April 2011

STRATEGY NOTE
BANKING

DECENT UPSIDES DESPITE THE RALLY

The regional equity markets have rallied since early March 2011 following the sharp drops they experienced after the outbreak of political turmoil in some of the Middle East and North Africa (MENA) countries. **The stock market indices in Saudi Arabia, United Arab Emirates (UAE), Qatar, and Oman (countries in which we have banks under coverage) have increased by 24%, 16%, 13%, and 2%, respectively, since early March 2011, which was when these markets bottomed out following the start of the political turmoil**. The banking stocks were no exception, with the banking indices of Saudi Arabia, Abu Dhabi, Qatar, and Oman increasing by 24%, 7%, 11%, and 6%, respectively, during the same period. The start of this rally coincided with comments by the Saudi finance minister, who said, in effect, that some Saudi government/ public institutions had started investing in the Saudi Stock Exchange (Tadawul) because there were some good buying opportunities. As mentioned, **the onset of political turmoil has had a significant impact on the regional equity markets with the stock markets in Saudi Arabia, UAE, Qatar, and Oman dropping by 21%, 19%, 17%, and 12%, respectively, between the start of the demonstrations in Egypt on January 25, 2011, and the time the markets bottomed out in early March 2011**. Again, the banking stocks were no exception, with the banking indices of Saudi Arabia, Abu Dhabi, Qatar, and Oman falling by 21%, 8%, 16%, and 21%, respectively, during the same period.

The stock markets of Saudi Arabia, UAE, and Qatar have risen by double-digits since early March 2011 …

The abruptness of the demonstrations and the speed at which they spread among the involved countries led to the drop in the regional equity markets, which is proving, so far, to have been a transient reaction. **However, we believe the more important and longer-term effect of the recent political upheaval is a systematic increase in required returns, and hence, risk premiums of regional equities, which we believe is related to the uncertainty surrounding the future political scene in the Middle East.**

…. following significant drops after the outbreak of political turmoil in some MENA countries

Banking-wise and politics aside, we believe slightly stronger loan growth and lower provisioning will be key themes for banking stocks in 2011. This is despite our belief that political uncertainty engulfing some countries in the region, especially those that are also witnessing social agitation and violent clashes in the streets, will somehow dampen loan growth and put pressure on asset quality.

Loan growth is expected to be only slightly stronger than in 2010, although the differences between the banking sectors of the Gulf Cooperation Council (GCC) countries will remain large. We expect Qatari banks to continue to experience the highest loan growth among the GCC banks, driven by the public sector and an invigorated private sector. However, we believe the 2011 year-over-year loan growth of the conventional Qatari banks will be somehow dampened by the Qatar Central Bank's (QCB) decision, which took everybody by surprise, to close down the Islamic banking businesses of conventional Qatari banks. This decision effectively requires conventional Qatari banks to stop offering Islamic banking services. Hosting the 2022 World Cup has assured that the Qatari public spending spree will not run out of steam.

We expect Qatari banks to continue to experience the highest loan growth among the GCC banks, driven by the public sector and an invigorated private sector

Qatari banks, however, especially QNB, are trading at a premium to their peers following a 37% increase in the Qatari banking index in 2010, resulting in lower upside potential (with the exception of CBQ) compared with their Saudi and UAE peers, we believe. This lower upside potential is despite an ongoing superior fundamental story in Qatar with real gross domestic product (GDP) forecasted to soar by 20% in 2011 and public sector spending continuing to be sky-high.

Generally lower provisioning is another theme for banking stocks in 2011, although we do not necessarily expect every bank to provision less in 2011 than in 2010. However, we continue to believe that provisioning will remain much higher than pre-2008 crisis levels, when risk costs were extremely low. We expect provisioning to remain highest for UAE banks, driven by the corporate books and the ongoing weakness in the real estate market, which banks have

We expect provisioning to remain highest for UAE banks, driven by the continued increase in corporate NPLs and the ongoing weakness in the real estate market

material exposure to. Concern about asset quality is the prime reason why UAE banks are trading at a sharp discount to their GCC peers. We believe that asset quality stress in the UAE is more than adequately priced-in, and we expect the UAE banks' discount to narrow going forward. We believe Qatari banks will derive the least benefit from a drop in provisioning in 2011 as provisioning increased much less for Qatari banks than it did elsewhere in the GCC in 2009 and 2010. A major reason for that was significant government intervention in the Qatari banking sector combined with a stronger economic backdrop.

Although we see lower provisioning in 2011, we are still concerned about non-performing loan (NPL) formation, and we see NPL ratios either stabilizing or continuing to increase, albeit slightly. We think UAE banks are still prone to witness the largest increase in NPL ratios among their GCC peers although we do not believe these ratios will increase as much as they did in 2009 and 2010. **All in all, we maintain our view that weakening asset quality will not pose a threat to any of the covered banks, which enjoy high capital adequacy ratios (CARs) that average 20.6% in the UAE, 16.6% in Saudi Arabia, 15.8% in Qatar, and 15.4% in Oman.**

As for earnings, we believe the banks' top lines will continue to be robust in 2011, despite the low interest rate environment. We think QNB will be the outperformer, registering a 20% growth rate in operating income in 2011, driven primarily by increasing net interest income. **We forecast that all the covered banks will be able to increase their net profit in 2011 as the robust top lines will be aided by generally lower provisioning.** We expect ADCB to witness the highest growth in net profit in 2011 compared to the very low net profit achieved in 2010 as the bank sees a reduction in provisioning compared with 2009 and 2010 when ADCB's risk cost soared. Moreover, we believe QNB will continue to post excellent results, achieving net profit growth of 21% in FY2011, despite our view that provisioning will increase for QNB in that year.

