We initiate on six Commercial Banks in Oman, turning incrementally positive on sector prospects over the next year. Disbursements have risen in the last two months of 1H'13, and the decline in weighted average OMR lending rates appears to be stemming. Issuances over the last two years have improved capital ratios and provision covers at most Banks, while Non Performing Loans appear to have stabilised. Recent history has witnessed regulations designed to rebalance risk, and a generally weak corporate appetite weigh on profitability for the sector.

In the medium term, we believe, fortunes of commercial banks will be driven by different factors that will unlock value coupled with improved credit growth over the next two years. Bank Muscat remains a proxy on the nation’s credit growth, while Bank Dhofar and Bank Sohars returns will be determined by the outcome of their proposed alliance, cost of undertaking it and realisation of synergies subsequent to the proposed merger. HSBC Oman’s returns will be dictated by the successful assimilation of its recent alliance and a return to normalised operations. Ahli Bank will continue to use its low cost base and superior growth rates in the medium term to deliver earnings growth while NBO shall reap the benefits of stabilising credit costs off take.

Our top pick on the sector remains Bank Muscat and NBO, both proxies on credit off take with undemanding valuations after the recent correction. Recent quarterly results of both entities revealed positive surprises with operating income holding up and expenses ratios and credit costs stabilising.

Amongst the younger banks, we express a preference for Ahli Bank given its improved capital position post rights issue, low cost base and the possibility of an upside risk arising on account of any acquisitions it may announce – all factors collectively driving superior ROEs’ for the Bank. We recommend investors accumulate the stock on any corrections.

**Coverage summary:**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Last Price (Ro')</th>
<th>Target Price (Ro')</th>
<th>Market Cap (Ro'000)</th>
<th>Total Div Yield%</th>
<th>Total Return, % (incl DY, 13e)</th>
<th>Rating</th>
<th>P/E FY 13e</th>
<th>P/E FY 14e</th>
<th>Earnings Growth, % ('12 - '14)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Muscat</td>
<td>0.590</td>
<td>0.719</td>
<td>1,269,833</td>
<td>5.7%</td>
<td>28%</td>
<td>Accumulate</td>
<td>8.7</td>
<td>8.1</td>
<td>13%</td>
</tr>
<tr>
<td>National Bank of Oman</td>
<td>0.289</td>
<td>0.342</td>
<td>311,328</td>
<td>6.0%</td>
<td>24%</td>
<td>Accumulate</td>
<td>7.9</td>
<td>6.8</td>
<td>8%</td>
</tr>
<tr>
<td>Bank Dhofar</td>
<td>0.363</td>
<td>0.383</td>
<td>439,277</td>
<td>6.3%</td>
<td>12%</td>
<td>Hold</td>
<td>11.5</td>
<td>11.3</td>
<td>7%</td>
</tr>
<tr>
<td>Bank Sohars</td>
<td>0.190</td>
<td>0.227</td>
<td>297,500</td>
<td>5.2%</td>
<td>24%</td>
<td>Hold</td>
<td>9.7</td>
<td>8.2</td>
<td>12%</td>
</tr>
<tr>
<td>Ahli Bank</td>
<td>0.200</td>
<td>0.224</td>
<td>252,778</td>
<td>5.3%</td>
<td>17%</td>
<td>Accumulate</td>
<td>9.4</td>
<td>8.2</td>
<td>19%</td>
</tr>
<tr>
<td>HSBC Oman</td>
<td>0.176</td>
<td>0.175</td>
<td>352,055</td>
<td>3.1%</td>
<td>3%</td>
<td>Hold</td>
<td>17.6</td>
<td>14.2</td>
<td>135%</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10.8</td>
<td>9.5</td>
<td></td>
</tr>
</tbody>
</table>

* Source: OAB estimates, Bloomberg
Omani Commercial Banks

Valuations

Our valuations for the six banks employ a two stage excess return model that incorporates a terminal ROE of 12%—13.5%, terminal Ke between 10% to 12.5% and a terminal growth of 3.5%. We discount our fair values by 20% for banks with low liquidity relative to their peers ie. Bank Dhofar, Ahli Bank and HSBC Oman.

We observe that Omani banks trade at a discount, though narrow, to regional peers on book and earnings in 2013. Further, price appreciation largely still lags GCC Peers over the last 6 months possibly suggesting that incrementally improving fundamentals have yet to be priced in.

Relative % returns of Select GCC banks vs. BGCC200 Financials Index

<table>
<thead>
<tr>
<th>Bank Returns relative to BGCC Fin Index</th>
<th>Rel 3m</th>
<th>Rel 6m</th>
<th>Rel 12m</th>
<th>Rel ytd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>4.9</td>
<td>4.8</td>
<td>3.1</td>
<td>6.5</td>
</tr>
<tr>
<td>UAE</td>
<td>4.5</td>
<td>19.2</td>
<td>48.5</td>
<td>34.4</td>
</tr>
<tr>
<td>Qatar</td>
<td>3.6</td>
<td>(2.6)</td>
<td>(11.5)</td>
<td>(8.3)</td>
</tr>
<tr>
<td>Bahrain</td>
<td>(2.2)</td>
<td>12.6</td>
<td>27.8</td>
<td>18.0</td>
</tr>
<tr>
<td>Kuwait</td>
<td>(1.1)</td>
<td>(7.6)</td>
<td>(3.5)</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Oman</td>
<td>(0.3)</td>
<td>(7.4)</td>
<td>(2.9)</td>
<td>(8.5)</td>
</tr>
</tbody>
</table>

Source: Bloomberg

Select GCC banks Valuations

<table>
<thead>
<tr>
<th></th>
<th>P/E 13e</th>
<th>P/E 14e</th>
<th>P/B 13e</th>
<th>P/B 14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>12.5</td>
<td>10.6</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>UAE</td>
<td>9.3</td>
<td>8.3</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Qatar</td>
<td>11.0</td>
<td>10.3</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Bahrain</td>
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<td>11.0</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Kuwait</td>
<td>15.7</td>
<td>13.5</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>11.9</td>
<td>10.7</td>
<td>1.5</td>
<td>1.4</td>
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</table>

Source: Bloomberg

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A combination of favourable demographics, and government spending in critical sectors is expected to propel real GDP growth in excess of 5% in 2013, sustaining credit growth at c12% yoy from 7.7% at the end of June 2012.

The Sultanate’ favorable demographics (60% of the population is between the age of 15 to 45 years) coupled with a pro growth and employment backdrop augur well for the fortunes of the financial sector. Whist low relative to its GCC peers at approximately USD 11,700 at the end of 2011, purchasing power parity based per capita income has exhibited steady growth generating higher disposable incomes. Recent government regulations raising minimum wages and expanding employment amongst the masses have also been supportive of consumption and the deposit base of the nation’s banks.

In recent years, a recovery in the prices of crude oil and production coincided to enable supportive government expenditure and an accommodative monetary policy auguring well for growth in the country and its banks. Expectations that the government will sustain its expansionary fiscal policy to sustain the current momentum in growth provide an optimistic outlook for the medium term future. Obvious risks include a substantial fall in oil prices. However, years of fiscal prudence have yielded adequate reserves to ensure continued pro-growth initiatives remain unhampered, even in the event of a mild fiscal deficit.

The Eighth Five-Year Development Plan (2011-15) emphasizes a large public investment program. Non-oil activities are expected to grow by an annual rate of 6 percent at constant prices according to the CBO, and private sector involvement thru domestic and foreign private investment is expected to complement government spending.

Investment expenditure in the hydrocarbons sector is also expected to be supportive of economic growth and credit off-take. According to MEED Insights, US$ 5.5 billion of contracts were awarded in the sector between 2006 and Sep 12 largely pertaining to the upstream Oil and Gas Sector and related midstream pipeline activity. Estimates for the future dwarf past activity. USD 50 billion is projected to be spent over the next 10 years of which USD 28 billion is expected to be awarded between 2013 and 2015 driving growth and the resultant credit off-take in the nation.
**Omani Commercial Banks**

**Regulatory Environment balanced**

Proactively the CBO manages sector risk through a macro and micro framework galvanizing monetary policy to pursue the nation’s long term goals.

Oman’s Banking sector is regulated by the Central Bank of Oman, also bestowed with the task of supervising the nation’s monetary policy. The CBO is headed by its seven member Board of Governors with a Deputy Chairman, chairing regular board meetings. The banking sector locally comprises of 7 commercial banks and 2 Islamic banks in addition to 18 foreign Banks. There are also two development banks - the Oman Housing Bank which supports housing development and the Oman development bank which finances corporations, small and medium sized enterprises and additional projects in various sectors.

Under a fixed exchange rate regime the Central Bank of Oman adopts the monetary policy of the anchor country to avoid unwarranted pressures on the Omani Rial. Given the limitations of its monetary framework due to its fixed peg, fiscal spending serves as the policy instrument of choice to spur activity, impacting credit off take. Further, the lack of a developed secondary debt market renders banks as the chief transmitters of monetary policy. Consequently in an era of low policy rates, lending rates have remained at significant spreads providing banks with handsome returns.

