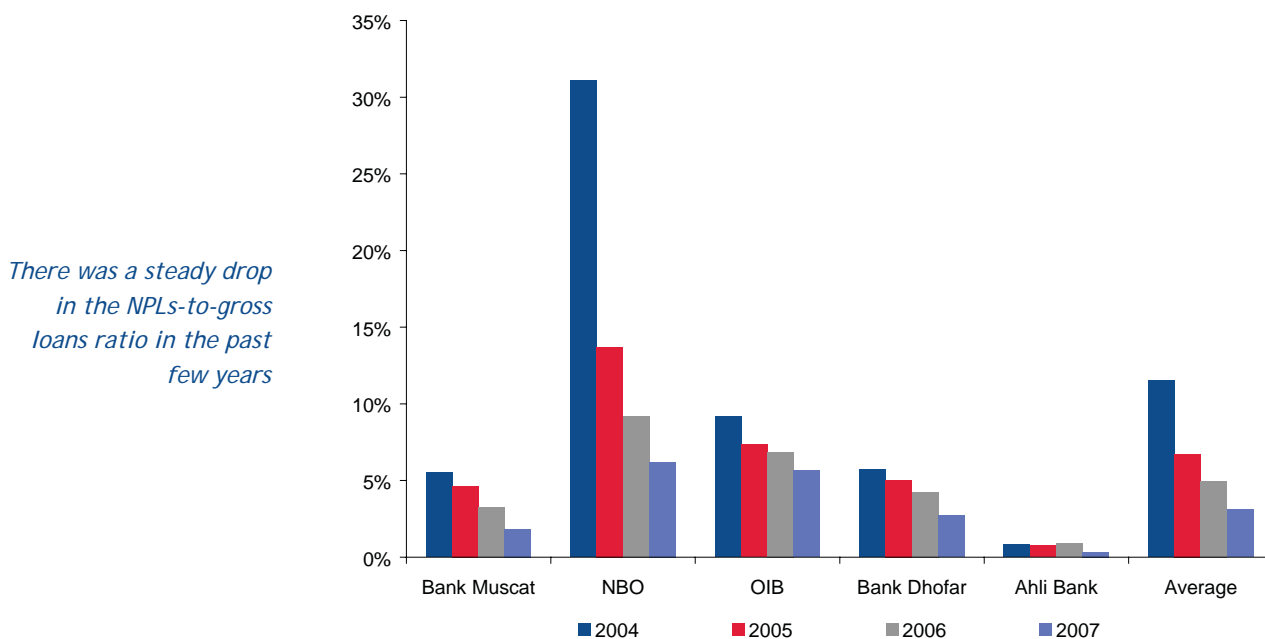
The sample's loans-to-deposits ratio has been relatively high, hovering around 100% in the past four years. The ratio of OIB has dropped steadily over the same period and was consistently the lowest among the ratios of its peers. Ahli Bank's loans-to-deposits ratio dropped from 304% in 2005 to 157% in 2007. The bank's deposits have increased more than three-fold in the past two years driven by corporate accounts as the bank offered competitive rates. Deposits are increasingly becoming the major source of funding for Ahli Bank, with their share of total liabilities increasing from 35% in 2005 to 68% in 2007. Going forward, Ahli Bank is planning to attract more retail deposits to broaden its depositor base.

It is worth mentioning that the CBO, in its efforts to lessen the growth in credit, modified its regulation regarding the cap on the "loans-to-deposits ratio" in June of this year. The CBO decreased the cap from 87.5% to 82.5%, to be fully implemented from October 2008. For the calculation of this ratio, "deposits" are defined to also include borrowings and equity.

ASSET QUALITY

Oman, like all GCC countries, is dominated by a few large corporate clients leading to significant single borrower exposures for the banks. Several large corporate clients faced financial trouble in the early 2000s which led to severe asset quality deterioration for the banking sector. However, the strong operating environment driven by high oil prices and improved risk management and lending practices have boosted asset quality in the past few years. This, in addition to robust growth in lending, led to steadily improving asset quality indicators for our sampled banks. The NPLs-to-gross loans ratio dropped from 12% in 2004 to 3% in 2007 (Figure 13). In fact, recoveries and write-offs were significant in each of the past three years. This dropped the absolute level of NPLs by 54% between end-2004 and end-2007. It is worth noting that legacy loans from the early 2000s still constitute a sizable share of total NPLs. Hence, the NPLs-to-gross loans ratio would be even lower if these NPLs were excluded.

Figure 13 NPLs as a Share of Gross Loans

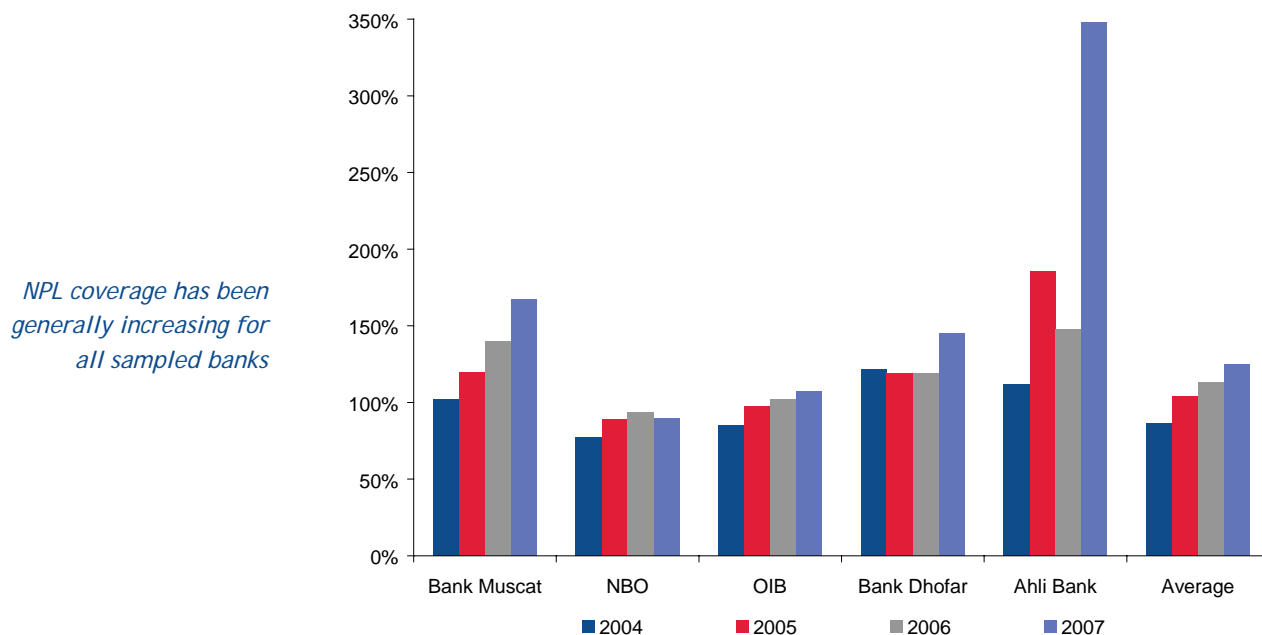


Sources: Banks' financial statements and NBK Capital

NBO's ratio dropped from a very high 31% in 2004 to 6% in 2007. The previously high ratios were a consequence of the severe asset quality problems that NBO had faced between 2001 and 2003. In 2005, Commercial Bank of Qatar (CBQ) bought a 34.9% stake in NBO, via a capital increase, and entered into a three-year management contract with it. The new management succeeded in turning the bank around as asset quality and profitability improved significantly. Considerable write-offs and recoveries, and improved lending practices led to a drop in the absolute level of NPLs from RO 212 million in 2004 to RO 60 million in 2007. All in all, NBO benefited immensely from CBQ's management expertise and the management contract has been renewed in 2008 for another three years.

NPL coverage, defined as the ratio of total provisions to NPLs, has been steadily improving over the past four years. The ratio of our sampled banks increased from 87% in 2004 to 125% at the end of 2007 (Figure 14).

Figure 14 Non-performing Loan Coverage



Sources: Banks' financial statements and NBK Capital

Ahli Bank's NPL coverage jumped to 348% at the end of 2007 as the increase in total provisions was accompanied by a drop in the absolute level of NPLs.

The sampled banks do not appear to have sizable exposure to instruments that have been affected by the subprime mortgage market such as collateralized debt obligations (CDOs) and structured investment vehicles (SIVs).

The CBO has recently signed an agreement with Dun & Bradstreet, a leading commercial information provider, to establish a new banking credit and statistical bureau in Oman. This new bureau will replace the CBO's current banking and statistical bureau, which holds limited information about borrowers, although it has been operating for many years. Setting up a new bureau with more capabilities and enhanced information on borrowers is a positive move that will benefit the overall banking sector.