As for returns on equity (ROE), we believe they will generally drop in 2011 compared with 2010 although we forecast the banks will continue delivering decent ROEs in 2011, averaging 17% in Qatar, 14% in Saudi Arabia, 14% in the UAE (excluding ADCB), and 11% in Oman. Just as in 2009 and 2010, we expect QNB to continue to outperform in terms of ROE, achieving a generous 21% ROE in 2011 on the back of superior net profit growth and despite the QR 12.7 billion rights issue that will take place in 2Q2011.

We expect Doha Bank, CBQ, and Riyad to register the highest dividend yields in FY2011, reaching 9.5%, 8%, and 5.3%, respectively

As for dividend payments, as has been the case in the past few years, we expect lower dividend payments than the banks can afford to pay. A wish to maintain high CARs (driven sometimes by regulatory pressure) and often sizable government shareholdings are two major reasons why we believe dividend payments will continue to be controlled. We expect Doha, CBQ, and Riyad to carry on with their generous dividend payment strategies, registering the highest dividend yields among the covered banks in FY2011, reaching 9.5%, 8%, and 5.3%, respectively.

Finally, we think that a few of the banks under coverage currently offer significant upside potential. **In the UAE, we believe that UNB offers the highest potential of 31%.** We think the upside is derived more from the bank's current low valuation (P/B of 0.6x) rather than an exceptionally strong fundamental story. Nevertheless, UNB does enjoy the best asset quality and liquidity indicators among the UAE banks and a very comfortable CAR (20.1%). Second in line in the UAE is NBAD. We believe that NBAD is a good buy that offers 27% upside potential. We view NBAD as a well-managed bank with a conservative risk appetite that offers a safe bet on public sector-driven growth in Abu Dhabi. NBAD is trading at a relatively low P/B of 1.2x; however similar to other UAE banks, asset quality stress is not yet over for NBAD, and going forward, we see an increasing NPL ratio.

In Qatar, we believe that CBQ offers the highest upside potential (29%). The bank enjoys a very low leverage, has one of the highest dividend yields among the covered banks, and is successfully increasing its exposure to the public sector. Moreover, the bank has the lowest P/B in Qatar and is the most liquid stock in our coverage universe. On the downside, we are still concerned about CBQ's asset quality, and going forward, we see an increasing NPL ratio.

Significant government spending, current record oil prices, and the sizable improvement in NIMs when interest rates start increasing from the current lows underscore the potential that Saudi banks enjoy

Finally, we believe that Saudi banks continue to be a good long-term bet, with Riyad offering the highest upside potential (28%). Riyad has one of the best asset quality and capitalization indicators in Saudi Arabia. In addition, Riyad has the lowest P/B and highest dividend yield among our covered banks on Tadawul and the stock is also one of the most liquid. Even though Saudi banks were affected by negative investor sentiment due to lackluster loan growth and high provisioning, the long-term value drivers of Saudi banks remain intact. **We believe a large and, more importantly, young population, the world's largest proven oil reserves, low penetration rates with loans to GDP at 48%, and abundant non-interest-bearing deposits will remain long-term value drivers for Saudi banks.** Significant government spending, current record oil prices, and the sizable improvement in net interest margins when interest rates start increasing from the current lows serve to underscore the potential that Saudi banks enjoy, we believe.

Coverage Universe

Bank	Country	Currency	Last Close*	Fair Value	Potential	Recomm.	P/B		Div.Yield	RoAE	Avg. Val. Traded (USD Mn)	52-week Return	LDR	CAR
							2010	2011F	2011F				2010	
Riyad	KSA	SAR	26.30	33.70	28%	Buy	1.3	1.3	5.3%	10.1%	3.64	-13.8%	84%	18.3%
BSF	KSA	SAR	49.00	55.30	13%	Accumulate	2.0	1.8	3.3%	15.4%	1.56	4.3%	87%	14.7%
Samba	KSA	SAR	56.50	61.90	10%	Accumulate	2.0	1.7	3.2%	16.2%	3.84	-4.2%	60%	18.9%
SABB	KSA	SAR	45.60	47.90	5%	Accumulate	2.3	2.0	2.0%	14.1%	1.49	-5.4%	78%	14.2%
ANB	KSA	SAR	34.80	36.20	4%	Hold	1.9	1.8	2.9%	13.6%	1.49	-0.3%	79%	17.0%
UNB	UAE	AED	2.91	3.80	31%	Buy	0.6	0.5	3.4%	13.2%	0.48	1.7%	98%	20.1%
NBAD	UAE	AED	9.74	12.40	27%	Buy	1.2	1.0	3.1%	15.3%	0.90	1.1%	111%	22.6%
FGB	UAE	AED	16.30	18.80	15%	Accumulate	1.0	0.9	3.7%	14.8%	2.69	-4.7%	97%	22.9%
ADCB	UAE	AED	2.52	2.40	-5%	Hold	0.6	0.6	2.3%	5.8%	0.79	20.6%	116%	16.7%
CBQ	Qatar	QR	75.10	97.00	29%	Buy	1.5	1.3	8.0%	12.8%	6.17	1.6%	101%	18.5%
Doha	Qatar	QR	57.70	62.00	7%	Accumulate	2.0	1.7	9.5%	17.8%	4.33	13.6%	86%	13.6%
QNB	Qatar	QR	137.70	142.00	3%	Hold	2.9	2.0	2.8%	20.9%	5.46	31.6%	80%	15.3%
Bank Muscat	Oman	RO	0.722	0.760	5%	Accumulate	1.4	1.2	3.5%	12.3%	2.25	-1.9%	114%	15.4%
NBO	Oman	RO	0.328	0.340	4%	Hold	1.3	1.3	4.3%	10.6%	0.46	0.3%	103%	15.5%