![OMR outstanding credit between 7% and 9%](image1.png)

*Source: CBO statistical bulletin*

In recent years significant regulations affecting the banking sectors’ fortunes adversely were enacted. However we believe that the implementation of these regulations and its impact has been largely priced into stock valuations. Some of these regulations are listed below:

a) The introduction of micro prudential norms pertaining to personal loans, by capping the debt repayment capacity in relation to net salary receipts was critical in ensuring risk management at an individual borrower level. Further, a phased reduction in the interest rate ceiling on personal loans, including housing loans, from 8.5% to 7% p.a. to lessen the burden on borrowers and encourage banks to address the credit needs of the productive sector with effect from April 2012 is nearly complete. Outstanding Omani Rial credit in the 7-9% interest rate bucket has fallen from 5 billion at the end of December 2011 to 3.3 billion at the end of June 2013.

b) A reduction of 5% in personal loans from 40% to 35% while providing banks with the option of increasing housing loans/finance to 15% of total credit (including Islamic banking windows) from the existing ceiling of 10% has provided banks with the impetus to diversify.

c) A recent regulation mandating the allocation of 5% of total credit to SMEs will spur entrepreneurship and broad base economic growth amongst the masses. The SME sector 91,000 in number and accounting for around 13.8% of the country’s’ GDP, is also an area of focus for regulators. Apart from the CBO mandating

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Omani Commercial Banks
SME at 5% of total credit, commercial banks have commenced a loan guarantee program to address risks associated with lending to the sector.

**Credit, Deposit trends**

We believe rebounding disbursals (largely from corporates) shall drive earnings delivering a 12% YoY growth in credit in 2013 following the weakness witnessed over the last 9 months. The first 6 months witnessed credit disbursals of Ro 408 million (7.7% YoY) of which manufacturing, transportation & communication and utilities accounted for Ro 197 million, Ro 134 million, and Ro 87 million respectively signalling a resumption of corporate credit appetite. Personal loans grew by Just Ro 20 million in 1h’13 (5% of incremental credit disbursals in 1H’13).

- Compliance with CBO regulations and limited market potential have adversely affected loan growth in recent months. However, recent trends points to a resumption in credit disbursals. Total Credit in June 2013, registered Ro 14.7 billion up 1.6% from RO 14.49 billion at the end of May 2013 and up 7.7% YoY. In absolute terms credit disbursals stood at Ro 235.3 million in June 2013 relative to Ro 157.8 million in May 2013, the highest level witnessed this year.
- Whilst government and public enterprises aid sector funding by accounting for a substantial portion of deposits (at 35% at the end of Q1 ‘13), their borrowings are limited. The private sector accounting for 87% of total credit and has been the mainstay of credit growth in recent years.

![Credit growth, Oman](image)

**Source: CBO statistical bulletin**

- Deposit growth of commercial banks slowed in June 2013, Deposits in June 2013 rose mildly to RO 14.94 million up just 0.05% vs. May 2013 and registered a 10.3% YoY growth. In absolute terms, deposits raised stood at just Ro 7.8 million in June 2013. This compares to a peak of Ro 237.2 million raised in March 2013 for the first half.
- Total Investments held by commercial banks grew strongly in June’13 by Ro 344 million to Ro 2.99 billion driven by robust investments in Domestic & Foreign securities (ex Government Bonds).

![Commercial banks' Credit and Deposit Trends](image)

**Source: CBO statistical bulletin**

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Omani Commercial Banks

Banks adequately capitalised, NPLs well covered

At the end of Q1’13, provisions (including reserved interest) stood at a healthy 2.4% of total credit. This represents a marked improvement in credit quality over the last 10 years and subsequent to the fallout of the financial crisis. Further, Non-performing loans at the end of 2012 equaled just 2.2% of total loans as per the CBO.

Since the beginning of 2012, the six listed commercial banks (representing 90% of total credit at the end of 2012) have raised an estimated USD 1 billion in equity and subordinated debt issuances. Further, at the end of 2011 and 2012, non cash dividends by way of stock and mandatory convertible bonds for the six listed commercials banks amounted to USD 157 million and USD 140 million respectively. Consequently, Basel II regulatory capital at the end of 2012 stood at 16 percent, which was significantly higher than the minimum regulatory requirement of 12% prescribed by the CBO.

The CBO has also issued the roadmap for implementation of Basel III and formed working Groups taking select banks as members for deliberations and preparation of draft report covering definition and quality of capital, raising minimum capital requirements and introducing counter-cyclical capital buffer regime. Further, the Internal Capital Adequacy Assessment Process (ICAAP) has been operationalised by all banks in the Sultanate with effect from December 31, 2012. Risk-based supervision, which was initiated on a pilot basis in 2011, has been implemented in full to cover the entire banking system from 2012.

Profitability amongst Oman’s banks has been healthy, given strong interest spreads that that persist between deposit and lending rates despite the recent fall in lending rates invoked by CBO regulations. In 2012, the six listed banks in the country, reported total profits of approximately USD 691 million implying a ROaE of 13.4%, in spite of the impact of a merger that witnessed equity dilution and depressed profitability in 2012.

Source: Financial Statements

NPL Coverage Ratios remain healthy

NPLs to Gross Loans and Advances at 3 large banks

Source: Financial Statements

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Consolidation remains firmly on the Agenda

With the top 3 banks in Oman accounting for c67% of total credit at the end of 2012, the sector should witness further alliances, given the advantage larger banks exercise over smaller ones in scale and consequently pricing. Recent trends have been encouraging with HSBC acquiring Oman International Banks’ operations. Presently, Bank Sohar and Bank Dhofar explore the possibility of an alliance, potentially creating the second largest bank in the Sultanate.

Islamic banking

Islamic Banking in Oman, though nascent, warrants a mention given the activity around the financing endeavor over the last two years and the potential it possesses. The CBO announced its decision to license Islamic banking services in 2011 with the objective of diversifying banking services and augmenting financial inclusion. Two new local banks have been granted approval to operate as Islamic banks. Of these, one has commenced operations in December 2012 and the second one is expected to commence business in the third quarter of 2013.

Almost all local banks have evinced interest in establishing windows for practicing Islamic banking. Relative to peers in the GCC, who boast of Islamic banking assets ranging from 15 – 40% of total banking assets in their respective countries, Omans’ Islamic banking Sector is miniscule but poised to grow exponentially.

In December 2012, the CBO released a regulatory framework for Islamic banking in the country signaling its seriousness to promote the sector. Local corporates have also lined up for approval of Sukuk issuances, with the first granted to Tilal Development Co who shall deploy the proceeds (Ro 50 million) to repay existing debt and expand the Muscat Grand Mall.
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Bank Muscat

We initiate on Bank Muscat with an accumulate rating implying a total return of 28% over the next year. Bank Muscat remains a proxy on credit off take in Oman, subdued in recent times due to the sectors ongoing compliance with regulation and equity dilution. However, with valuations at 1.0x PB’13e, slightly above historic lows, we believe the stock fails to factor in the banks strong capital position, credit quality and potential to grow in Oman’s unbanked markets.

Disbursals on a gross basis (including islamic financing receivables) for the first six months of 2013 have slowed to 11.7% yoy in Q2’13 from c20% a year ago. However recent trends across the sector are encouraging and we believe growth will accelerate in the coming quarters. Accordingly we factor in a c8.6% YoY growth in 2013 and 12% YoY in 2014 for loans and dances, translating into an earnings growth of 4% and 23% on a normalized basis in 2013 and 2014. Incremental disbursals and steadying NIMs shall serve to trigger the stock over the approaching quarters.

Over the last two years the bank has raised approximately Ro 171 million through capital issuances. Further, stock dividends and MCBs have also served to shore up capital to extent of Ro 53.8 million in 2011 and 2012 resulting in a recapitalization resulting in a vastly improved capital adequacy of 17% (Q2’13). Further NPAs reflect acceptable levels having stabilized over the last three quarters driving our belief that the risk of future dilution at Bank Muscat is low and the bank is well position for growth.