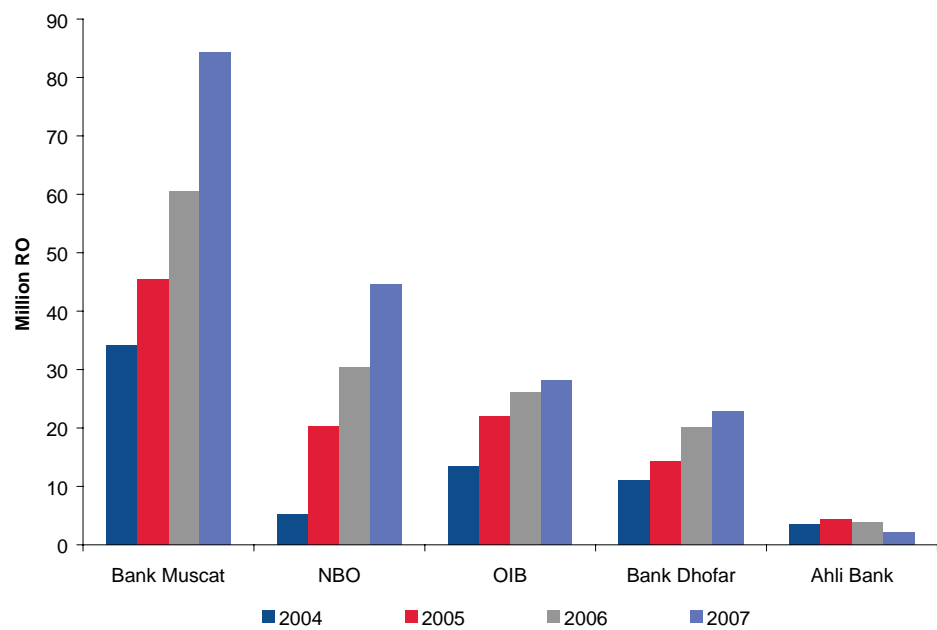
PROFITABILITY

Net profits of our sampled banks rose by a robust 39% CAGR in the three years ending in 2007. Rapid growth in lending is one driver for the increased profitability with total net loans increasing by a CAGR of 30% in the last two years. Strong growth in income from fees and commissions, low net provisioning owing to significant non-performing loan recoveries, and a controlled cost expansion were also major drivers of the increase in net profits.

Most sampled banks were able to increase their earnings in each of the past three years. Bank Muscat is the top earner with its net profit representing 46% of the sample's total net profit in 2007, after increasing by a CAGR of 35% in the past three years. NBO, on the other hand, witnessed the most rapid growth in net profit as it increased eight-fold in the last three years. As mentioned earlier, NBO benefited immensely from the management contract that was signed with CBQ in 2005. The net profit of Ahli Bank dropped by 43% in 2007 (although operating income managed to grow by a slim 3.1%) primarily due to a jump in provisioning, staff-related expenses, investments in information technology and infrastructure, as the bank transforms into a commercial bank.

Figure 15 Net Profits

NBO witnessed the highest net profit growth in the past three years while Bank Muscat remains the top earner

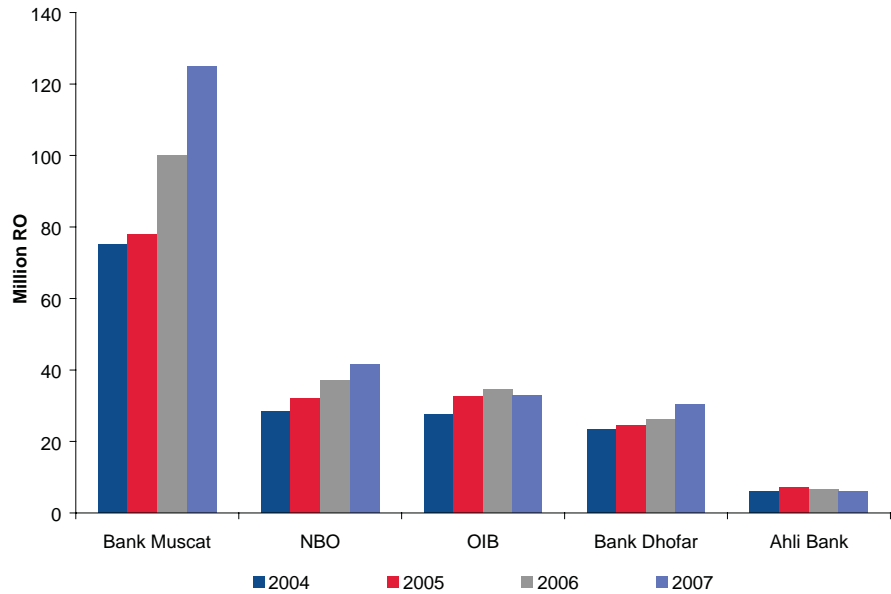


Sources: Banks' financial statements and NBK Capital

Most banks were also able to gradually increase their net interest income in the past three years as seen in Figure 16. In terms of net interest income growth, Bank Muscat outperformed its peers by a wide margin. One reason for that was that the bank has exhibited higher spreads and margins as compared with its peers. Bank Muscat's net interest income grew by 28% and 25% in 2006 and 2007, respectively, compared with a growth of 8.9% and 6% for its peers. Accordingly, Bank Muscat's net interest income represented as much as 53% of the sample's total.

Figure 16 Net Interest Income

Bank Muscat significantly outperformed its peers in terms of net interest income growth in the past two years

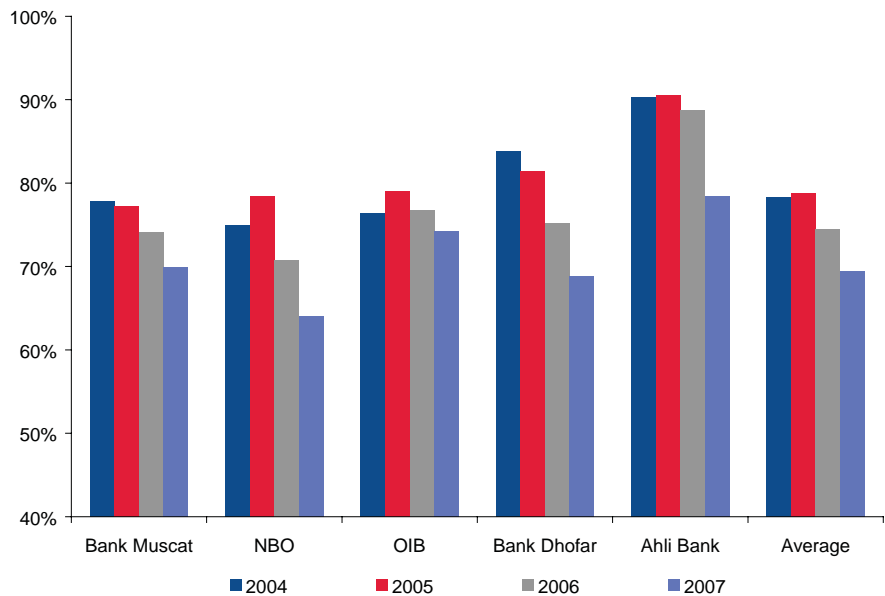


Sources: Banks' financial statements and NBK Capital

Omani banks generally have high net interest income as a share of total operating income, although that share has dropped in the past two years. There is still much room for the expansion of non-interest income and hence more diversification of the earning stream. In Figure 17, we plot net interest income as a share of total operating income for our sample of banks in the past four years.

Figure 17 Net Interest Income as a Share of Total Operating Income

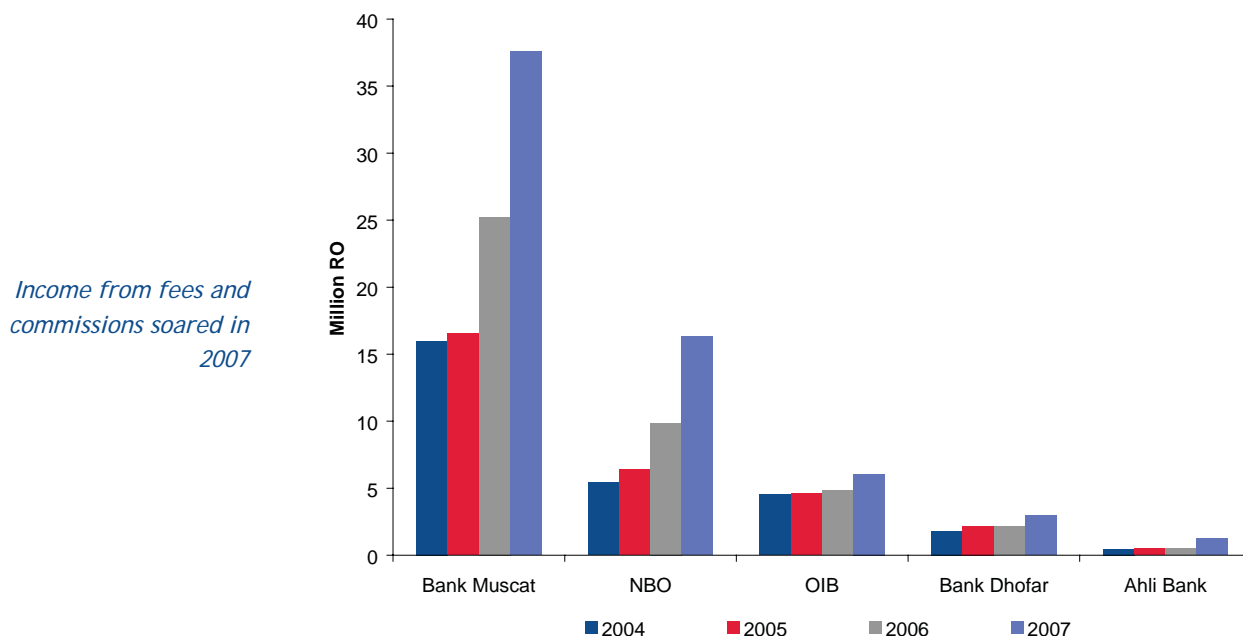
Net interest income as a share of total operating income has dropped in each of the past two years for all sampled banks



Sources: Banks' financial statements and NBK Capital

For all banks, interest income as a share of operating income has dropped in each of the past two years. A major reason for this drop was strong growth in almost all non-interest income components such as fees and commissions, investment income, foreign exchange income, and other operating income. Fees and commissions, for example, grew by 41% and 51% in 2006 and 2007, respectively. Fees and commissions accounted for more than half of total non-interest income in 2007. Ahli Bank and NBO witnessed the strongest growth in fees and commissions in 2007, at 150% and 65%, respectively, but from a relatively smaller base than that of their peers (Figure 18). However, just like the case for net profit and net interest income, Bank Muscat dwarfs its peers in terms of fees and commissions, accounting for 59% of the sample’s total. In addition to its overall dominant position in the Omani banking sector, Bank Muscat has a leading position in trade finance, credit cards, brokerage, and investment banking enabling it to outperform its peers in earning fees and commissions.