**As of April 03, 2011 Sources: Reuters, Banks' financial statements, and NBK Capital*

Analysts

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Samba Financial Group

Fair Value: SAR 61.90
Recommendation: Accumulate
Risk Level: 2**

Key Data

Fair Value per Share (SAR)	61.90
Closing Price (SAR) *	56.50
Upside/ (Downside)	10%
52-week High / Low (SAR)	64.25 / 44.10
% Below High / % Above Low	-12% / 28%
YTD / 12-month Return	-8% / -4%
Trailing P/B	2.0
Market Cap (USD Millions)	13,962
Shares Outstanding (Millions)	900
Average Daily Traded Value (USD Millions)	3.84
Free Float	51%
Reuters / Bloomberg	1090.SE / SAMBA AB

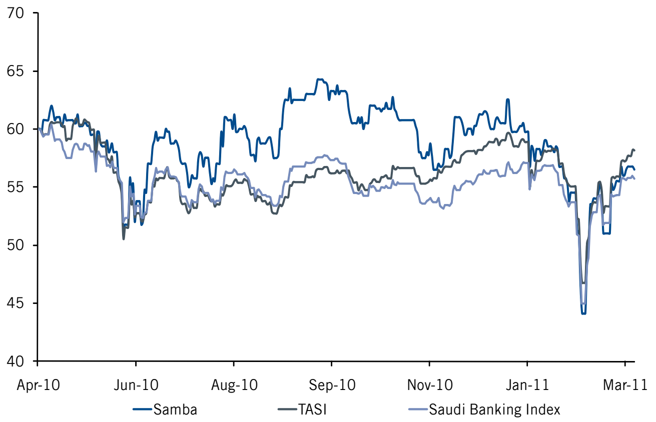
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (SAR)	5.1	4.9	5.0	5.4
EPS Growth	2%	-3%	1%	9%
P/B		2.0	1.7	1.5
P/E		11.5	11.4	10.4
Dividend Yield		3.2%	3.2%	3.5%
Dividend Payout	35%	36%	36%	37%
RoAA	2.5%	2.4%	2.3%	2.4%
RoAE	22%	19%	16%	15%
Net Interest Margin	2.9%	2.5%	2.5%	2.5%
Op. Income (SAR millions)	7,110	6,901	6,953	7,514
Op. Income Growth	1%	-3%	1%	8%
Net Profit (SAR millions)	4,560	4,435	4,477	4,873
Net Profit Growth	2%	-3%	0.9%	9%
Income before Prov. (SAR millions)	5,165	4,994	4,958	5,357
Income before Prov. Growth	5%	-3%	-1%	8%
Growth in Loans	-14.3%	-4.6%	4.2%	8.3%
Growth in Deposits	9.6%	-9.3%	2.0%	6.6%
Loans-to-Deposits	57%	60%	61%	62%
Loans-to-Assets	45%	43%	42%	43%
NPL Ratio	3.3%	3.7%	3.9%	3.9%
NPL Coverage	116%	118%	123%	125%
Risk Cost	0.6%	0.7%	0.6%	0.5%
Capital Adequacy	17.1%	18.9%	21.0%	21.6%
Shareholders' Equity-to-Assets	12%	14%	15%	16%
Cost-to-Income	27.4%	27.7%	28.7%	28.7%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

Samba Financial Group (Samba) is Saudi Arabia's third largest bank with a 13% market share of assets. Samba is especially strong in corporate and investment banking. The bank has been one of the most cautious and conservative banks since the outbreak of the financial crisis in 2008, which led to a loss of market share in terms of loans. This conservative stance also led to a significantly liquid position, with the bank's loan to deposit ratio (LDR) at 60% and liquid assets representing 19% of total assets. Moreover, Samba's decreasing loans resulted in the bank having the highest CAR among its peers (18.9%). This gives Samba an advantage over its peers when loan growth in the overall sector increases again. We believe Samba's net interest margin (NIM) is poised to increase going forward as the bank's excessive liquidity diminishes and loan growth improves. We expect Samba to remain one of the most cost-efficient banks in Saudi Arabia with a lower cost-to-income ratio (CIR) than its peers, benefiting from a small branch network and extensive use of alternative delivery channels.

Valuation

Our fair value for Samba stands at SAR 61.90 per share, 10% above the last closing price; hence, our recommendation on Samba is "Accumulate." Samba's share price has decreased by 10% since its recent high in mid-January 2011, underperforming the 2% decrease in the Saudi banking index in the same period. Samba is trading at a P/B of 2.0x, compared to an average of 1.8x for its peers. We assume a 13% target CAR for the discounted equity cash flow (DECF) model. For the dividend discount model (DDM), we assume an average dividend payout of 39% in our forecast horizon. We believe the major upside risk is better than forecasted non-interest earnings. Key downside risks include continued lackluster loan growth and subsequent loss of market share. Additionally, clinging to an excessive liquidity position will result in a lower-than-expected improvement in the NIM.