<table>
<thead>
<tr>
<th>Key Indicators (Ro '000)</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>212,119</td>
<td>230,405</td>
<td>229,035</td>
<td>302,327</td>
</tr>
<tr>
<td>Other operating income</td>
<td>82,125</td>
<td>93,247</td>
<td>107,812</td>
<td>105,180</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>173,354</td>
<td>189,044</td>
<td>159,218</td>
<td>236,354</td>
</tr>
<tr>
<td>Net Profit attributable to Shareholders</td>
<td>117,608</td>
<td>139,249</td>
<td>131,478</td>
<td>178,058</td>
</tr>
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<td>EPS, Ro</td>
<td>0.08</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
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<tr>
<td>BVPS, Ro</td>
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<td>0.53</td>
<td>0.58</td>
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<tr>
<td>P/E, x</td>
<td>8.2</td>
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<td>9.1</td>
<td>8.4</td>
</tr>
<tr>
<td>P/B, x</td>
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<td>1.09</td>
<td>1.06</td>
<td>1.12</td>
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<tr>
<td>ROaE, %</td>
<td>14.1%</td>
<td>14.3%</td>
<td>11.4%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Normalised ROaE, %</td>
<td>14.1%</td>
<td>14.3%</td>
<td>12.4%</td>
<td>13.8%</td>
</tr>
<tr>
<td>ROaA, %</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Normalised ROaA, %</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.9%</td>
</tr>
<tr>
<td>DY %</td>
<td>6.4%</td>
<td>7.0%</td>
<td>5.5%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: Company Financials, OAB estimates

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Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM
**Summary Financials:**

(Rs '000, Unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
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<tr>
<td>Other operating income</td>
<td>82,125</td>
<td>91,247</td>
<td>107,812</td>
<td>105,180</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>294,244</td>
<td>323,652</td>
<td>336,847</td>
<td>407,507</td>
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<td>Operating Expenses</td>
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<td>134,608</td>
<td>177,630</td>
<td>171,153</td>
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<tr>
<td>Operating Profit</td>
<td>173,354</td>
<td>189,044</td>
<td>159,218</td>
<td>236,354</td>
</tr>
<tr>
<td>Net Loan Loss Provisions</td>
<td>(30,601)</td>
<td>(24,387)</td>
<td>(12,729)</td>
<td>(36,791)</td>
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<tr>
<td>Other Provisions</td>
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<td>(4,484)</td>
<td>2,449</td>
<td>2,306</td>
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<tr>
<td>Associates</td>
<td>(1,529)</td>
<td>(3,198)</td>
<td>420</td>
<td>420</td>
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<tr>
<td>Profit Before Tax</td>
<td>136,209</td>
<td>156,755</td>
<td>145,358</td>
<td>208,269</td>
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<tr>
<td>Taxation</td>
<td>(18,663)</td>
<td>(17,949)</td>
<td>(17,923)</td>
<td>(24,275)</td>
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<tr>
<td>Total Income</td>
<td>117,546</td>
<td>138,206</td>
<td>127,435</td>
<td>183,013</td>
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**ROE DECOMPOSITION, %**

<table>
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<tr>
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<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Yield</td>
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<td>2.7%</td>
<td>3.2%</td>
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<tr>
<td>Cash non interest yield</td>
<td>1.3%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Operating Expenses/Avg Assets</td>
<td>-1.8%</td>
<td>-1.8%</td>
<td>-2.1%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Loan Loss/Avg Assets</td>
<td>-0.5%</td>
<td>-0.3%</td>
<td>-0.2%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Associate &amp; Other Losses/Avg Assets</td>
<td>-0.1%</td>
<td>-0.1%</td>
<td>-0.0%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Pretax ROA</td>
<td>2.1%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Tax/Average Assets</td>
<td>-0.3%</td>
<td>-0.2%</td>
<td>-0.2%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>23.7%</td>
<td>11.2%</td>
<td>12.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>ROA</td>
<td>1.80%</td>
<td>1.84%</td>
<td>1.56%</td>
<td>1.89%</td>
</tr>
<tr>
<td>ROE</td>
<td>14.1%</td>
<td>14.3%</td>
<td>11.4%</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

**Capital Ratios, %**

<table>
<thead>
<tr>
<th></th>
<th>FY-10</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Capital</td>
<td>787,255</td>
<td>1,010,610</td>
<td>1,182,925</td>
<td>1,276,075</td>
<td></td>
</tr>
<tr>
<td>Tier 1 Risk Weighted Assets</td>
<td>6,640,404</td>
<td>7,592,840</td>
<td>8,267,582</td>
<td>9,193,662</td>
<td></td>
</tr>
<tr>
<td>Tier 1 to Risk Weighted Assets, %</td>
<td>11.9%</td>
<td>13.3%</td>
<td>14.3%</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Capital Adequacy Ratio, %</td>
<td>16.5%</td>
<td>17.0%</td>
<td>18.0%</td>
<td>17.0%</td>
<td></td>
</tr>
<tr>
<td>Equity/Assets</td>
<td>12%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>RWA/Assets</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Loan to Deposit Ratio</td>
<td>101%</td>
<td>105%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

**Credit Quality, %**

<table>
<thead>
<tr>
<th></th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL to Gross Loans</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Provision Coverage</td>
<td>121.4%</td>
<td>123.8%</td>
<td>123.8%</td>
<td>123.8%</td>
</tr>
<tr>
<td>Loan loss provisions to Gross Loans</td>
<td>-3.5%</td>
<td>-3.6%</td>
<td>-3.7%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Net Loan loss expense to Gross loans</td>
<td>-0.6%</td>
<td>-0.4%</td>
<td>-0.2%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Cost to Income Ratio</td>
<td>41%</td>
<td>42%</td>
<td>53%</td>
<td>42%</td>
</tr>
</tbody>
</table>

**Valuation, %**

<table>
<thead>
<tr>
<th></th>
<th>FY-10</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/B vs ROE, %</td>
<td>1.08</td>
<td>1.07</td>
<td>1.06</td>
<td>1.07</td>
<td>1.08</td>
</tr>
</tbody>
</table>

**Balance Sheet, '000**

<table>
<thead>
<tr>
<th></th>
<th>FY-10</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Equity</td>
<td>173,354</td>
<td>189,044</td>
<td>159,218</td>
<td>236,354</td>
<td></td>
</tr>
<tr>
<td>Equity/Assets</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>7,228,001</td>
<td>7,913,669</td>
<td>7,913,669</td>
<td>9,622,693</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>117,546</td>
<td>138,206</td>
<td>127,435</td>
<td>183,013</td>
<td></td>
</tr>
<tr>
<td>Equity/Assets</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td></td>
</tr>
</tbody>
</table>

**Sources:**

- Bloomberg
- Bloomberg, Base 100 = 1 Jan 2013

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Omani Commercial Banks

Profile

Bank Muscat is Oman’s largest bank on almost all measures. It has approximately 138 branches, most of which are in Oman. Its dominant position in Oman has enabled it to successfully venture into other GCC nations, setting up operations in Saudi Arabia, Kuwait and Bahrain. Bank Muscat also maintains a presence in India and Singapore. The banks’ Islamic banking operations are housed under the Meethaq brand, with an initial capital allocation of Ro 150 million. At end 2012, the banks had 3210 employees.

Key Shareholders

<table>
<thead>
<tr>
<th>Key Shareholders</th>
<th>% Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Court Affairs</td>
<td>24.9</td>
</tr>
<tr>
<td>Dubai Financial Group</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Recent capital market activity

In 2012, Bank Muscat raised Ro 96.26 million via a rights issue issuing 226.5 million shares at 425 baiza per share (excluding expenses).

In February 2013, Bank Muscat announced a private placement by IFC of RO 75.1 million at 660 baiza per share in the bank representing around 5.28 per cent of the share capital of the bank post the private placement.

Dividend Record

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Share Capital</th>
<th>Amount (Ro Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Cash</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Bonus shares</td>
<td>15%</td>
</tr>
<tr>
<td>2012</td>
<td>Cash Dividend</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Mandatory Convertible Bonds @ 4.5%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source Annual Reports, FY 2012, All data above is as at Dec 2012.
Bank Dhofar

We initiate on Bank Dhofar with a hold rating given its current valuations implying a, PB’13 1.5x factoring in the banks foreseeable prospects.

Dhofars’ near term stock price will depend on the outcome of the Bank Sohar merger proposal - the most significant investment controversy affecting the stock presently.

The merger, if consummated, would create the 2nd largest bank with net loans and advances accounting for c20% of the total credit in Oman second only to Bank Muscat (40% of total credit). The entity would also rank second in Net profits. Both banks have excellent credit quality, evinced by superior provision coverage ratios (> 120 % at the end of Q2’13) and are adequately capitalized.