Figure 18 Income from Fees and Commissions



Sources: Banks’ financial statements and NBK Capital

The initially low levels of non-interest income as well as dropping net interest margins are driving all banks to focus more on increasing their non-interest earnings, especially through fees and commissions.

Fees and commissions can be broadly broken down into those derived from core banking operations and others derived from non-core banking operations. Omani banks did not have the chance to increase fees derived from non-core banking activities like, for example, their peers in Saudi Arabia and the UAE did. In Saudi Arabia, banks benefited significantly from brokerage commissions as trading on the Saudi Stock Exchange (Tadawul) reached very high levels in 2005 and 2006. In Oman, however, the MSM still suffers from low trading activity whereby daily trading value averaged USD 14.3 million and USD 11.8 million in

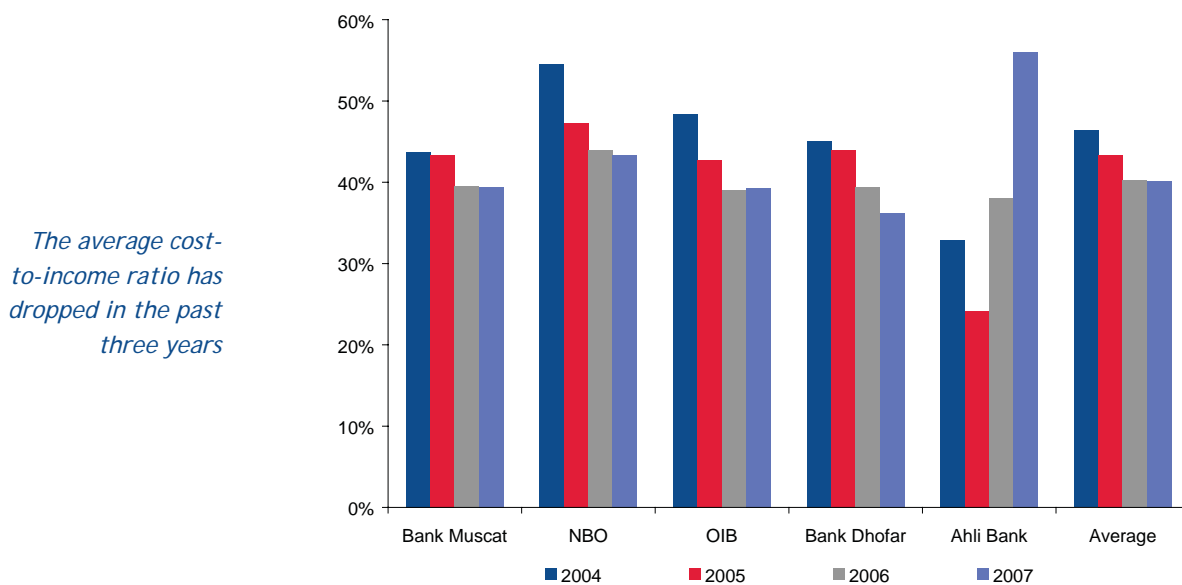
2005 and 2006, respectively. Nevertheless, total traded value jumped by 135% in 2007 and increased further in the first half of 2008. Hence, Omani banks that offer brokerage services will benefit if trading activity on the MSM continues to improve. Moreover, in the UAE, banks benefited to a great extent from Initial Public Offering (IPO) activities. IPO activities in Oman, however, were minimal over the last three years as few companies have gone public and listed their shares on the MSM. Investment banking in general, and not strictly IPO activities, has a lot of room to grow in Oman, hence boosting banks' fee income. Additionally, we believe there is much room for the expansion of income through asset management fees as Omani banks increase their total assets under management.

COST EFFICIENCY

The cost-to-income ratio of our sampled banks generally dropped in the past three years as seen in Figure 19. Omani banks tend to have higher cost-to-income ratios than their GCC peers, although not especially high according to international norms. A lower level of operating income, especially due to a lower level of non-interest income, is one factor for the relatively higher cost-to-income ratios that Omani banks have compared with their GCC peers. The "Omanization" program, enforced by the government, is one factor for the relatively high staff costs and, thus, the high cost-to-income ratio that Omani banks exhibit. Fully aware of the potential to improve efficiency, Omani banks are focusing on promoting alternative delivery channels in the hope of improving productivity and boosting efficiency ratios.

The 2005 drop in the cost-to-income ratio was driven by a very modest increase in costs, while the 2006 drop was driven by an expansion in operating income. The strong operating income growth was maintained in 2007; nevertheless, growth in costs picked up during that year, leading to a minimal improvement in the cost-to-income ratio. Going forward, the soaring inflation will put pressure on the cost-to-income ratio, directly through an increase in costs and indirectly through wage-inflation.

Figure 19 Cost-to-Income Ratio

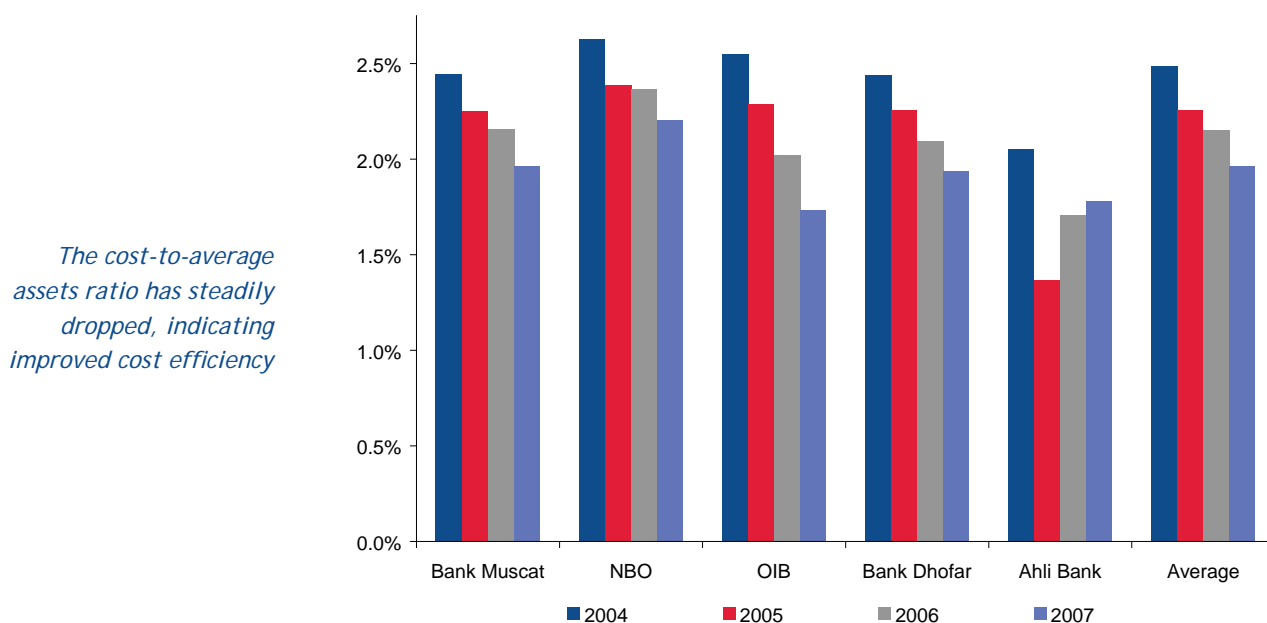


Sources: Banks' financial statements and NBK Capital

Ahli Bank, unlike its peers, witnessed a jump in its cost-to-income ratio in 2006 and again in 2007. The increase in the ratio is driven by an increase in costs which are attributed to the bank's transformation into a commercial bank, as previously mentioned.

Another measure used to gauge banks' operational efficiency, especially useful when the income stream is highly volatile, is the cost-to-average assets ratio. As seen in Figure 20, cost efficiency appears to have improved as the average ratio for the sample has dropped in each of the past three years.