Summary Financial Statements

SAR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	84,147	80,251	83,603	90,568
Customer Deposits	147,129	133,463	136,116	145,064
Total Shareholders' Equity	22,310	25,430	29,907	33,160
Total Assets	185,518	187,416	196,952	208,820

SAR Millions	2009A	2010A	2011F	2012F
Net Interest Income	5,070	4,536	4,547	4,923
Fee and Commission Income	1,210	1,258	1,360	1,523
Other Operating Income	830	1,106	1,046	1,068
Operating Income	**7,110**	**6,901**	**6,953**	**7,514**
Total Costs	(1,951)	(1,910)	(1,997)	(2,157)
Provisions for Credit Losses	(605)	(559)	(481)	(484)
Other Provisions	-	-	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	7	3	1	(0)
Net Profit	**4,560**	**4,435**	**4,477**	**4,873**

Sources: Company's financial statements and NBK Capital

Riyad Bank

Fair Value: SAR 33.70
Recommendation: Buy
Risk Level: 2**

Key Data

Fair Value per Share (SAR)	33.70
Closing Price (SAR) *	26.30
Upside/ (Downside)	28%
52-week High / Low (SAR)	31.20 / 21.10
% Below High / % Above Low	-16% / 25%
YTD / 12-month Return	-1% / -14%
Trailing P/B	1.3
Market Cap (USD Millions)	10,832
Shares Outstanding (Millions)	1,500
Average Daily Traded Value (USD Millions)	3.64
Free Float	48%
Reuters / Bloomberg	1010.SE / RIBL AB

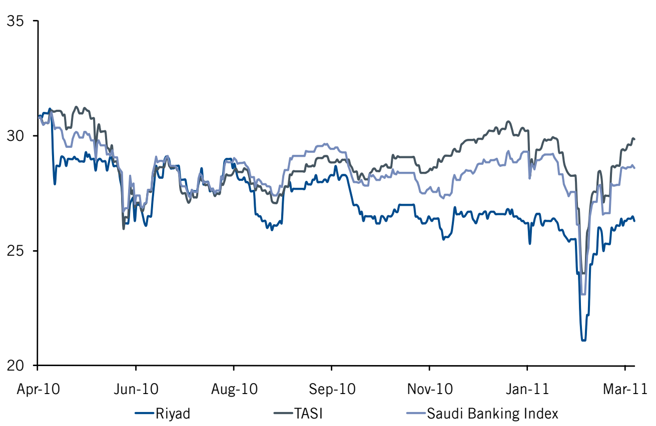
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (SAR)	2.0	1.9	2.0	2.3
EPS Growth	-10%	-7%	8%	14%
P/B		1.3	1.3	1.2
P/E		14.0	13.0	11.4
Dividend Yield		4.9%	5.3%	5.7%
Dividend Payout	67%	69%	69%	65%
RoAA	1.8%	1.6%	1.7%	1.9%
RoAE	11%	10%	10%	11%
Net Interest Margin	2.7%	2.4%	2.5%	2.6%
Op. Income (SAR millions)	5,960	5,980	6,192	6,787
Op. Income Growth	14%	0%	4%	10%
Net Profit (SAR millions)	3,030	2,825	3,038	3,459
Net Profit Growth	15%	-7%	8%	14%
Income before Prov. (SAR millions)	3,767	3,675	3,829	4,240
Income before Prov. Growth	19%	-2%	4%	11%
Growth in Loans	10.5%	-0.5%	3.0%	5.4%
Growth in Deposits	19.2%	1.3%	4.3%	7.0%
Loans-to-Deposits	85%	84%	83%	81%
Loans-to-Assets	60%	61%	61%	61%
NPL Ratio	1.2%	1.7%	1.8%	1.9%
NPL Coverage	141%	126%	152%	172%
Risk Cost	0.6%	0.9%	0.7%	0.7%
Capital Adequacy	18.2%	18.3%	18.6%	18.1%
Shareholders' Equity-to-Assets	16%	17%	17%	17%
Cost-to-Income	36.8%	38.6%	38.2%	37.5%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

Riyad Bank (Riyad) is Saudi Arabia's fourth largest bank with a 12% market share of assets. Riyad is strong in corporate and retail banking and has a wide distribution network of 241 branches, the third largest in Saudi Arabia and the largest among our covered banks. Riyad enjoys one of the highest CARs in Saudi Arabia (18.3%), which will facilitate high loan growth when the lending appetite increases again. We believe Riyad will continue to exhibit better asset quality indicators than its peers, as has been the case recently. We expect Riyad to continue to be the highest dividend-paying stock among our covered Saudi banks with a forecasted dividend yield of 5.3% for FY2011. With a higher CIR than its peers, we believe Riyad will be able to improve its cost efficiency, albeit slightly, hence supporting the bank's profitability indicators. We expect Riyad to increase its return on average equity (RoAE) from 10% in 2010 to around 14% by the end of the forecast horizon. Finally, Riyad is one of the most liquid stock among the covered banks in Saudi Arabia, with an average daily trading value of USD 3.64 million.

Valuation

Our fair value for Riyad stands at SAR 33.70 per share, 28% higher than the last closing price; hence, our recommendation on Riyad is "Buy." Riyad's share price dropped by 14% in the past 12 months, the largest decrease among our covered banks. Moreover, Riyad's P/B of 1.3x is the lowest among the covered Saudi banks, compared to an average of 2.0x for the bank's peers. We assume a 13% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 61% in our forecast horizon, the highest among the covered Saudi banks. We believe the major upside risk is a better-than-forecasted NIM. Key downside risks include weakening in asset quality resulting in higher-than-forecasted provisioning and a slower-than-expected improvement in efficiency.