Key benefits for Bank Dhofar from Merger include:

- Balanced loan book composition, given Bank Sohars’ low exposure to personal loans (33 % at the end of Q2’13).
- Ability to participate in larger ticket transactions in critical sectors (Oil and Gas, Infrastructure, Construction) due to an enhanced capital base.
- Obvious synergies due to rationalization of overlapping activities across the sultanate.

\[
\begin{array}{l|llll}
\text{Key Indicators, (Ro '000)} & \text{FY-11} & \text{FY-12} & \text{FY-13e} & \text{FY-14e} \\
\hline
\text{Net Interest Income} & 60,318 & 64,369 & 76,094 & 87,471 \\
\text{Other operating income} & 18,273 & 19,724 & 24,280 & 29,348 \\
\text{Operating Profit} & 45,147 & 47,046 & 50,940 & 59,577 \\
\text{Profit Before Taxation} & 15,859 & 42,900 & 69,401 & 49,066 \\
\text{Net Profit Attributable to Shareholders} & 13,976 & 37,745 & 61,073 & 43,178 \\
\text{Normalised Net Profit} & 37,003 & 37,745 & 38,079 & 43,178 \\
\text{EPS, Ro} & 0.015 & 0.034 & 0.031 & 0.032 \\
\text{BVPS, Ro} & 0.250 & 0.238 & 0.251 & 0.244 \\
\hline
\text{Ratios ('000)} \\
\text{P/E, x} & 29.7 & 11.0 & 11.5 & 11.3 \\
\text{P/B, x} & 1.8 & 1.6 & 1.4 & 1.5 \\
\text{ROaE, %} & 6.1 & 15.4 & 22 & 14 \% \\
\text{Normalised ROaE, %} & 16.2 & 15.4 & 13.0 & 13.7 \% \\
\text{ROaA, %} & 0.8 & 1.8 & 2.6 & 1.7 \% \\
\text{Normalised ROaA, %} & 2.0 & 1.8 & 1.6 & 1.7 \% \\
\text{DY} & 6.0 & 6.6 & 6.9 & 6.7 \\
\end{array}
\]

Source: Company Financials, OAB estimates
Summary Financials:

<table>
<thead>
<tr>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROFIT &amp; LOSS STATEMENT, '000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net interest income</td>
<td>60,318</td>
<td>64,369</td>
<td>76,094</td>
</tr>
<tr>
<td>Other operating income</td>
<td>18,273</td>
<td>19,724</td>
<td>24,280</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>78,591</td>
<td>84,093</td>
<td>100,374</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>33,444</td>
<td>37,047</td>
<td>49,434</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>45,147</td>
<td>47,046</td>
<td>50,940</td>
</tr>
<tr>
<td>Net Loan Loss Provisions</td>
<td>(2,106)</td>
<td>(3,859)</td>
<td>(7,668)</td>
</tr>
<tr>
<td>Other Provisions</td>
<td>(27,182)</td>
<td>(287)</td>
<td>26,129</td>
</tr>
<tr>
<td>Associates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>15,859</td>
<td>42,900</td>
<td>69,401</td>
</tr>
<tr>
<td>Taxation</td>
<td>(1,883)</td>
<td>(5,155)</td>
<td>(8,328)</td>
</tr>
<tr>
<td>Profits After Tax</td>
<td>13,976</td>
<td>37,745</td>
<td>61,073</td>
</tr>
<tr>
<td><strong>BALANCE SHEET, '000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>249,305</td>
<td>208,695</td>
<td>270,581</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>54,318</td>
<td>97,410</td>
<td>115,577</td>
</tr>
<tr>
<td>Gross loans and advances</td>
<td>1,573,215</td>
<td>1,747,988</td>
<td>1,992,706</td>
</tr>
<tr>
<td>Provisions</td>
<td>(77,554)</td>
<td>(75,480)</td>
<td>(81,502)</td>
</tr>
<tr>
<td>Net Loans and Advances</td>
<td>1,495,661</td>
<td>1,672,508</td>
<td>1,911,205</td>
</tr>
<tr>
<td>Investments</td>
<td>117,431</td>
<td>111,974</td>
<td>138,066</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1,960,591</td>
<td>2,143,830</td>
<td>2,491,934</td>
</tr>
</tbody>
</table>

**ROE DECOMPOSITION, %**

<table>
<thead>
<tr>
<th></th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Yield</td>
<td>3.3%</td>
<td>3.1%</td>
<td>3.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Non Interest Income Yield</td>
<td>3.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Operating Expenses/Avg Assets</td>
<td>-1.8%</td>
<td>-1.8%</td>
<td>-2.1%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Loan Loss/Avg Assets</td>
<td>-0.1%</td>
<td>-0.2%</td>
<td>-0.3%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Associate &amp; Other Losses/Avg Assets</td>
<td>-1.5%</td>
<td>0.0%</td>
<td>1.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Pretax ROA</td>
<td>0.9%</td>
<td>2.1%</td>
<td>3.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Tax/Average Assets</td>
<td>-0.1%</td>
<td>-0.3%</td>
<td>-0.4%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>-11.9%</td>
<td>-12.0%</td>
<td>-12.0%</td>
<td>-12.0%</td>
</tr>
<tr>
<td>ROA</td>
<td>0.8%</td>
<td>1.8%</td>
<td>2.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>CAPITAL RATIOS, %</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Capital</td>
<td>218,248</td>
<td>240,145</td>
<td>278,551</td>
<td>300,360</td>
</tr>
<tr>
<td>Tier 1 to Risk weighted Assets</td>
<td>1,955,673</td>
<td>2,199,799</td>
<td>2,490,883</td>
<td>2,764,880</td>
</tr>
<tr>
<td>Capital Adequacy Ratio, %</td>
<td>11.2%</td>
<td>10.9%</td>
<td>11.2%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio, %</td>
<td>11.2%</td>
<td>10.9%</td>
<td>11.2%</td>
<td>10.9%</td>
</tr>
<tr>
<td>loan to Deposit Ratio</td>
<td>98%</td>
<td>102%</td>
<td>102%</td>
<td>102%</td>
</tr>
<tr>
<td>NPL to Gross Loans</td>
<td>3.81%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
</tr>
<tr>
<td>Provision Coverage</td>
<td>129.3%</td>
<td>134.9%</td>
<td>127.8%</td>
<td>127.8%</td>
</tr>
<tr>
<td>Loan loss provisions to Gross Loans</td>
<td>4.9%</td>
<td>4.3%</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Net Loan loss expense to Gross loans</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

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Bank Profile

Bank Dhofar was established in 1990 and has 62 branches across the country and 1266 employees at the end of 2012. In 1Q’13 the Bank obtained a Islamic banking license for its Masirah Islamic banking services for which it has allocated RO 10 million of capital. Dhofar Investment and Development Corporation is the largest shareholder in the Bank.

Recent capital market activity

In 4Q’12, the Bank raised RO 25 million of subordinated debt through a private placement to strengthen its Tier II capital.

Dividend Record

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Dividend</th>
<th>% of Share</th>
<th>Amount (Ro Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>7%</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20.2%</td>
<td>18.5</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>15%</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10.0%</td>
<td>11.0</td>
<td></td>
</tr>
</tbody>
</table>

YoY Growth 10%
Bank Sohar

Bank Sohar, Omans youngest state sponsored bank, is presently the subject of a merger with Bank Dhofar. With the highest ROEs (due to higher asset leverage) amongst the listed Commercial Banks in the country, Bank Sohar has exhibited excellent growth since inception, trebling profits to Ro 5.8 million since Q410 growing to account for c7 % of overall credit in the Sultanate - all on a capital base of OMR 100 million last augmented in Q2’08.

While NPLs have grown over the last 4 years, they remain at a acceptable 1.6% of Gross loans at the end of Q2’13. Further prudent provisioning over the years renders NPL coverage at c140% making its coverage of questionable advances the best in the country – a fact confirmed by Fitch’s reiteration of its long term stable rating at BBB +.

Given its growth in assets over the last few year, on a limited capital base (last augmented in Q1’13 by just 10%), we believe the structure of the merger purchase consideration, if approved by both parties and regulators will involve a equity dilution to further shore up Tier 1 capital to RWA presently below 10% at the end of Q2’13. Accordingly, we factor in a dilution of an additional Ro 15 million before the end of 2013 priced at Ro 0.1/share – similar to the recently concluded rights issue in Q1’13.

Our target price for Bank Sohar implies a hold rating and factors in the banks standalone prospects in the medium term.

Key Indicators (Ro '000)

<table>
<thead>
<tr>
<th></th>
<th>FY11</th>
<th>FY12</th>
<th>FY13e</th>
<th>FY14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>34,757</td>
<td>41,894</td>
<td>42,766</td>
<td>53,173</td>
</tr>
<tr>
<td>Other operating income</td>
<td>8,429</td>
<td>10,423</td>
<td>13,259</td>
<td>13,651</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>20,007</td>
<td>28,644</td>
<td>29,133</td>
<td>34,748</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>16,523</td>
<td>25,916</td>
<td>27,495</td>
<td>32,916</td>
</tr>
<tr>
<td>Net Profit Attributable to Shareholders</td>
<td>14,497</td>
<td>23,011</td>
<td>24,471</td>
<td>28,966</td>
</tr>
<tr>
<td>EPS, Ro</td>
<td>0.014</td>
<td>0.023</td>
<td>0.020</td>
<td>0.023</td>
</tr>
<tr>
<td>BVPS, Ro</td>
<td>0.129</td>
<td>0.145</td>
<td>0.151</td>
<td>0.163</td>
</tr>
</tbody>
</table>