Figure 20 Cost-to-Average Assets Ratio



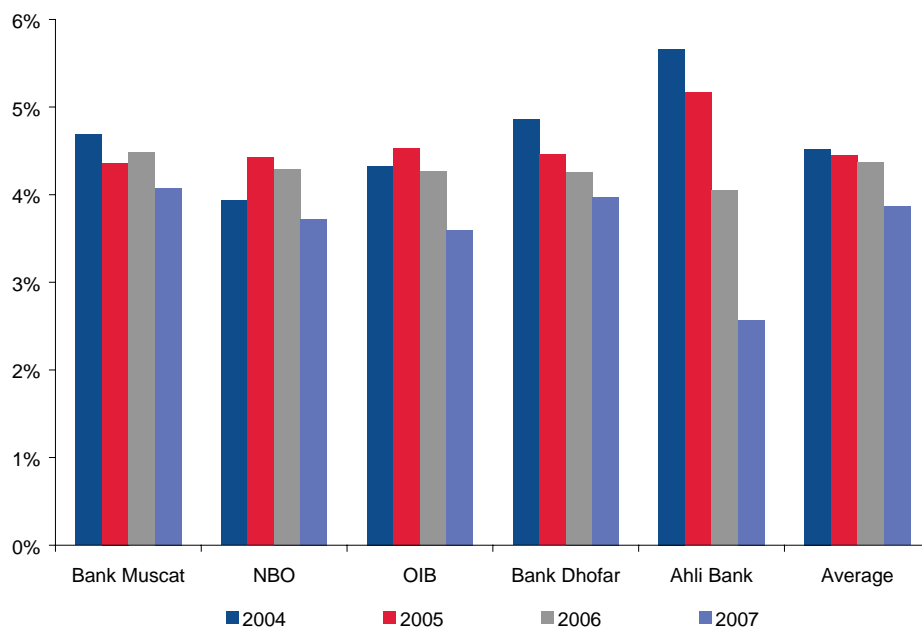
Sources: Banks' financial statements and NBK Capital

MARGINS AND RETURNS

The NIM, measured as net interest income divided by average interest-earning assets, has been declining for all sampled banks (Figure 21). The weighted average for the sample dropped from 4.5% in 2004 to 3.9% in 2007.

Figure 21 Net Interest Margin

For most banks, the NIM has dropped in 2006 and again in 2007



Sources: Banks' financial statements and NBK Capital

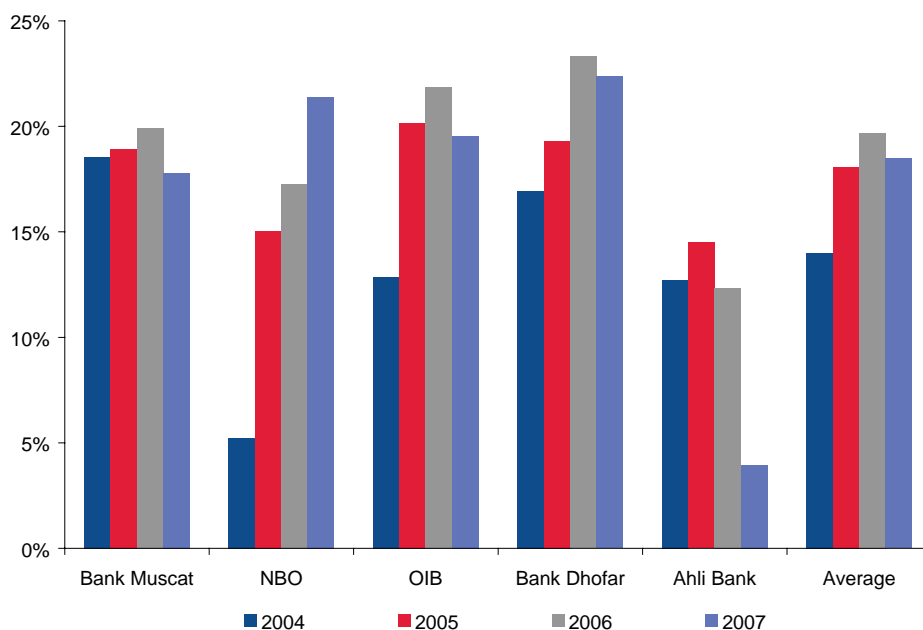
The drop in NIM can be mainly attributed to fiercer competition in the sector and to an increase in the cost of funds that has been witnessed since 2005. Total interest expense increased by 27% in 2005, nearly double the growth in total interest income (+14%) that same year. The increase in the cost of funds persisted in 2006 and 2007, when total interest expense rose by 50% and 48%, respectively, compared with a slower growth of 28% and 27% in total interest income. The major reason for this sharp increase in funding costs was the high-interest-rate environment prevailing in the 2004-2007 time period. With the RO pegged to the USD, domestic rates started rising in 2004 following the interest rate increases witnessed in the United States.

The drop in the NIM makes it more imperative for banks to boost their non-interest earnings and, thus, safeguard their profitability. As mentioned before, Bank Muscat had the highest NIM from among its peers in the past two years.

Profitability, as measured by return on average equity (RoAE), increased for most banks in 2005 and again in 2006, to later drop in 2007.

Figure 22 Return on Average Equity

After increasing in 2005 and 2006, average RoAE for the sampled banks dropped in 2007



Sources: Banks' financial statements and NBK Capital

Bank Dhofar had the highest RoAE from among its peers in the past two years. This was partly related to it having a lower equity-to-assets ratio compared to its peers. Bank Dhofar's equity-to-assets ratio stood at 11.6% at the end of 2007 compared to 15% for the sample as a whole. Bank Muscat's RoAE dropped from 20% in 2006 to 18% in 2007 despite a 39% increase in the bank's net profit during 2007. The drop in Bank Muscat's RoAE was due to a capital increase undertaken in November 2007, when the bank issued 161.57 million shares in a private placement to Dubai Financial Group. This stake represents 15% of the total outstanding shares of Bank Muscat. The capital increase serves various purposes, including boosting capital adequacy and supporting Bank Muscat's domestic and international operations. Moreover, the additional capital was also used to acquire a 35% stake in Saudi Pak Commercial Bank (a Pakistani bank) and will be used to provide additional capital to Bank Muscat International (BMI), an associate of Bank Muscat that operates in Bahrain.

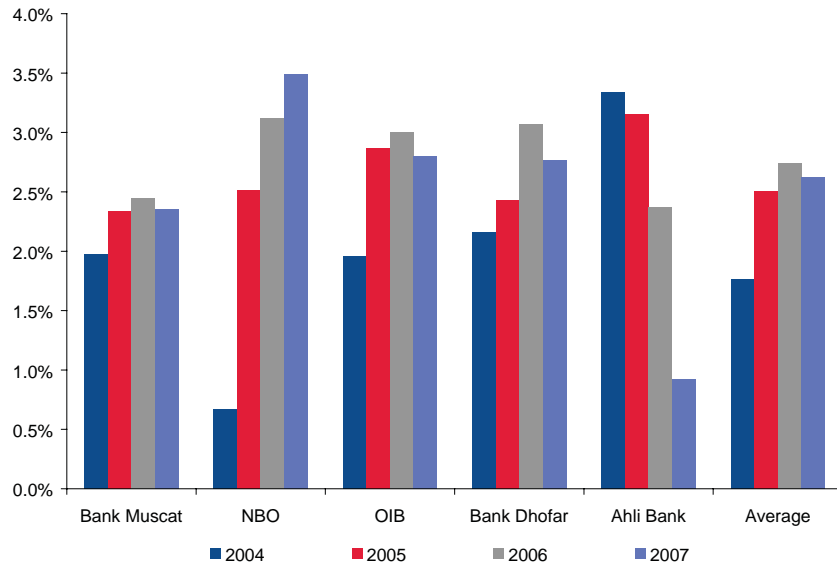
The plummet in the RoAE of Ahli Bank in 2007 was due to the 43% drop in the bank's net profit during that year and the capital increase that was undertaken in December 2007, as previously mentioned.

NBO had a phenomenal increase in its RoAE in the past few years as it surged to 21% in 2007, up from a low of 5% in 2004, driven by the eight-fold increase in the bank's net profit, as previously mentioned.

A similar trend can be seen when looking at the return on average assets (RoAA), which also generally increased in 2005 and 2006, but later dropped in 2007. Again, NBO stands out with a high 3.5% in 2007, making it the only bank in our sample to increase its RoAA in 2007.

Figure 23 Return on Average Assets

After increasing in 2005 and 2006, RoAA dropped in 2007



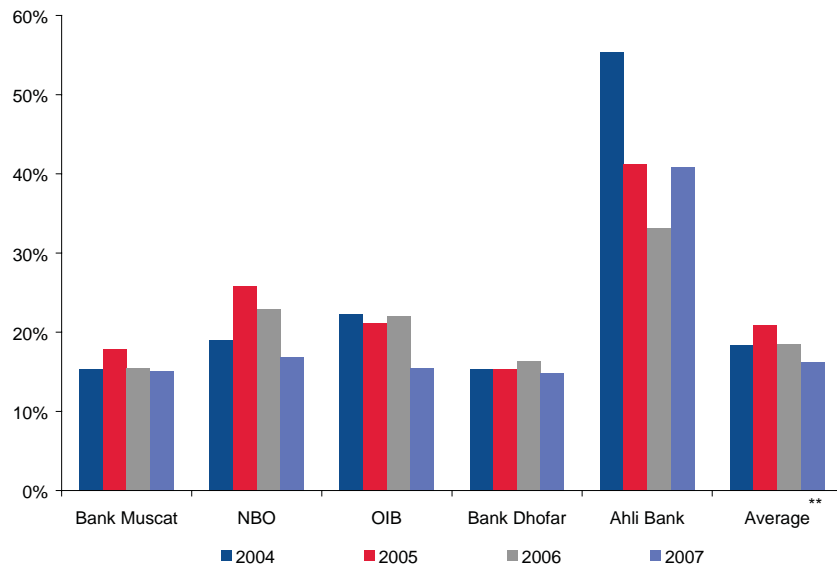
Sources: Banks' financial statements and NBK Capital

CAPITAL ADEQUACY RATIOS

The weighted average capital adequacy ratio (CAR) of the sample stood at 16.2% at the end of 2007, comfortably exceeding the 10% minimum required by the CBO. Nevertheless, this average would have been much lower if it had not been for the two capital injections that were undertaken by Bank Muscat and Ahli Bank. All sampled banks have consistently maintained more than adequate CARs in the past four years (Figure 24).