Summary Financial Statements

SAR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	106,515	106,035	109,199	115,062
Customer Deposits	125,278	126,945	132,357	141,585
Total Shareholders' Equity	28,235	29,233	31,151	32,510
Total Assets	176,399	173,556	179,125	189,533

SAR Millions	2009A	2010A	2011F	2012F
Net Interest Income	4,347	4,142	4,228	4,664
Fee and Commission Income	1,223	1,418	1,502	1,634
Other Operating Income	390	420	463	488
Operating Income	**5,960**	**5,980**	**6,192**	**6,787**
Total Costs	(2,193)	(2,306)	(2,363)	(2,547)
Provisions for Credit Losses	(619)	(935)	(790)	(780)
Other Provisions	(118)	85	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	-	-	-	-
Net Profit	**3,030**	**2,825**	**3,038**	**3,459**

Sources: Company's financial statements and NBK Capital

The Saudi British Bank

Fair Value: SAR 47.90
Recommendation: Accumulate
Risk Level: 2**

Key Data

Fair Value per Share (SAR)	47.90
Closing Price (SAR) *	45.60
Upside/ (Downside)	5%
52-week High / Low (SAR)	48.70 / 33.90
% Below High / % Above Low	-6% / 35%
YTD / 12-month Return	13% / -5%
Trailing P/B	2.3
Market Cap (USD Millions)	9,391
Shares Outstanding (Millions)	750
Average Daily Traded Value (USD Millions)	1.49
Free Float	33%
Reuters / Bloomberg	1060.SE / SABB AB

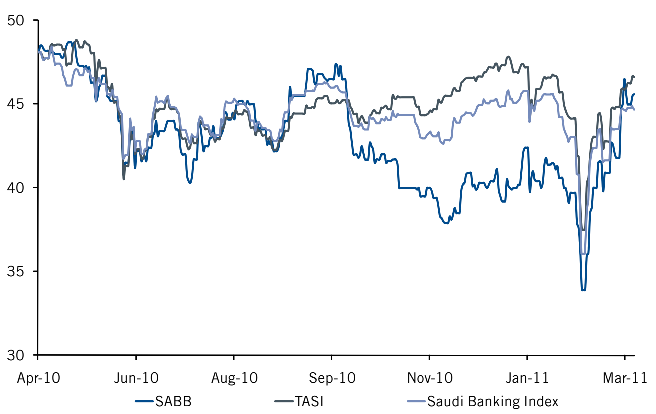
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (SAR)	2.7	2.5	3.0	3.6
EPS Growth	-30%	-7%	20%	19%
P/B		2.3	2.0	1.8
P/E		18.2	15.2	12.7
Dividend Yield		1.6%	2.0%	2.4%
Dividend Payout	32%	30%	30%	31%
RoAA	1.6%	1.5%	1.8%	2.0%
RoAE	16%	13%	14%	15%
Net Interest Margin	2.8%	2.7%	2.6%	2.7%
Op. Income (SAR millions)	5,206	4,880	5,013	5,446
Op. Income Growth	4%	-6%	3%	9%
Net Profit (SAR millions)	2,032	1,883	2,255	2,694
Net Profit Growth	-30%	-7%	20%	19%
Income before Prov. (SAR millions)	3,529	3,126	3,141	3,449
Income before Prov. Growth	4%	-11%	0%	10%
Growth in Loans	-4.8%	-2.8%	3.0%	5.7%
Growth in Deposits	-3.8%	6.2%	3.0%	5.1%
Loans-to-Deposits	86%	78%	78%	79%
Loans-to-Assets	60%	59%	59%	59%
NPL Ratio	4.5%	3.4%	3.7%	3.6%
NPL Coverage	50%	100%	120%	137%
Risk Cost	1.9%	1.6%	1.1%	0.9%
Capital Adequacy	12.8%	14.2%	14.8%	15.8%
Shareholders' Equity-to-Assets	10%	12%	13%	14%
Cost-to-Income	32.2%	35.9%	37.3%	36.7%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

The Saudi British Bank (SABB) is Saudi Arabia's fifth largest bank with a 9% market share of assets. SABB enjoys strong brand recognition and is an innovative player in the Saudi banking sector. We like the fact that SABB is 40% owned by the HSBC Group. We believe this association has value for SABB, especially in terms of management expertise as well as technical and risk management support. We believe SABB is poised to witness rapid net profit growth in 2011 and 2012 as provisioning drops from the very high levels in 2009 and 2010, when the bank's provisioning levels were the highest among the Saudi banking stocks we cover. Accordingly, we expect a rebound in RoAE from 13% in 2010 to 15% in 2012. The steep increase in provisioning in 2009 and 2010 was driven by soaring NPLs that led to SABB exhibiting the worst asset quality indicators among its Saudi peers after it had the best indicators in 2008. However, a combination of stability in new NPL formation, recoveries, as well as write-offs led to a decrease in the absolute level of NPLs in 2010, and to the NPL ratio dropping to 3.4% by the end of 2010.

Valuation

Our fair value for SABB stands at SAR 47.90 per share, 5% above the last closing price; hence, our recommendation on SABB is "Accumulate." SABB's share price outperformed year-to-date (YTD) as it increased by 13%, following an underperformance in 2010 when it decreased by 7%. We believe this decrease was largely driven by concerns about asset quality. We assume a 13% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 34% in the forecast horizon. We believe the major upside risks are a better-than-expected NIM improvement and a better-than-forecasted pick-up in non-interest earnings. Key downside risks include a lower-than-expected drop in provisioning and slower-than-forecasted loan growth.