Ratios

<table>
<thead>
<tr>
<th></th>
<th>FY11</th>
<th>FY12</th>
<th>FY13e</th>
<th>FY14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E, x</td>
<td>10.8</td>
<td>6.5</td>
<td>9.7</td>
<td>8.2</td>
</tr>
<tr>
<td>P/B, x</td>
<td>1.2</td>
<td>1.0</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>ROaE, %</td>
<td>11.5</td>
<td>16.8</td>
<td>14.6</td>
<td>14.7</td>
</tr>
<tr>
<td>ROaA, %</td>
<td>1.08</td>
<td>1.43</td>
<td>1.36</td>
<td>1.53</td>
</tr>
<tr>
<td>DY %</td>
<td>5.1</td>
<td>6.7</td>
<td>5.2</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Source: Company Financials, OAB estimates
Summary Financials

<table>
<thead>
<tr>
<th></th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROFIT &amp; LOSS STATEMENT, '000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Interest income</td>
<td>34,757</td>
<td>41,894</td>
<td>42,766</td>
<td>53,173</td>
</tr>
<tr>
<td>Other operating income</td>
<td>8,429</td>
<td>10,423</td>
<td>13,259</td>
<td>13,651</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>43,186</td>
<td>52,317</td>
<td>56,025</td>
<td>66,824</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>23,179</td>
<td>23,673</td>
<td>26,892</td>
<td>32,075</td>
</tr>
<tr>
<td>Profit</td>
<td>20,007</td>
<td>28,644</td>
<td>29,133</td>
<td>34,748</td>
</tr>
<tr>
<td>Net Loan Loss Provisions</td>
<td>3,461</td>
<td>2,711</td>
<td>1,614</td>
<td>1,815</td>
</tr>
<tr>
<td>Other Provisions</td>
<td>17</td>
<td>17</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Associates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>16,523</td>
<td>25,916</td>
<td>27,495</td>
<td>32,916</td>
</tr>
<tr>
<td>Taxation</td>
<td>2,026</td>
<td>2,905</td>
<td>3,024</td>
<td>3,950</td>
</tr>
<tr>
<td>ROE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE Decomposition, %</td>
<td>1.5%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Net Interest Yield</td>
<td>2.6%</td>
<td>2.6%</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Cash non-interest Yield</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Operating Expenses/Avg Assets</td>
<td>1.7%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Loan Loss/Avg Assets</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Associate &amp; Other Losses/Avg Assets</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Pretax ROA</td>
<td>1.2%</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Tax/Average Assets</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>22.3%</td>
<td>21.2%</td>
<td>20.2%</td>
<td>12.0%</td>
</tr>
<tr>
<td>ROA</td>
<td>1.08%</td>
<td>1.43%</td>
<td>1.36%</td>
<td>1.31%</td>
</tr>
<tr>
<td>Leverage</td>
<td>10.7</td>
<td>11.8</td>
<td>10.8</td>
<td>9.6</td>
</tr>
<tr>
<td>ROE</td>
<td>11.5%</td>
<td>16.8%</td>
<td>14.6%</td>
<td>14.7%</td>
</tr>
<tr>
<td>CAPITAL RATIOS, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Capital</td>
<td>120,331</td>
<td>144,229</td>
<td>188,415</td>
<td>204,668</td>
</tr>
<tr>
<td>Tier 1 to Risk Weighted Assets</td>
<td>1,233,947</td>
<td>1,491,764</td>
<td>1,567,320</td>
<td>1,667,334</td>
</tr>
<tr>
<td>Tier 2 to Tier Weighted Assets</td>
<td>9.2%</td>
<td>8.7%</td>
<td>10.0%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio, %</td>
<td>14.2%</td>
<td>13.7%</td>
<td>15.0%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Equity/Assets</td>
<td>9.0%</td>
<td>8.3%</td>
<td>10.4%</td>
<td>10.4%</td>
</tr>
<tr>
<td>RWA/Assets</td>
<td>94%</td>
<td>84%</td>
<td>92%</td>
<td>95%</td>
</tr>
<tr>
<td>Loan to Deposit Ratio</td>
<td>87.0%</td>
<td>85.7%</td>
<td>101.7%</td>
<td>101.5%</td>
</tr>
<tr>
<td>VALUATIONS, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/E x</td>
<td>10.8</td>
<td>6.5</td>
<td>6.7</td>
<td>8.3</td>
</tr>
<tr>
<td>P/B x</td>
<td>1.2</td>
<td>1.0</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>DIVIDEND YIELD, %</td>
<td>5%</td>
<td>7%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>COST TO INCOME RATIO</td>
<td>54%</td>
<td>45%</td>
<td>48%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source Company Financials, OAB Estimates.

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E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM
Omani Commercial Banks

Bank Profile

The youngest state sponsored bank in Oman, Bank Sohar, commenced operations in 2007. With 67% of its loan exposure to the corporate sector at the end of 2012, the Bank is predominantly a corporate lender. At the end of 2012, it had 573 employees and approximately 25 branches across the country of which 7 are based in the Al Batinah region - home to the industrial port city of Sohar. The Banks' Islamic banking operations are branded under the 'Sohar Islamic' brand.

Key Shareholders

<table>
<thead>
<tr>
<th>% Holding</th>
<th>Key Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.6</td>
<td>The Royal Court Affairs</td>
</tr>
<tr>
<td>13.5</td>
<td>Oman Investment and Finance Co. SAOG</td>
</tr>
</tbody>
</table>

Recent capital market activity

In 1Q13, Bank Sohar completed a rights issue of Ro 10 million, 10% of outstanding shares, at Ro 0.100 baiza per share.

Dividend Record

<table>
<thead>
<tr>
<th>% of Share</th>
<th>Amount (Ro Capital Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Cash Dividend</td>
<td>8%</td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Cash Dividend</td>
<td>3.5%</td>
</tr>
<tr>
<td>Mandatory convertible bonds @ 4.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>YoY Growth</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source Annual Reports, FY 2012, All data above is as at Dec 2012.
Merger Proposal

In July 2013, Bank Dhofar commenced discussions with Bank Sohar regarding a merger of the two entities. The combination would create an entity with a more balanced loan book (given Bank Sohar’s limited exposure to Personal loans) albeit with over 60% of its deposit base reliant on term funding as opposed to peers with a more favorable funding structure. Further the combined entity would gain access to Bank Sohar’s strength in the interbank market where it consistently registers excess liquidity (Net due from banks at Q2’13 OMR 80.3 million - 4% of total assets).

Geographically, both banks possess branches concentrated in the Al Batinah and Muscat Governorate region. This potentially points to a rationalisation of operations that could lead to cost savings due to closure of branches.

While capital adequacy ratios at the two banks remain comfortable and in compliance of CBO norms, we believe both banks will need to raise equity in the near future to shore up Tier 1. While Bank Dhofar high Dividend pay out & resultant stock dividend serves to address this, we believe that Bank Sohar will require an infusion in the near term to address a Tier 1 infusion.

<table>
<thead>
<tr>
<th>Capital Adequacy Ratios</th>
<th>Bank Dhofar</th>
<th>Bank Sohar</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BKDM OM</td>
<td>BKSB OM</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td>Tier 1 Capital</td>
<td>218,248</td>
<td>240,145</td>
</tr>
<tr>
<td>Tier 2 Capital</td>
<td>70,994</td>
<td>88,953</td>
</tr>
<tr>
<td>Total Regulatory Capital</td>
<td>289,232</td>
<td>329,098</td>
</tr>
<tr>
<td>Total Risk Weighted Assets</td>
<td>1,955,673</td>
<td>2,199,799</td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
<td>14.79%</td>
<td>14.96%</td>
</tr>
<tr>
<td>Total Tier 1 Capital as a % of Risk Weighted Assets</td>
<td>11.16%</td>
<td>10.92%</td>
</tr>
</tbody>
</table>

Merger scenarios and swap ratios:

We consider two scenarios in the proposal between Bank Sohar and Bank Dhofar:

1) **Bank Dhofar acquires Bank Sohar**

Assumptions,

- Valuing both banks at the average share price prevalent over the last six months we arrive at a swap ratio of **1 share of Bank Dhofar for 2 shares of Bank Sohar**.

- Bank Sohar is valued at a 15% premium to its average share price of the last 6 months (similar to the premium paid by HSBC ME for OIB Middle East, the most recent precedent for an acquisition in the country), Bank Dhofar is valued at a the average share price over the last six months - we arrive at a swap ratio of **3 for 5**.

2) **A merger between the two entities where shares in the Merged entity are issued to shareholders of both Bank Dhofar and Bank Sohar**

The merged entity is valued using an Excess return methodology capturing terminal ROEs and Ke’s of 13.5% and 10.8% respectively. This yields a swap ratio that implies Bank Dhofars shareholders receive 1.13 shares in the new entity for 1 held and Bank Sohars shareholders receive 0.59 shares in the new entity for 1 held presently.

If valued simply as the combined value, on the basis of the average share price over the last six months for both entities, Bank Dhofars shareholders receive 1.34 shares in the new entity for 1 held and Bank Sohars shareholders receive 0.70 shares in the new entity for 1 held.
National Bank of Oman

NBO has long depended on personal loans growth to drive profitability, and along with its peers was impacted by CBOs regulations limiting exposure to personal loans and lowering the interest ceiling over the last two years as growth slowed and NIMs compressed. Consequently, retail operating income has accounted for a lesser share of overall operating income over the last two years (55.7% of overall operating income in June 2012 to 50.7% of overall operating profits in June 2013).