Figure 24 Capital Adequacy Ratios *

Capital adequacy ratios are significantly over the 10% minimum required by the CBO



*For 2007, according to Basel II. For 2006 and before, according to Basel I. ** Average for 2006 and before excludes Bank Dhofar. Sources: Banks' financial statements and NBK Capital

The sampled banks have been in full compliance with Basel II requirements since January 2007. Banks have adopted the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. Basel II implementation led to a drop in CARs due to the additional operational risk and Pillar II risks capital charges. It is worth mentioning that the CBO lowered the minimum CAR requirement from 12% to 10% with the transition to Basel II. Ahli Bank's ratio was a very high 41% at the end of 2007. The reason for that is that Ahli Bank has both a higher equity-to-assets ratio and a lower risk-weighted assets-to-total assets ratio than those of its peers.

RATINGS

The ratings of Omani banks have been improving owing to strong fundamentals and a favorable operating environment on the back of strong GDP growth. Bank Muscat has the highest ratings, as seen in Figure 25.

Figure 25 Ratings

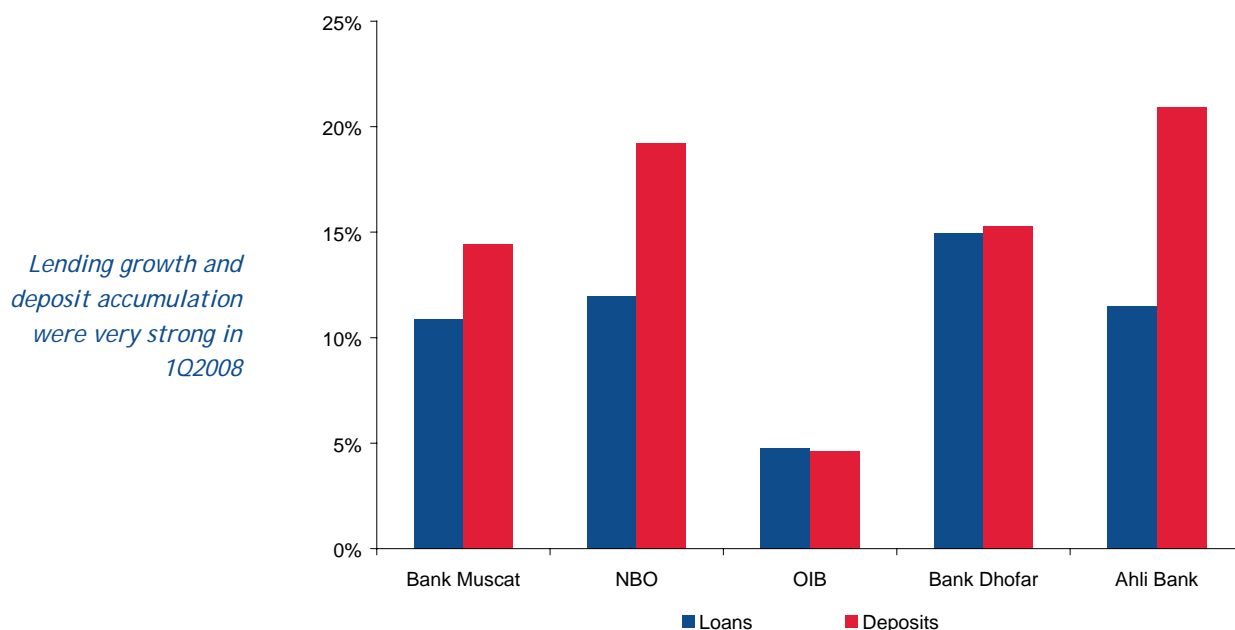
Bank	Moody's		Standard and Poor's		Fitch	
	LT Deposits	FSR	Long Term	Outlook	Long Term	Outlook
Bank Muscat	A2	C-	BBB+	Positive	A-	Stable
NBO	A3	D+	N/A	N/A	N/A	N/A
OIB	A3	D+	N/A	N/A	BBB+	Stable
Bank Dhofar	A3	D+	N/A	N/A	BBB+	Stable
Ahli Bank	Baa1	D	N/A	N/A	N/A	N/A

Sources: Moody's, Standard and Poor's, Fitch, and NBK Capital

2008 FIRST QUARTER RESULTS

The sampled banks demonstrated strong growth in lending (+11%) and an even quicker growth in deposits (+14%) in 1Q2008.

Figure 26 Growth of Net Loans and Deposits – 1Q2008

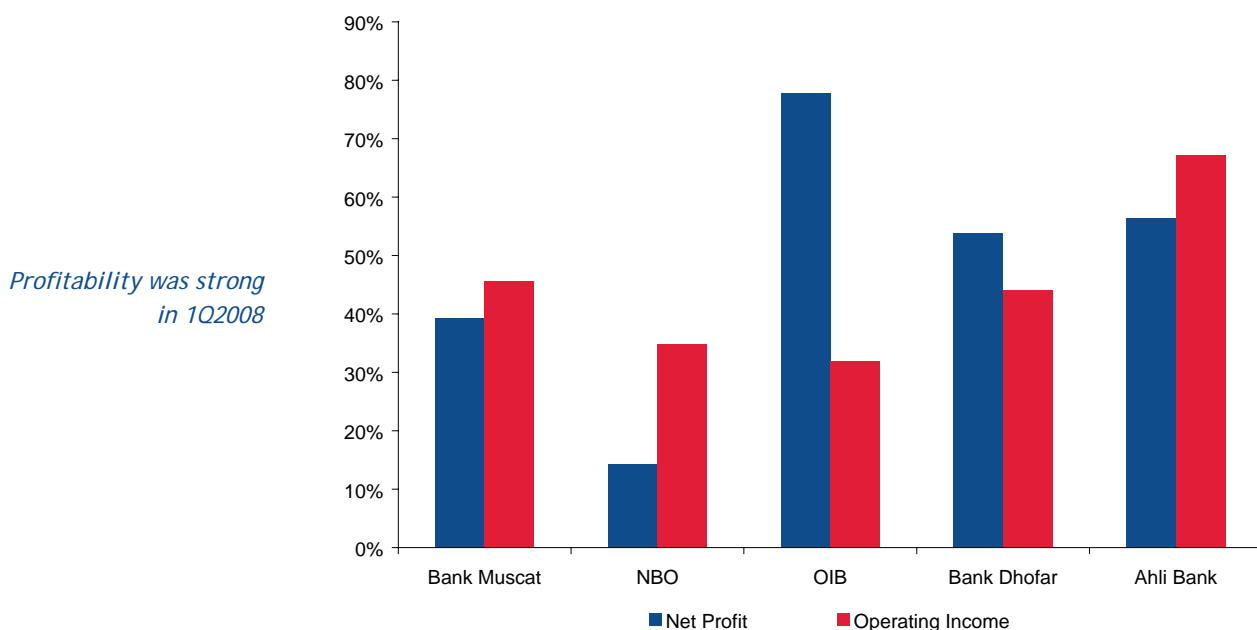


Sources: Banks' financial statements and NBK Capital

OIB underperformed its peers, as it grew its loans and deposits by 4.8% and 4.6%, respectively, in 1Q2008. On the other hand, Bank Dhofar registered the highest growth in lending, at 15%. Ahli Bank maintained its very rapid deposit accumulation strategy, growing them by 21% in 1Q2008. This brought down the bank's loans-to-deposits ratio from 157% in December 2007 to a still high 145% in March 2008. The generally quicker growth in deposits as opposed to loans decreased the sample's average loans-to-deposits ratio from 105% in December 2007 to 102% in March 2008.

Net profits of our sampled banks grew by 40% in 1Q2008 (year-on-year), a higher growth rate than that achieved in 2007, on the back of a 42% growth in operating income. Growth in fees and commissions (+67%) continued to outstrip growth in net interest income (+22%).

Figure 27 Growth of Net Profit and Operating Income – 1Q2008



Sources: Banks' financial statements and NBK Capital

OIB outperformed its peers as the bank's net profit increased by a strong 78% in 1Q2008. A closer look, however, reveals that this superior performance was driven by significant write backs and recoveries as well as dividends received, and not from an outperformance in net interest income growth or fees and commissions growth.