Summary Financial Statements

SAR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	76,382	74,248	76,475	80,825
Customer Deposits	89,187	94,673	97,482	102,457
Total Shareholders' Equity	13,045	15,172	16,864	18,883
Total Assets	126,838	125,373	128,784	135,966

SAR Millions	2009A	2010A	2011F	2012F
Net Interest Income	3,437	3,243	3,232	3,485
Fee and Commission Income	1,211	1,181	1,266	1,404
Other Operating Income	559	456	514	557
Operating Income	**5,206**	**4,880**	**5,013**	**5,446**
Total Costs	(1,678)	(1,754)	(1,872)	(1,997)
Provisions for Credit Losses	(1,496)	(1,234)	(886)	(755)
Other Provisions	-	(10)	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	-	-	-	-
Net Profit	**2,032**	**1,883**	**2,255**	**2,694**

Sources: Company's financial statements and NBK Capital

Banque Saudi Fransi

Fair Value: SAR 55.30
Recommendation: Accumulate
Risk Level: 2**

Key Data

Fair Value per Share (SAR)	55.30
Closing Price (SAR) *	49.00
Upside/ (Downside)	13%
52-week High / Low (SAR)	49.70 / 35.60
% Below High / % Above Low	-1% / 38%
YTD / 12-month Return	10% / 4%
Trailing P/B	2.0
Market Cap (USD Millions)	9,730
Shares Outstanding (Millions)	723.21
Average Daily Traded Value (USD Millions)	1.56
Free Float	55%
Reuters / Bloomberg	1050.SE / BSFR AB

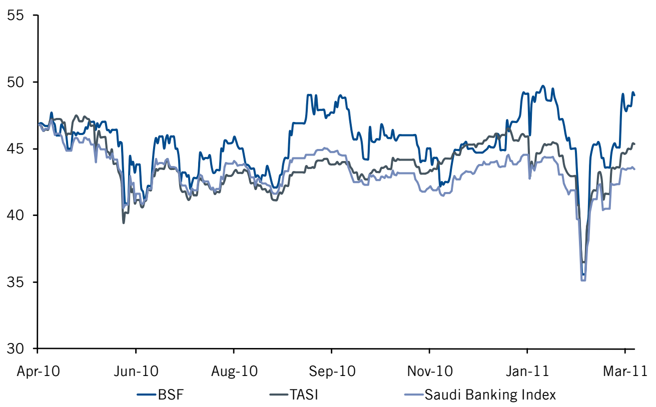
As of April 03, 2011 Sources: Reuters and NBK Capital

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (SAR)	3.4	3.9	4.0	4.6
EPS Growth	-12%	13%	4%	14%
P/B		2.0	1.8	1.6
P/E		12.7	12.2	10.7
Dividend Yield		3.1%	3.3%	3.8%
Dividend Payout	40%	39%	40%	41%
RoAA	2.0%	2.3%	2.3%	2.4%
RoAE	17%	17%	15%	16%
Net Interest Margin	2.6%	2.6%	2.6%	2.7%
Op. Income (SAR millions)	4,267	4,399	4,597	5,132
Op. Income Growth	-3%	3%	5%	12%
Net Profit (SAR millions)	2,471	2,801	2,907	3,304
Net Profit Growth	-12%	13%	4%	14%
Income before Prov. (SAR millions)	3,112	3,140	3,239	3,642
Income before Prov. Growth	-6%	1%	3%	12%
Growth in Loans	-3.2%	3.4%	6.2%	8.3%
Growth in Deposits	-1.7%	2.5%	8.8%	8.5%
Loans-to-Deposits	86%	87%	85%	84%
Loans-to-Assets	65%	66%	65%	65%
NPL Ratio	1.3%	1.2%	1.3%	1.3%
NPL Coverage	127%	147%	162%	173%
Risk Cost	0.7%	0.4%	0.4%	0.4%
Capital Adequacy	13.7%	14.7%	15.3%	15.5%
Shareholders' Equity-to-Assets	13%	15%	15%	15%
Cost-to-Income	27.1%	28.6%	29.5%	29.0%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

Banque Saudi Fransi (BSF) is Saudi Arabia's sixth largest bank with a 9% market share of assets. Although corporate-sector focused, BSF is successfully increasing its focus on the retail sector with the bank's consumer loans increasing by around 30% in FY2010. This has already supported BSF's net interest margin. The continual expected increase in the retail business will further support BSF's NIM, and we believe this will be one of the major drivers of profitability going forward. We like BSF's asset quality, which, although weakened, is still one of the best in Saudi Arabia, and we believe the bank will continue to exhibit better asset quality indicators than its peers. Moreover, we believe BSF will continue to outperform its Saudi peers in terms of cost efficiency, boasting an expected CIR of 29.5% in FY2011. We like the fact that BSF is 31% owned by Credit Agricole Corporate and Investment Bank. We believe this association has value for BSF, especially in terms of management expertise, access to Credit Agricole's know-how, and support in case of need.

Valuation

Our fair value for BSF stands at SAR 55.30 per share, 13% higher than the last closing price; hence, our recommendation on BSF is "Accumulate." BSF's share price has outperformed, increasing by 10% in 2010 and by an additional 10% YTD, but we still see room for the share price to increase. BSF is trading at a P/E of 12.7x, a slight discount to the peers' average of 13.9x. We assume a 13% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 40% in our forecast horizon. We believe the major upside risk is a better-than-forecasted NIM. The key downside risk, we believe, is lower-than-expected consumer lending growth.