The Banks most recent quarterly results witnessed stabilizing credit costs and NPL, possibly signifying an improvement in credit quality. Further, NIMs in Q2’13 grew positively surprising consensus, spurring the stock, as CASA deposits grew their share in the overall funding mix (up from 40% in Q4’10 to 45% in Q2’13).

Net Loan growth also grew 5.3% QoQ, the best posted in the last 5 quarters, spurred by active corporate disbursal (up 7% QoQ in Q2’13 on a gross basis), an improving trend which we expect drive earnings in 2013.

Our target price implies an accumulate rating valuing the stock at valuations at Pe’13 9.4x, PB’13 1.2x. We factor in a dividend yield of 6% in 2013, (implying a payout of 48% of Net Income) and total return of 23% over the next year.

<table>
<thead>
<tr>
<th>Key Indicators (Ro’000)</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>58,187</td>
<td>67,179</td>
<td>80,476</td>
<td>97,077</td>
</tr>
<tr>
<td>Other operating income</td>
<td>34,048</td>
<td>31,466</td>
<td>30,244</td>
<td>33,879</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>48,779</td>
<td>51,960</td>
<td>59,272</td>
<td>72,026</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>38,698</td>
<td>46,680</td>
<td>49,560</td>
<td>53,268</td>
</tr>
<tr>
<td>Net Profit Attributable to Shareholders</td>
<td>34,202</td>
<td>40,662</td>
<td>40,444</td>
<td>46,876</td>
</tr>
<tr>
<td>EPS, Ro</td>
<td>0.032</td>
<td>0.038</td>
<td>0.037</td>
<td>0.042</td>
</tr>
<tr>
<td>BVPS, Ro</td>
<td>0.260</td>
<td>0.275</td>
<td>0.294</td>
<td>0.316</td>
</tr>
<tr>
<td>P/E, x</td>
<td>9.8</td>
<td>7.7</td>
<td>7.9</td>
<td>6.8</td>
</tr>
<tr>
<td>P/B, x</td>
<td>1.2</td>
<td>1.0</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>ROaE, %</td>
<td>12.5%</td>
<td>13.9%</td>
<td>12.8%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Normalised ROaE, %</td>
<td>12.5%</td>
<td>13.9%</td>
<td>12.8%</td>
<td>13.9%</td>
</tr>
<tr>
<td>ROaA, %</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Normalised ROaA, %</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>DY %</td>
<td>6.5%</td>
<td>6.2%</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Source: Company Financials, OAB estimates
### Summary Financials

(Ro’ 000, Unless otherwise stated) FY-11 FY-12 FY-13e FY-14e

**PROFIT & LOSS STATEMENT,’000**

- **Net interest income** 58,187 67,179 80,476 97,077
- **Other operating income** 34,048 31,466 30,244 33,879
- **Total operating income** 92,235 98,645 110,720 130,956
- **Operating expenses** 43,456 46,685 51,517 58,930
- **Operating Profit** 48,779 51,960 59,202 72,020
- **Net loan loss provisions** -7,081 -3,779 -11,512 -16,995
- **Other provisions** -3,000 -1,541 -1,801 -1,762
- **Profit before tax** 38,698 46,680 45,890 53,268
- **Taxation** -4,496 -6,018 -5,515 -6,392
- **Profit after tax** 34,202 39,656 39,375 44,874
- **Minorities** 4,973 6,388 4,913 5,131
- **Profit on ordinary activities** 39,175 45,944 44,288 49,976
- **YE shares outstanding** 1,081,000 1,081,000 1,108,030 1,108,030
- **Earnings Per share** 0.0316 0.0376 0.0365 0.0423
- **Total Dividend Per share (incl stock MCB)** 0.0200 0.0179 0.0174 0.0202
- **Pay out ratio on above earnings** 63% 48% 48% 48%

**ROE DECOMPOSITION, %**

- **Net interest yield** 2.9% 2.8% 2.9% 3.1%
- **Non interest yield** 1.1% 1.2% 1.2% 1.2%
- **Operating expenses/Avg assets** -2.2% -2.0% -1.9% -1.9%
- **Loan loss/Avg Assets** -0.4% -0.2% -0.4% -0.5%
- **Associate & Other losses/Avg Assets** -0.1% -0.1% -0.1% -0.1%
- **Pretax ROA** 1.9% 2.0% 1.7% 1.7%
- **Tax/Average assets** -0.2% -0.3% -0.2% -0.2%
- **Effective tax rate** -11.6% -12.9% -12.0% -12.0%
- **ROA** 1.70% 1.7% 1.5% 1.5%
- **Leverage** 7.4 8.1 8.7 9.2
- **ROE** 12.50% 13.89% 12.82% 13.87%

**CREDIT QUALITY, %**

- **NPL to Gross loans** 3.69% 3.98% 3.98% 3.98%
- **Provision Coverage** 98.3% 94.7% 0.0% 0.0%
- **Loan loss provisions to Gross loans** 3.6% 3.8% 3.9% 3.9%
- **Net loan loss expense to Gross loans** 0.4% 0.2% 0.5% 0.6%

### BALANCE SHEET, ’000

FY-11 FY-12 FY-13e FY-14e

- **Tier 1 Capital** 45,890 270,945 210,930 177,048
- **Total assets** 2,640,789 3,272,533 2,537,818 2,922,401
- **Other assets** 110,722 5,000 110,722 54,700
- **Deposits from banks** 70,172 6.0% 0.0316 46.5%
- **Cash** 5,000 0.0179 47.1%
- **Floating rate notes** -1,762 1.1% -1,801 9.8%
- **Subordinated liability** 65,069 12% 128,580 48%
- **Other liabilities** 70,172 7.9 51,517 128,580
- **Total liabilities** 1,911,562 1,108,030 1,265,801 1,558,524
- **Total equity** 728,227 1,172,503 661,017 1,363,877
- **Minorities** 59,202 51,517 128,580 128,580
- **Total liabilities and equity** 2,357,847 2,537,818 1,558,801 2,357,818

**CAPITAL RATIOS, %**

- **Risk weighted assets** 3,183,090 3,272,533 3,272,533
- **Tier 1 capital** 12% 12% 11% 10%
- **Tier 1 to Risk weightedAssets, %** 12% 11.7% 10.5% 10.1%
- **Capital Adequacy Ratio, %** 15.3% 14.4% 12.8% 12.2%
- **Equity/assets** 12.6% 12.0% 11.0% 10.7%
- **RWA/Assets** 107.6% 112.0% 107.9% 109.4%
- **Loan to Deposit Ratio** 107.2% 101.6% 101.5% 101.5%
- **Total Dividend Yield, %** 6.5% 6.2% 6.0% 7.0%
- **Cost to Income Ratio** 47.1% 47.3% 46.5% 45.0%

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E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM
Omani Commercial Banks

Bank Profile

The National bank of Oman is Omans' First Local Bank and was founded in 1973. At the end of 2012 it had 1,352 employees and approximately 71 branches across the country. In 2012, the Bank launched its Islamic banking window to participate in the nascent Islamic banking opportunity branded Muzn. With an initial capital allocation of Ro 15 million for this purpose.

<table>
<thead>
<tr>
<th>Key Shareholders</th>
<th>% Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Bank of Qatar</td>
<td>34.9</td>
</tr>
<tr>
<td>Suhail Bahwan Group Holdings (LLC)</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Recent capital market activity

In 4Q’12, the Bank raised Ro 7 million of subordinated debt through a private placement to strengthen its Tier II capital.

<table>
<thead>
<tr>
<th>Dividend Record</th>
<th>% of Share Capital</th>
<th>Amount (Ro Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>17.50%</td>
<td>18.9</td>
</tr>
<tr>
<td>Bonus Shares</td>
<td>2.50%</td>
<td>2.7</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>17.50%</td>
<td>19.4</td>
</tr>
</tbody>
</table>

YoY Growth -10%

Source: Annual Financials 2012

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HSBC Oman

HSBC Oman remains an outlier on numerous measures vs. its peers, subsequent to the merger with Oman International Bank. The Bank continues to realign its loan book possibly in compliance with local regulations and internal group standards, and possesses a sub par expense ratio (at c70% for the 1H2013). Whilst the merger recapitalized the entity Capital adequacy at 16 % FY12), provisions at the end of Q2’13 still stand at c8 % of gross loans well above the rest of the industry.

Nevertheless, HSBC Oman’s balance sheet demonstrates a favorable funding mix with c80% of deposits sourced from current and savings accounts. Further, with c40% of its balance sheet invested in financial investments (mainly short term CDs), we believe the bank possesses ample liquidity and begin to deliver growth in its loan book over the next 12 months.