BANK MUSCAT

Key Data

General		Multiples	
Reuters Code	BMAO.OM	Trailing P/E	21.4
Bloomberg Code	BKMB.OM	Trailing P/B	3.3
Price (RO)		Price Performance	
Closing Price	1.826	YTD	-4.9%
52-Week High	2.274	1-Year Period	32.3%
52-Week Low	1.369	Avg. Daily Trad. (Mln USD)	5.41
Market Capitalization		Outstanding Shares (Latest)	
Million USD	5,110.0	Million Shares	1,077.1

Bank Financials

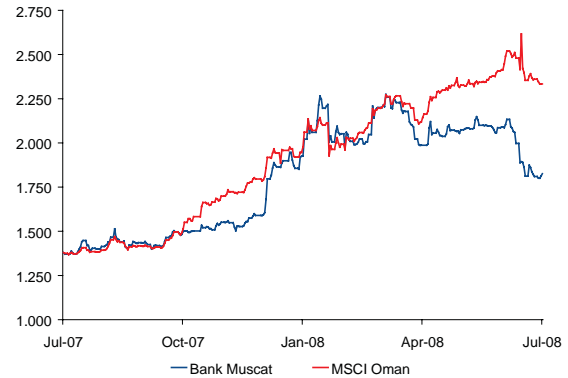
Balance Sheet (RO '000)	2005	2006	2007
Assets			
Cash & Balances with Central Banks	32,936	116,217	487,912
Due from Banks	316,735	524,741	587,802
Investments	164,780	299,053	212,980
Loans & Advances	1,371,930	1,834,678	2,686,863
Property and Equipment	10,636	11,438	19,090
Other Assets	96,800	168,731	223,078
Total Assets	1,993,817	2,954,858	4,217,725

Liabilities and Owners' Equity	2005	2006	2007
Due to Banks	55,169	363,207	663,236
Customers' Deposits	1,291,205	1,817,107	2,322,089
Other Liabilities	116,126	209,485	295,120
Other Borrowed Funds	232,419	229,923	289,223
Income Tax Provision	12,791	15,051	20,487
Total Owners' Equity	286,107	320,085	627,570
Total Liabilities and Owners' Equity	1,993,817	2,954,858	4,217,725

Income Statement (RO '000)	2005	2006	2007
Interest Income	116,017	159,234	218,272
Interest Expense	(37,956)	(59,361)	(93,450)
Net Interest Income	78,061	99,873	124,822
Net Fees and Commissions	16,544	25,253	37,607
Foreign Exchange Income	2,421	3,197	6,305
Other Operating Income	4,025	6,475	9,694
Total Operating Income	101,051	134,798	178,428
Salaries & Employee Related Expenses	(25,791)	(32,404)	(40,829)
Depreciation	(3,022)	(3,366)	(4,086)
Other General & Admin. Expenses	(14,961)	(17,435)	(25,293)
Loan Loss (Provisions) / Recoveries	(8,463)	(11,126)	(10,502)
Other (Impairments) / Recoveries	1,213	(385)	107
Other Operating Expenses	2,800	(125)	(118)
Total Expenses	(48,224)	(64,841)	(80,721)
Income Tax Expense	(7,383)	(9,525)	(13,450)
Net Profit	45,444	60,432	84,257
Earnings Per Share (RO)	0.053	0.066	0.090

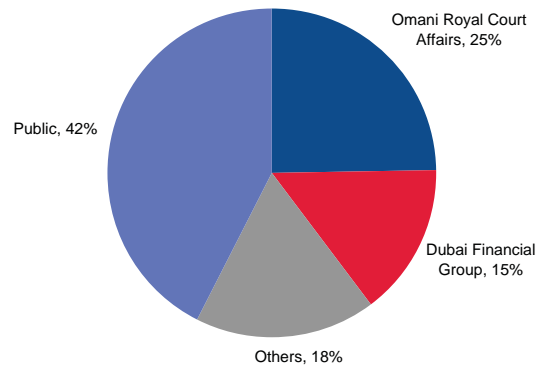
Sources: Bank's financial statements and NBK Capital

Relative Performance of the Stock



Sources: Reuters, MSCI, and NBK Capital

Ownership Structure



Key Ratios

	2005	2006	2007
Dividend Payout	58.3%	48.2%	63.9%
Return on Average Equity	18.9%	19.9%	17.8%
Return on Average Assets	2.3%	2.4%	2.3%
Net Interest Margin	4.4%	4.5%	4.1%
Net Profit Growth	33.2%	33.0%	39.4%
EPS Growth	24.0%	23.9%	36.7%
Adjusted # of Shares ('000)	853,139	915,564	933,516
Loan Market Share	35.2%	39.0%	41.3%
Deposit Market Share	34.3%	38.8%	35.8%
Asset Market Share	35.4%	40.7%	40.8%
Loans-to-Deposits	106.3%	101.0%	115.7%
NPLs-to-Gross Loans	4.6%	3.3%	1.8%
NPL Coverage	119.6%	139.7%	167.3%
Cost-to-Income	43.3%	39.6%	39.4%

Sources: Bank's financial statements, CBO, and NBK Capital

NATIONAL BANK OF OMAN

Key Data

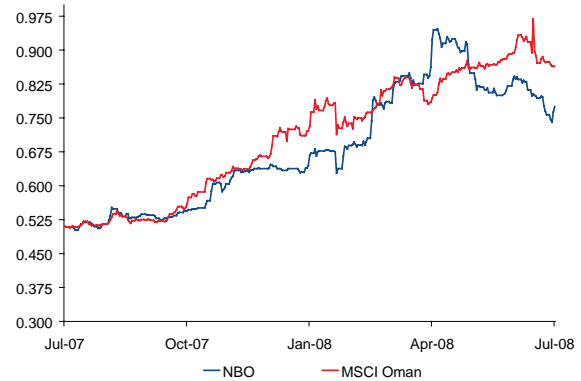
General		Multiples	
Reuters Code	NBO.OM	Trailing P/E	18.2
Bloomberg Code	NBOB OM	Trailing P/B	3.7
Price (RO)		Price Performance	
Closing Price	0.775	YTD	21.3%
52-Week High	0.947	1-Year Period	53.2%
52-Week Low	0.502	Avg. Daily Trad. (Mln USD)	1.57
Market Capitalization		Outstanding Shares (Latest)	
Million USD	2,176.6	Million Shares	1,081.0

Bank Financials

Balance Sheet (RO '000)	2005	2006	2007
Assets			
Cash & Balances with Central Banks	78,464	102,317	245,838
Due from Banks	162,767	184,205	202,077
Investments	31,580	40,780	45,508
Loans & Advances	541,438	703,767	906,765
Property and Equipment	6,746	5,885	6,763
Other Assets	48,874	45,489	69,674
Total Assets	869,869	1,082,443	1,476,625
Liabilities and Owners' Equity			
Due to Banks	11,211	17,256	215,493
Customers' Deposits	598,646	800,961	888,223
Other Liabilities	51,484	49,867	74,154
Other Borrowed Funds	39,078	28,186	60,300
Income Tax Provision	1,450	1,596	5,668
Total Owners' Equity	168,000	184,577	232,787
Total Liabilities and Owners' Equity	869,869	1,082,443	1,476,625
Income Statement (RO '000)	2005	2006	2007
Interest Income	49,582	61,301	77,925
Interest Expense	(17,546)	(24,153)	(36,234)
Net Interest Income	32,036	37,148	41,691
Net Fees and Commissions	6,409	9,880	16,330
Foreign Exchange Income	1,271	1,660	2,300
Other Operating Income	1,126	3,826	4,766
Total Operating Income	40,842	52,514	65,087
Salaries & Employee Related Expenses	(11,257)	(13,011)	(15,608)
Depreciation	(1,716)	(1,689)	(1,641)
Other General & Admin. Expenses	(6,325)	(8,268)	(10,817)
Loan Loss (Provisions) / Recoveries	2,533	3,562	1,271
Other (Impairments) / Recoveries	(83)	1,738	12,258
Other Operating Expenses	-	(147)	(137)
Total Expenses	(16,848)	(17,815)	(14,674)
Income Tax Expense	(3,665)	(4,273)	(5,797)
Net Profit	20,329	30,426	44,616
Earnings Per Share (RO)	0.020	0.028	0.041

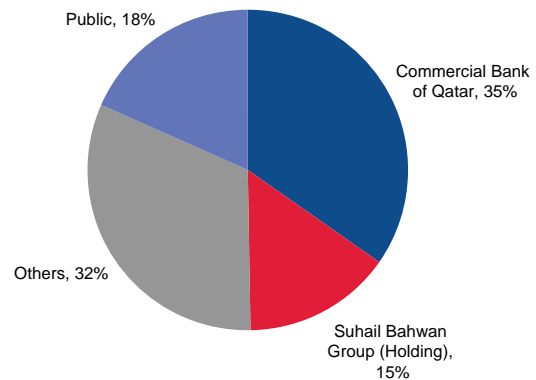
Sources: Bank's financial statements and NBK Capital

Relative Performance of the Stock



Sources: Reuters, MSCI, and NBK Capital

Ownership Structure



Key Ratios

	2005	2006	2007
Dividend Payout	59.6%	46.0%	36.1%
Return on Average Equity	15.0%	17.3%	21.4%
Return on Average Assets	2.5%	3.1%	3.5%
Net Interest Margin	4.4%	4.3%	3.7%
Net Profit Growth	289.3%	49.7%	46.6%
EPS Growth	262.7%	40.6%	46.6%
Adjusted # of Shares ('000)	1,015,314	1,081,000	1,081,000
Loan Market Share	13.9%	15.0%	13.9%
Deposit Market Share	15.9%	17.1%	13.7%
Asset Market Share	15.5%	14.9%	14.3%
Loans-to-Deposits	90.4%	87.9%	102.1%
NPLs-to-Gross Loans	13.7%	9.2%	6.2%
NPL Coverage	88.9%	93.7%	89.4%
Cost-to-Income	47.3%	44.0%	43.3%