Summary Financial Statements

SAR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	78,315	80,977	86,031	93,147
Customer Deposits	91,237	93,529	101,782	110,422
Total Shareholders' Equity	15,733	18,004	19,818	21,965
Total Assets	120,572	123,218	132,190	143,814

SAR Millions	2009A	2010A	2011F	2012F
Net Interest Income	3,050	3,066	3,157	3,539
Fee and Commission Income	840	887	973	1,069
Other Operating Income	377	446	467	525
Operating Income	**4,267**	**4,399**	**4,597**	**5,132**
Total Costs	(1,158)	(1,259)	(1,358)	(1,490)
Provisions for Credit Losses	(575)	(339)	(333)	(338)
Other Provisions	(67)	-	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	3	(0)	(0)	(0)
Net Profit	**2,471**	**2,801**	**2,907**	**3,304**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Arab National Bank

Fair Value: SAR 36.20
Recommendation: Hold
Risk Level: 2**

Key Data

Fair Value per Share (SAR)	36.20
Closing Price (SAR) *	34.80
Upside/ (Downside)	4%
52-week High / Low (SAR)	35.18 / 26.31
% Below High / % Above Low	-1% / 32%
YTD / 12-month Return	21% / 0%
Trailing P/B	1.9
Market Cap (USD Millions)	8,122
Shares Outstanding (Millions)	850
Average Daily Traded Value (USD Millions)	1.49
Free Float	49%
Reuters / Bloomberg	1080.SE / ARNB AB

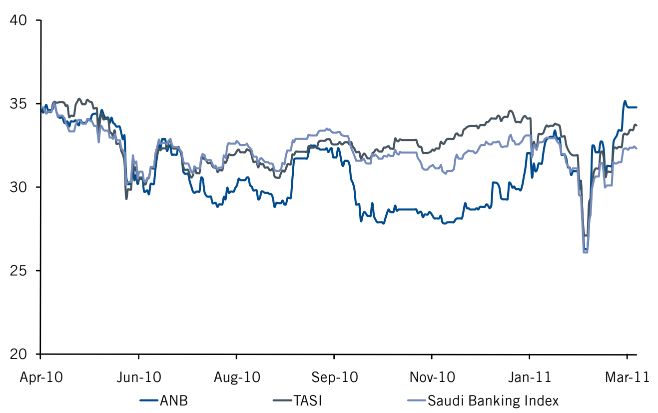
As of April 03, 2011 Sources: Reuters and NBK Capital

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (SAR)	2.8	2.2	2.6	2.9
EPS Growth	-5%	-19%	15%	13%
P/B		1.9	1.8	1.6
P/E		15.5	13.5	11.9
Dividend Yield		2.2%	2.9%	2.9%
Dividend Payout	27%	34%	39%	34%
RoAA	2.0%	1.7%	1.8%	2.0%
RoAE	18%	13%	14%	14%
Net Interest Margin	3.1%	2.9%	2.8%	2.8%
Op. Income (SAR millions)	4,418	4,445	4,439	4,807
Op. Income Growth	9%	1%	0%	8%
Net Profit (SAR millions)	2,370	1,911	2,189	2,484
Net Profit Growth	-5%	-19%	15%	13%
Income before Prov. (SAR millions)	2,820	2,804	2,715	3,006
Income before Prov. Growth	14%	-1%	-3%	11%
Growth in Loans	-10.5%	-0.9%	7.4%	7.7%
Growth in Deposits	-10.9%	1.8%	8.0%	5.6%
Loans-to-Deposits	81%	79%	78%	80%
Loans-to-Assets	61%	57%	59%	59%
NPL Ratio	2.8%	3.0%	3.0%	3.0%
NPL Coverage	76%	108%	124%	137%
Risk Cost	0.6%	1.3%	0.7%	0.7%
Capital Adequacy	16.3%	17.0%	18.2%	18.6%
Shareholders' Equity-to-Assets	13%	13%	14%	14%
Cost-to-Income	36.2%	37.0%	38.9%	37.4%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

Arab National Bank (ANB) is Saudi Arabia's seventh largest bank with an 8% market share of assets. ANB is 40% owned by Jordan's Arab Bank, and has a wide distribution network of 139 branches. ANB has the highest share of consumer loans in its loan book among the covered banks in Saudi Arabia, and hence, the bank's NIM tends to be higher than its peers. ANB's 40% stake in a mortgage provider has yet to have a material effect on the bank's results. However, we believe this is likely to be value-accretive in the long run as the mortgage business in Saudi Arabia is underpenetrated to a large extent and has significant potential for growth. ANB overhauled its branch network a few years ago for the sake of improving productivity and profitability; however, this improvement has yet to be reflected in the financial results. In fact, ANB has room to improve efficiency as the bank has a higher CIR than its peers, and we do expect a slight drop in that ratio going forward. We expect provisioning to drop in 2011 but to remain relatively high in order to further improve the NPL coverage ratio. However, ANB has a comfortable CAR of 17%, facilitating loan growth going forward.

Valuation

Our fair value for ANB stands at SAR 36.20 per share, 4% higher than the last closing price; hence, our recommendation on ANB is "Hold." ANB's share price increased by 21% YTD, the second-highest increase among our covered banks. This followed an 11% decrease in 2010, the largest decline among our covered banks. We believe the underperformance in terms of balance sheet growth and profitability as well as concerns about asset quality caused the drop in the share price in 2010. We assume a 13% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 34% in the forecast horizon. We believe the major upside risk is a better-than-forecasted NIM. The key downside risk, we believe, is higher-than-expected provisioning.