Accordingly our estimates build in a loan growth of 12% in 2014 and a improving expense ratio, down from 72% in 2013 to 65 % in 2014 yielding an improvement in pre-provision profits of 78% yoy in 2014. We also believe write backs will drive profits in 2013 yielding an growth in Net income of 245 %.

We initiate on HSBC Oman with a hold rating. Our target price or Ro 0.175/-implies a PBx’13e of 1.26x and a PE’13e of 17.6x, discounting an earnings recovery for 2013 as elucidated by a recovering ROE of 8 % and 11 % in 2013 & 2014 respectively. The key downside risks to the stock price arise from any unforeseen credit/operational costs arising from the merger that could impede growth.

<table>
<thead>
<tr>
<th>Key Indicators (Ro’000)</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13e</th>
<th>FY14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>22,084</td>
<td>40,076</td>
<td>51,509</td>
<td>66,524</td>
</tr>
<tr>
<td>Other operating income</td>
<td>12,767</td>
<td>20,453</td>
<td>22,735</td>
<td>24,456</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>16,035</td>
<td>11,795</td>
<td>17,819</td>
<td>31,843</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>17,105</td>
<td>7,171</td>
<td>23,526</td>
<td>29,170</td>
</tr>
<tr>
<td>Net Profit Attributable to Shareholders</td>
<td>15,528</td>
<td>5,796</td>
<td>19,997</td>
<td>24,794</td>
</tr>
<tr>
<td>EPS</td>
<td>0.016</td>
<td>0.003</td>
<td>0.010</td>
<td>0.012</td>
</tr>
<tr>
<td>BVPS</td>
<td>0.118</td>
<td>0.147</td>
<td>0.152</td>
<td>0.157</td>
</tr>
</tbody>
</table>

| Ratios | | |
|--------|------|--------|--------|--------|
| P/E, x | 16.2 | 83.9 | 17.6 | 14.2 |
| P/B, x | 2.21 | 1.65 | 1.16 | 1.12 |
| ROaE   | 11.0% | 2.8% | 6.7% | 8.0% |
| Normalised ROaE | 11.0% | 2.8% | 6.7% | 8.0% |
| ROaA   | 11.0% | 2.8% | 6.7% | 8.0% |
| Normalised ROaA | 1.5% | 0.3% | 0.7% | 0.8% |
| DY %   | 4.3% | 0.4% | 3.1% | 3.9% |

Source: Company Financials, OAB estimates

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Oman Commercial Banks

Summary Financials
(Ro 000, Unless other wise stated) FY-11 FY-12 FY-13 FY-14
PROFIT & LOSS STATEMENT, '000
Net Interest income 22,084 40,076 51,509 66,524
Other operating income 12,767 20,453 22,735 24,456
Total Operating Income 34,851 60,529 74,244 90,980
Operating Expenses -18,810 -48,734 -56,426 -59,137
Operating Profit 16,035 11,795 17,819 31,843
Net Loan Loss Provisions 1,070 (10,328) 5,707 (2,673)
Other Provisions 5,704
Associates
Profit before Tax 17,105 7,171 23,526 29,170
Taxation (1,577) (1,375) (3,529) (4,375)
Minorities
Profit after tax 15,528 5,796 19,997 24,794
YE Shares Outstanding 968,050 2,000,310 2,000,310 2,000,310
Earnings Per share, Ro 0.0160 0.0029 0.0100 0.0124
Total Dividend Per share, Ro 0.011 0.001 0.005 0.007
Pay out ratio on above, % 70% 35% 55% 55%

ROE DECOMPOSITION, %
Net Interest Yield 2.3% 2.4% 1.9% 2.1%
Cash non interest Yield 1.3% 1.2% 0.8% 0.8%
Operating Expenses/Avg Assets 1.9% 2.9% 2.1% 1.9%
Loan Loss/Avg Assets 0.1% 0.6% -0.2% 0.1%
Associate & Other Losses/Avg Assets 0.0% 0.3% 0.0% 0.0%
Pretax ROA 1.8% 0.4% 0.9% 0.9%
Tax/Average Assets -0.2% -0.1% -0.1% -0.1%
effective tax rate 2.2% 19.2% 15.0% 15.0%
ROA 1.6% 0.3% 0.7% 0.8%
Leverage 8.3 8.3 9.0 10.0
ROE 13.6% 2.8% 6.7% 8.0%

CREDIT QUALITY, %
NPL to Gross Loans na 7.1% 7.6% 7.6%
Provision Coverage na 107% 107% 107%
Loan loss provisions to Gross Loans 0.42% 1.07% 0.00% 0.10%
Net Loan loss expense to Gross loans -0.23% 0.36% -0.44% 0.18%

Source: Bloomberg Base = 100, 1 January 2013

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E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

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Omani Commercial Banks

Bank Profile

The Amalgamation between Oman International Bank and HSBCs’ Omani operations, concluded in the latter half of 2012, resulted in the Formation of HSBC Oman, an entity 51% owned by HSBC Plc. The combined entity boasts a low cost deposit base with 80% of its deposits in current and savings accounts. It had 1000 employees and 87 branches at the end of 2012 and aims to leverage its global reach to capture an increasing share of business in Oman in the future.

<table>
<thead>
<tr>
<th>Key Shareholders</th>
<th>% Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Plc</td>
<td>51.0</td>
</tr>
</tbody>
</table>

Recent capital market activity

As part of the merger with Oman International Bank, ordinary shares of 1,020,159,523 were issued in June 2012 to HBME. HBME acquired 51% of the combined entity, HSBC Oman, for a total consideration of RO 151.92 million.

<table>
<thead>
<tr>
<th>Dividend Record</th>
<th>% of Share Amount (Ro Capital Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Cash Dividend</td>
<td>11.25% 10.89</td>
</tr>
<tr>
<td></td>
<td>1.25% 1.21</td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Cash Dividend</td>
<td>1.0% 2.00</td>
</tr>
<tr>
<td>YOY %</td>
<td>-83%</td>
</tr>
</tbody>
</table>

Source: Annual Reports, FY 2012; All data above is as at Dec 2012.
Ahli Bank

Recommendation: Hold
BBG Code: ABOB OM
Last Closing Price: 0.214
Target price: Ro 0.224
Dividend Yield: 5%
Market Cap: Ro 253 million

Ahli Bank

We initiate on Ahli Bank with a hold rating and a valuation of Ro 0.224/- per share implying the stock is fair valued at a PE’13e of 10.4x and PB’13e of 1.48x.

Ahli Bank is the nation’s lowest cost bank with just 12 branches at the end of 2012 reflecting in a CIR of c31% at the end of Q2’13. This resonates in the banks deposit base which is predominantly term funded (c77% at the end of 2012), and consequently its low NIMs. Nevertheless its asset base delivers a ROaA in excess of 2% consistently.

A rights issue in 2011 of Ro 25 million, coupled with a stock dividend of Ro 15.2 million served to recapitalize the bank positioning it for robust loan growth over the next few years. Consequently we anticipate a very low risk of further equity dilution in the foreseeable future, apart from the stock dividends it pays out annually.

Recent actions have demonstrated the banks desire to grow inorganically, and participate in consolidating the nation’s financial services sector with a bid for Tageer Finance, which did not materialize. We believe Ahli banks’ desire to grow inorganically acquire remains a key upside risk to the banks stock price.

Our valuations factor in a gross loan growth of 20 % in 2013, slowing from 7 % QoQ in Q2’13 to 3 % over the remaining two quarters of the year. This results in a net profit growth of 23% in 2013.

<table>
<thead>
<tr>
<th>Key Indicators (Ro’000)</th>
<th>FY-11</th>
<th>FY - 12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>25,250</td>
<td>32,079</td>
<td>40,933</td>
<td>50,040</td>
</tr>
<tr>
<td>Other operating income</td>
<td>9,791</td>
<td>9,964</td>
<td>11,988</td>
<td>14,014</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>35,041</td>
<td>42,043</td>
<td>52,922</td>
<td>64,054</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>20,721</td>
<td>24,793</td>
<td>30,422</td>
<td>34,942</td>
</tr>
<tr>
<td>Net Profit Attributable to Shareholders</td>
<td>18,224</td>
<td>21,742</td>
<td>26,771</td>
<td>30,749</td>
</tr>
<tr>
<td>EPS</td>
<td>0.023</td>
<td>0.018</td>
<td>0.021</td>
<td>0.024</td>
</tr>
<tr>
<td>BVPS</td>
<td>0.150</td>
<td>0.139</td>
<td>0.148</td>
<td>0.160</td>
</tr>
<tr>
<td>Ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/E, x</td>
<td>8.6</td>
<td>9.3</td>
<td>9.4</td>
<td>8.2</td>
</tr>
<tr>
<td>P/B, x</td>
<td>1.31</td>
<td>1.21</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>ROaE</td>
<td>16.4%</td>
<td>15.1%</td>
<td>15.1%</td>
<td>15.8%</td>
</tr>
<tr>
<td>Normalised ROaE</td>
<td>16.4%</td>
<td>15.1%</td>
<td>15.1%</td>
<td>15.8%</td>
</tr>
<tr>
<td>ROaA</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Normalised ROaA</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>DY %</td>
<td>9.7%</td>
<td>6.1%</td>
<td>5.3%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: OAB Estimates