Sources: Bank's financial statements, CBO, and NBK Capital

OMAN INTERNATIONAL BANK

Key Data

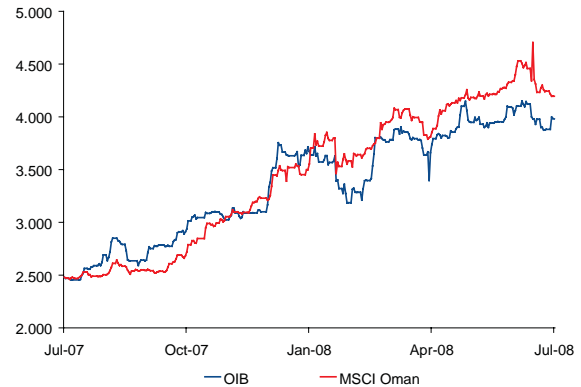
General		Multiples	
Reuters Code	OIB.OM	Trailing P/E	11.3
Bloomberg Code	OIBB OM	Trailing P/B	2.4
Price (RO)		Price Performance	
Closing Price	3.980	YTD	9.0%
52-Week High	4.149	1-Year Period	60.7%
52-Week Low	2.455	Avg. Daily Trad. (Mln USD)	1.30
Market Capitalization		Outstanding Shares (Latest)	
Million USD	944.3	Million Shares	91.3

Bank Financials

Balance Sheet (RO '000)	2005	2006	2007
Assets			
Cash & Balances with Central Banks	30,118	39,578	49,431
Due from Banks	138,651	246,307	118,711
Investments	124,353	101,575	299,450
Loans & Advances	512,590	516,856	559,934
Property and Equipment	8,907	9,021	30,852
Other Assets	6,216	9,752	23,408
Total Assets	820,835	923,089	1,081,786
Liabilities and Owners' Equity			
Due to Banks	34,337	39,701	24,849
Customers' Deposits	659,244	684,816	811,704
Other Liabilities	9,859	11,897	20,841
Other Borrowed Funds	-	57,946	58,420
Income Tax Provision	3,103	3,516	3,823
Total Owners' Equity	114,292	125,213	162,149
Total Liabilities and Owners' Equity	820,835	923,089	1,081,786
Income Statement (RO '000)	2005	2006	2007
Interest Income	45,192	52,530	56,579
Interest Expense	(12,680)	(17,864)	(23,738)
Net Interest Income	32,512	34,666	32,841
Net Fees and Commissions	4,617	4,836	6,075
Foreign Exchange Income	1,248	1,314	1,756
Other Operating Income	2,772	4,342	3,604
Total Operating Income	41,149	45,158	44,276
Salaries & Employee Related Expenses	(10,256)	(9,751)	(10,060)
Depreciation	(950)	(1,033)	(889)
Other General & Admin. Expenses	(6,395)	(6,775)	(6,450)
Loan Loss (Provisions) / Recoveries	1,382	2,029	4,769
Other (Impairments) / Recoveries	-	-	-
Other Operating Expenses	-	(50)	-
Total Expenses	(16,219)	(15,580)	(12,630)
Income Tax Expense	(2,902)	(3,383)	(3,570)
Net Profit	22,028	26,195	28,076
Earnings Per Share (RO)	0.241	0.287	0.307

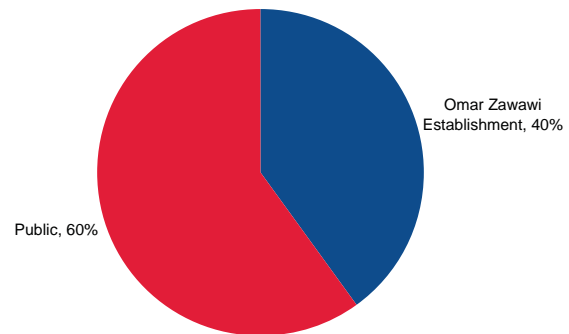
Sources: Bank's financial statements and NBK Capital

Relative Performance of the Stock



Sources: Reuters, MSCI, and NBK Capital

Ownership Structure



Key Ratios

	2005	2006	2007
Dividend Payout	65.7%	60.5%	62.1%
Return on Average Equity	20.1%	21.9%	19.5%
Return on Average Assets	2.9%	3.0%	2.8%
Net Interest Margin	4.5%	4.3%	3.6%
Net Profit Growth	64.7%	18.9%	7.2%
EPS Growth	64.7%	18.9%	7.2%
Adjusted # of Shares ('000)	91,326	91,326	91,326
Loan Market Share	13.2%	11.0%	8.6%
Deposit Market Share	17.5%	14.6%	12.5%
Asset Market Share	14.6%	12.7%	10.5%
Loans-to-Deposits	77.8%	75.5%	69.0%
NPLs-to-Gross Loans	7.3%	6.9%	5.7%
NPL Coverage	97.8%	102.1%	107.2%
Cost-to-Income	42.8%	39.0%	39.3%

Sources: Bank's financial statements, CBO, and NBK Capital

BANK DHOFAR

Key Data

General		Multiples	
Reuters Code	BDOF.OM	Trailing P/E	18.6
Bloomberg Code	BKDB OM	Trailing P/B	4.5
Price (RO)		Price Performance	
Closing Price	0.876	YTD	30.4%
52-Week High	1.096	1-Year Period	86.0%
52-Week Low	0.465	Avg. Daily Trad. (Mln USD)	0.36
Market Capitalization		Outstanding Shares (Latest)	
Million USD	1,208.1	Million Shares	530.8

Bank Financials

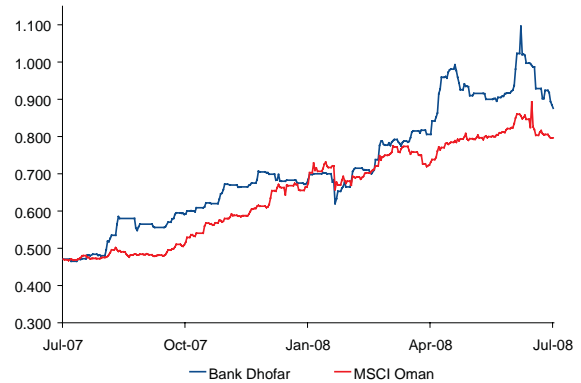
Balance Sheet (RO '000)	2005	2006	2007
Assets			
Cash & Balances with Central Banks	84,344	84,439	119,428
Due from Banks	25,826	29,389	29,187
Investments	24,568	19,968	88,528
Loans & Advances	470,937	548,819	704,643
Property and Equipment	3,847	4,152	4,413
Other Assets	8,703	8,032	8,928
Total Assets	618,225	694,799	955,127

Liabilities and Owners' Equity	2005	2006	2007
Due to Banks	2,310	3,504	26,119
Customers' Deposits	452,132	497,142	674,502
Other Liabilities	17,660	24,509	28,248
Other Borrowed Funds	65,112	74,737	113,237
Income Tax Provision	1,606	1,626	2,523
Total Owners' Equity	79,405	93,281	110,498
Total Liabilities and Owners' Equity	618,225	694,799	955,127

Income Statement (RO '000)	2005	2006	2007
Interest Income	34,738	42,287	51,610
Interest Expense	(10,342)	(16,042)	(21,254)
Net Interest Income	24,396	26,245	30,356
Net Fees and Commissions	2,198	2,159	2,952
Foreign Exchange Income	566	752	1,128
Other Operating Income	2,820	5,721	9,655
Total Operating Income	29,980	34,877	44,091
Salaries & Employee Related Expenses	(6,852)	(7,633)	(8,512)
Depreciation	(1,066)	(1,143)	(1,381)
Other General & Admin. Expenses	(5,270)	(4,978)	(6,091)
Loan Loss (Provisions) / Recoveries	(661)	871	(1,748)
Other (Impairments) / Recoveries	-	-	-
Other Operating Expenses	-	(18)	(1,004)
Total Expenses	(13,849)	(12,901)	(18,736)
Income Tax Expense	(1,932)	(1,846)	(2,565)
Net Profit	14,199	20,130	22,790
Earnings Per Share (RO)	0.027	0.038	0.043

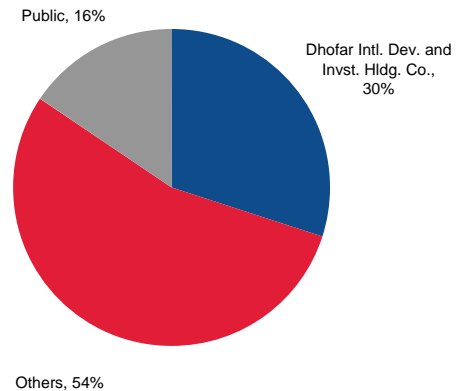
Sources: Bank's financial statements and NBK Capital

Relative Performance of the Stock



Sources: Reuters, MSCI, and NBK Capital

Ownership Structure



Key Ratios

	2005	2006	2007
Dividend Payout	29.6%	34.4%	58.2%
Return on Average Equity	19.3%	23.3%	22.4%
Return on Average Assets	2.4%	3.1%	2.8%
Net Interest Margin	4.5%	4.3%	4.0%
Net Profit Growth	28.2%	41.8%	13.2%
EPS Growth	28.2%	41.8%	13.2%
Adjusted # of Shares ('000)	530,817	530,817	530,817
Loan Market Share	12.1%	11.7%	10.8%
Deposit Market Share	12.0%	10.6%	10.4%
Asset Market Share	11.0%	9.6%	9.2%
Loans-to-Deposits	104.2%	110.4%	104.5%
NPLs-to-Gross Loans	5.1%	4.2%	2.7%
NPL Coverage	118.9%	118.8%	145.3%
Cost-to-Income	44.0%	39.4%	36.3%

Sources: Bank's financial statements, CBO, and NBK Capital

AHLI BANK

Key Data

General		Multiples	
Reuters Code	ABOB.OM	Trailing P/E	66.7
Bloomberg Code	ABOB OM	Trailing P/B	2.3
Price (RO)		Price Performance	
Closing Price	0.289	YTD	1.4%
52-Week High	0.339	1-Year Period	55.8%
52-Week Low	0.171	Avg. Daily Trad. (Mln USD)	0.62
Market Capitalization		Outstanding Shares (Latest)	
Million USD	485.2	Million Shares	646.2

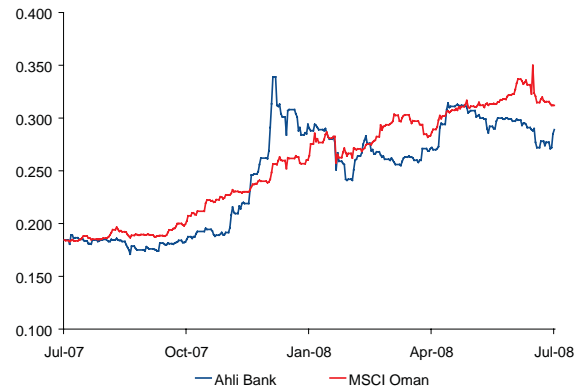
Bank Financials

Balance Sheet (RO '000)	2005	2006	2007
Assets			
Cash & Balances with Central Banks	245	2,146	9,009
Due from Banks	8	9,594	384
Investments	21,209	11,205	55,311
Loans & Advances	132,592	150,717	239,413
Property and Equipment	183	558	714
Other Assets	1,021	958	1,136
Total Assets	155,258	175,178	305,967
Liabilities and Owners' Equity			
Due to Banks	16,956	14,850	39,612
Customers' Deposits	43,574	76,270	152,146
Other Liabilities	2,338	2,460	3,440
Other Borrowed Funds	59,855	49,194	29,175
Income Tax Provision	754	738	606
Total Owners' Equity	31,783	31,666	80,988
Total Liabilities and Owners' Equity	155,258	175,178	305,967

Income Statement (RO '000)	2005	2006	2007
Interest Income	11,030	12,594	13,631
Interest Expense	(3,849)	(6,007)	(7,635)
Net Interest Income	7,182	6,587	5,995
Net Fees and Commissions	494	503	1,254
Foreign Exchange Income	-	-	-
Other Operating Income	255	331	400
Total Operating Income	7,930	7,420	7,650
Salaries & Employee Related Expenses	(1,182)	(1,187)	(2,185)
Depreciation	(47)	(54)	(175)
Other General & Admin. Expenses	(602)	(1,528)	(1,922)
Loan Loss (Provisions) / Recoveries	(954)	(56)	(858)
Other (Impairments) / Recoveries	-	(83)	-
Other Operating Expenses	(82)	(50)	-
Total Expenses	(2,867)	(2,958)	(5,140)
Income Tax Expense	(645)	(547)	(291)
Net Profit	4,418	3,914	2,219
Earnings Per Share (RO)	0.011	0.009	0.005

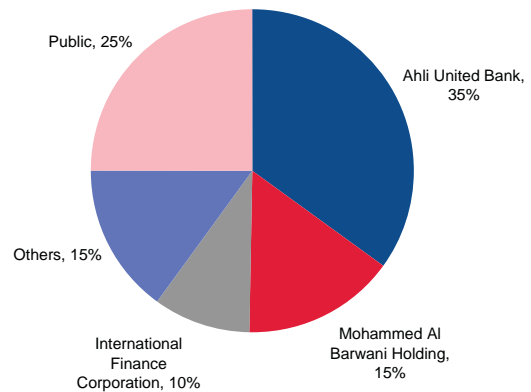
Sources: Bank's financial statements and NBK Capital

Relative Performance of the Stock



Sources: Reuters, MSCI, and NBK Capital

Ownership Structure



Key Ratios

	2005	2006	2007
Dividend Payout	95.1%	64.4%	0.0%
Return on Average Equity	14.5%	12.3%	3.9%
Return on Average Assets	3.2%	2.4%	0.9%
Net Interest Margin	5.2%	4.0%	2.6%
Net Profit Growth	24.1%	-11.4%	-43.3%
EPS Growth	24.1%	-11.4%	-45.7%
Adjusted # of Shares ('000)	420,000	420,000	438,218
Loan Market Share	3.4%	3.2%	3.7%
Deposit Market Share	1.2%	1.6%	2.3%
Asset Market Share	2.8%	2.4%	3.0%
Loans-to-Deposits	304.3%	197.6%	157.4%
NPLs-to-Gross Loans	0.8%	0.9%	0.3%
NPL Coverage	185.5%	147.9%	347.9%
Cost-to-Income	24.1%	38.0%	56.0%

Sources: Bank's financial statements, CBO, and NBK Capital



NBK Capital

Kuwait

Head Office

17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O. Box 4950, Safat 13050
Kuwait
Tel: +965 224 6900
Fax: +965 224 6904

International Network

United Arab Emirates

NBK Capital Limited

Precinct Building 3, Office 404
Dubai International Financial Center
P.O. Box 506506, Dubai
United Arab Emirates
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Turkey

NBK Capital

Arastima ve Musavirlik AS
SUN Plaza, 30th Floor
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
Tel: +90 212 276 5400
Fax: +90 212 276 5401

NBK Capital MENA Research

Tel: +965 224 6663
Fax: +965 224 6984
E-mail: menaresearch@nbkcapital.com

Disclaimer

This document and its contents are prepared for your personal information purposes only and do not constitute an offer, or the solicitation of an offer, to buy or sell a security or enter into any other agreement. Projections of potential risk or return are illustrative, and should not be taken as limitations of the maximum possible loss or gain. The information and any views expressed are given as of the date of writing and subject to change. While the information has been obtained from sources believed to be reliable, we do not represent that it is accurate or complete and it should not be relied on as such. Watani Investment Company (NBK Capital), its affiliates and subsidiaries accept no liability for any direct, indirect or consequential loss arising from use of this document or its contents. At any time, the employees of NBK Capital and its affiliates and subsidiaries may at their discretion hold a position, subject to change, in any securities or instruments referred to, or provide services to the issuer of those securities or instruments.

www.nbkcapital.com

NBK

Kuwait

National Bank of Kuwait SAK

Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 242 2011
Fax: +965 243 1888
Telex: 22043-22451 NATBANK

International Network

Bahrain

National Bank of Kuwait SAK

Bahrain Branch
Seef Tower, Al-Seef District 428
P.O. Box 5290, Manama
Bahrain
Tel: +973 17 583 333
Fax: +973 17 587 111

Jordan

National Bank of Kuwait SAK

Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297
Shmeisani, Amman 11194
Jordan
Tel: +962 6 560 8800
Fax: +962 6 560 8811

Saudi Arabia

National Bank of Kuwait SAK

Jeddah Branch
Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
Tel: +966 2 653 8600
Fax: +966 2 653 8653

Lebanon

National Bank of Kuwait

(Lebanon) SAL
BAC Building
Justinian Street, Sanayeh
P.O. Box 11-5727, Riyad El Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 741111/742222
Fax: +961 1 747846/747866

Iraq

Credit Bank of Iraq

Street 9, Building 178
Sadoon Street, District 102
P.O. Box 3420
Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

Al Watany Bank of Egypt

13 Al Themar Street
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza, Egypt
Tel: +20 2 33388816/33388817
Fax: +20 2 33379302

United States of America

National Bank of Kuwait SAK

New York Branch

299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait

(International) Plc

Head Office

13 George Street
London W1U 3QJ, UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait

(International) Plc

Portman Square Branch

7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

NBK Investment

Management Limited

13 George Street
London W1U 3QJ, UK
Tel: +44 20 7224 2288
Fax: +44 20 7224 2102

France

National Bank of Kuwait

(International) Plc

Paris Branch

90 Avenue des Champs-Elysees
75008 Paris, France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAK

Singapore Branch

9 Raffles Place #51-01/02
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

Vietnam

National Bank of Kuwait SAK

Vietnam Representative Office

Room 2006, Sun Wah Tower
115 Nguyen Hue Blvd, District 1
Ho Chi Minh City
Vietnam
Tel: +84 8 827 8008
Fax: +84 8 827 8009

China

National Bank of Kuwait SAK

Shanghai Representative Office

Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120
China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

Associates

Qatar

International Bank of Qatar (QSC)

Suhaim bin Hamad Street
P.O. Box 2001
Doha, Qatar
Tel: +974 447 3700
Fax: +974 447 3710