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Omani Commercial Banks

Summary Financials

<table>
<thead>
<tr>
<th>PROFIT &amp; LOSS STATEMENT, '000</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
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<tr>
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<td>50,400</td>
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<tr>
<td>Other operating income</td>
<td>9,791</td>
<td>9,964</td>
<td>11,988</td>
<td>14,014</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>35,041</td>
<td>42,043</td>
<td>52,922</td>
<td>64,054</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>10,612</td>
<td>12,192</td>
<td>16,555</td>
<td>20,497</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>24,428</td>
<td>29,851</td>
<td>36,367</td>
<td>43,557</td>
</tr>
<tr>
<td>Net Loan Loss Provisions</td>
<td>3,708</td>
<td>4,058</td>
<td>5,565</td>
<td>8,615</td>
</tr>
<tr>
<td>Other Provisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>20,721</td>
<td>24,793</td>
<td>30,422</td>
<td>34,942</td>
</tr>
<tr>
<td>Taxation</td>
<td>2,497</td>
<td>3,051</td>
<td>3,651</td>
<td>4,193</td>
</tr>
<tr>
<td>Minorities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit after tax</td>
<td>18,224</td>
<td>21,742</td>
<td>27,871</td>
<td>30,749</td>
</tr>
<tr>
<td>FE Shares Outstanding</td>
<td>801,433</td>
<td>1,205,703</td>
<td>1,263,890</td>
<td>1,263,890</td>
</tr>
<tr>
<td>Earnings Per share, Ro</td>
<td>0.023</td>
<td>0.018</td>
<td>0.021</td>
<td>0.024</td>
</tr>
<tr>
<td>Total Dividend Per share, Ro</td>
<td>0.019</td>
<td>0.010</td>
<td>0.011</td>
<td>0.012</td>
</tr>
<tr>
<td>Pay out ratio on above, %</td>
<td>84%</td>
<td>57%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>ROE DECOMPOSITION, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Interest Yield</td>
<td>2.9%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Cash non interest Yield</td>
<td>1.1%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Operating Expenses/Avg Assets</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Loan Loss/Avg Assets</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Associate &amp; Other Losses/Avg Assets</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Pretax ROA</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Tax/Average Assets</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>12.1%</td>
<td>12.3%</td>
<td>12.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>ROA</td>
<td>2.10%</td>
<td>2.14%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Leverage</td>
<td>7.8</td>
<td>7.1</td>
<td>7.1</td>
<td>7.0</td>
</tr>
<tr>
<td>ROE</td>
<td>16.4%</td>
<td>15.1%</td>
<td>15.1%</td>
<td>15.8%</td>
</tr>
<tr>
<td>CREDIT QUALITY, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPL to Gross Loans</td>
<td>0.99%</td>
<td>1.08%</td>
<td>1.08%</td>
<td>1.08%</td>
</tr>
<tr>
<td>Provision Coverage</td>
<td>97%</td>
<td>114%</td>
<td>111%</td>
<td>111%</td>
</tr>
<tr>
<td>Loan loss provisions to Gross Loans</td>
<td>0.96%</td>
<td>1.23%</td>
<td>1.20%</td>
<td>1.20%</td>
</tr>
<tr>
<td>Net Loan loss expense to Gross loans</td>
<td>0.52%</td>
<td>0.47%</td>
<td>0.53%</td>
<td>0.70%</td>
</tr>
<tr>
<td>VALUATIONS, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/E, 1yr Forward</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/B, 1yr Forward</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend Yield, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost to Income ratio</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

Source: OAB Estimates

BALANCE SHEET, '000

<table>
<thead>
<tr>
<th>USES</th>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13e</th>
<th>FY-14e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>11,300</td>
<td>24,439</td>
<td>98,676</td>
<td>31,459</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>18,826</td>
<td>9,005</td>
<td>11,138</td>
<td>12,475</td>
</tr>
<tr>
<td>Gross loans and advances</td>
<td>776,039</td>
<td>938,985</td>
<td>1,161,042</td>
<td>1,306,367</td>
</tr>
<tr>
<td>Provisions</td>
<td>7,434</td>
<td>11,593</td>
<td>13,932</td>
<td>15,604</td>
</tr>
<tr>
<td>Net Loans and Advances</td>
<td>768,606</td>
<td>927,392</td>
<td>1,147,109</td>
<td>1,284,762</td>
</tr>
<tr>
<td>Investments</td>
<td>108,453</td>
<td>114,095</td>
<td>131,095</td>
<td>149,032</td>
</tr>
<tr>
<td>Other Assets</td>
<td>22,421</td>
<td>24,299</td>
<td>23,167</td>
<td>22,036</td>
</tr>
<tr>
<td>Total Assets</td>
<td>929,604</td>
<td>1,099,230</td>
<td>1,413,155</td>
<td>1,498,764</td>
</tr>
<tr>
<td>SOURCES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits from banks</td>
<td>74,331</td>
<td>114,736</td>
<td>158,299</td>
<td>110,809</td>
</tr>
<tr>
<td>Customers' deposits</td>
<td>668,911</td>
<td>738,407</td>
<td>989,366</td>
<td>1,108,090</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unsecured bonds</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Subordinated liability</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>26,149</td>
<td>38,573</td>
<td>38,573</td>
<td>38,573</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>809,392</td>
<td>931,716</td>
<td>1,226,237</td>
<td>1,297,472</td>
</tr>
<tr>
<td>CAPITAL RATIOS, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Capital</td>
<td>112,982</td>
<td>153,848</td>
<td>168,237</td>
<td>182,064</td>
</tr>
<tr>
<td>Risk Weighted Assets</td>
<td>896,990</td>
<td>1,141,937</td>
<td>1,376,531</td>
<td>1,541,715</td>
</tr>
<tr>
<td>Tier 1 to Risk weighted Assets, %</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio, %</td>
<td>17.5%</td>
<td>16.8%</td>
<td>15.0%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Equity/Assets</td>
<td>12%</td>
<td>15%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>RNA/Assets</td>
<td>96%</td>
<td>104%</td>
<td>97%</td>
<td>103%</td>
</tr>
<tr>
<td>Loan to Deposit Ratio</td>
<td>114.9%</td>
<td>125.6%</td>
<td>115.9%</td>
<td>115.9%</td>
</tr>
<tr>
<td>VALUATIONS, %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/E, 1yr Forward</td>
<td>8.6</td>
<td>9.3</td>
<td>9.4</td>
<td>8.2</td>
</tr>
<tr>
<td>P/B, 1yr Forward</td>
<td>1.3</td>
<td>1.2</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Dividend Yield, %</td>
<td>9.7%</td>
<td>6.1%</td>
<td>5.3%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Cost to Income ratio</td>
<td>30.3%</td>
<td>33.4%</td>
<td>32.0%</td>
<td>32.0%</td>
</tr>
</tbody>
</table>

Source: Financial Statements

Disclaimer:
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Omani Commercial Banks

Bank Profile

Ahli Bank, converted to a full fledged commercial bank in 2008, is promoted by Ahli bank of Bahrain. The bank boasts the lowest cost to income ratio in the commercial banking space in Oman. It has 12 branches and 340 employees in Oman. Recently, Ahli Bank called off its bid to acquire Tageer Finance following the results of a due diligence process. Ahli Bank has launched its Hilal Islamic Banking services with a capital allocation of Ro 10 million.

<table>
<thead>
<tr>
<th>Key Shareholders</th>
<th>% Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahli United Bank BSC</td>
<td>35.0</td>
</tr>
<tr>
<td>MB Holding and Subsidiaries</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Recent capital market activity

In 2012, Ahli Bank raised Ro 25 million thru a rights issue of 250 million shares at RO 0.100 baiza per share.

<table>
<thead>
<tr>
<th>Dividend Record</th>
<th>% of Share Amount</th>
<th>(Ro Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Cash Dividend</td>
<td>19% 15</td>
</tr>
<tr>
<td>2012</td>
<td>Cash Dividend</td>
<td>5.0% 6.0</td>
</tr>
<tr>
<td></td>
<td>Bonus Shares</td>
<td>5.0% 6.0</td>
</tr>
<tr>
<td></td>
<td>YoY %</td>
<td>-21%</td>
</tr>
</tbody>
</table>

Source Annual Reports, FY 2012, All data above is as at Dec 2012.

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Omani Commercial Banks

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Buy</td>
<td>Greater than 20%</td>
</tr>
<tr>
<td>Accumulate</td>
<td>Between +10% and +20%</td>
</tr>
<tr>
<td>Hold</td>
<td>Between +10% and -10%</td>
</tr>
<tr>
<td>Reduce</td>
<td>Between -10% and -20%</td>
</tr>
<tr>
<td>Sell</td>
<td>Lower than -20%</td>
</tr>
</tbody>
</table>

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