Summary Financial Statements

SAR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	66,811	66,203	71,103	76,545
Customer Deposits	82,680	84,199	90,900	95,947
Total Shareholders' Equity	14,369	15,291	16,830	18,464
Total Assets	110,297	116,035	121,091	129,178

SAR Millions	2009A	2010A	2011F	2012F
Net Interest Income	3,456	3,158	3,174	3,459
Fee and Commission Income	563	545	607	670
Other Operating Income	399	743	657	678
Operating Income	**4,418**	**4,445**	**4,439**	**4,807**
Total Costs	(1,601)	(1,644)	(1,725)	(1,800)
Provisions for Credit Losses	(450)	(893)	(525)	(522)
Other Provisions	-	-	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	3	4	1	(1)
Net Profit	**2,370**	**1,911**	**2,189**	**2,484**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Qatar National Bank

Fair Value: QR 142.00
Recommendation: Hold
Risk Level: 2**

Key Data

Fair Value per Share (QR)	142.00
Closing Price (QR) *	137.70
Upside/ (Downside)	3%
52-week High / Low (QR)	155.38 / 97.85
% Below High / % Above Low	-11% / 41%
YTD / 12-month Return	-3% / 32%
Trailing P/B	2.9
Market Cap (USD Millions)	19,241
Shares Outstanding (Millions)	508.89
Average Daily Traded Value (USD Millions)	5.46
Free Float	50%
Reuters / Bloomberg	QNBK.QA / QNBK QD

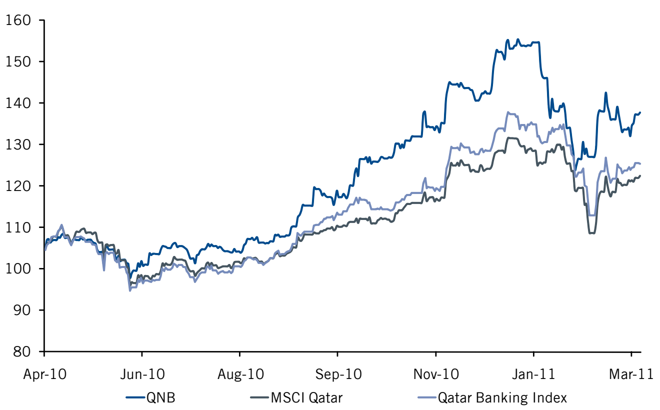
As of April 03, 2011 Sources: Reuters and NBK Capital

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (QR)	8.3	11.2	12.1	12.6
EPS Growth	13%	36%	8%	4%
P/B		2.9	2.0	1.7
P/E		12.3	12.0	10.3
Dividend Yield		2.8%	2.8%	3.4%
Dividend Payout	29%	34%	33%	35%
RoAA	2.5%	2.8%	2.8%	2.8%
RoAE	23%	26%	21%	18%
Net Interest Margin	2.3%	2.9%	2.9%	2.9%
Op. Income (QR millions)	5,657	7,609	9,149	10,543
Op. Income Growth	11%	35%	20%	15%
Net Profit (QR millions)	4,202	5,704	6,919	8,030
Net Profit Growth	15%	36%	21%	16%
Income before Prov. (QR millions)	4,561	6,304	7,571	8,704
Income before Prov. Growth	13%	38%	20%	15%
Growth in Loans	8.7%	21.1%	17.5%	14.0%
Growth in Deposits	20.7%	31.5%	17.6%	13.5%
Loans-to-Deposits	86%	80%	80%	80%
Loans-to-Assets	61%	59%	58%	58%
NPL Ratio	0.8%	1.0%	1.3%	1.4%
NPL Coverage	109%	118%	113%	112%
Risk Cost	0.3%	0.4%	0.4%	0.4%
Capital Adequacy	13.2%	15.3%	25.3%	24.5%
Shareholders' Equity-to-Assets	11%	11%	16%	16%
Cost-to-Income	19.6%	17.0%	17.2%	17.3%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

Qatar National Bank (QNB) is Qatar's banking heavyweight with a 42% market share of loans and 54% of deposits. Fundamentally, QNB is one of the strongest banks under coverage. We view QNB as a safe bet on the surging Qatari economy. We believe that QNB will continue to post good financial results, delivering a decent RoAE (forecasted at 21% for FY2011). Expecting ongoing high loan growth, QNB will be conducting a 25% rights issue priced at QR 100 per share in 2Q2011. The QCB's decision to close down the Islamic banking operations of conventional Qatari banks will affect QNB the most as the bank has a sizable Islamic banking business. However, we believe that QNB will be able to transfer a big portion of its Islamic corporate financing book to the bank's conventional business. We believe QNB will be able to maintain solid asset quality with a low, albeit increasing, NPL ratio and an adequate NPL coverage ratio. Although we expect some weakening, we expect QNB to continue to exhibit superb cost efficiency with a much lower CIR than its peers.

Valuation

Our fair value for QNB stands at QR 142 per share, 3% above the last closing price; hence, our recommendation on QNB is "Hold." QNB's share price has increased by 32% in the past 12 months, the largest increase among our covered banks. QNB trades at a P/B of 2.9x, which is at a premium to the bank's Qatari peers. However, QNB's high growth and the rights issue scheduled in 2Q2011 result in a forecasted 2011 P/B of 2.0x. We assume a 13% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 32% in our forecast horizon. Major upside risks are higher-than-expected loan growth and better-than-forecasted net interest margins. Key downside risks include quicker-than-expected weakening in efficiency indicators and an inability to generate added value from the aggressive regional expansion that QNB is implementing.

Summary Financial Statements

QR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	108,783	131,696	154,802	176,403
Customer Deposits	125,872	165,470	194,673	220,997
Total Shareholders' Equity	19,685	24,237	41,921	47,661
Total Assets	179,329	223,382	265,779	302,867

QR Millions	2009A	2010A	2011F	2012F
Net Interest Income	3,726	5,675	6,941	8,057
Fee and Commission Income	968	1,121	1,283	1,433
Other Operating Income	963	813	925	1,053
Operating Income	**5,657**	**7,609**	**9,149**	**10,543**
Total Costs	(1,093)	(1,292)	(1,572)	(1,820)
Provisions for Credit Losses	(281)	(538)	(652)	(674)
Other Provisions	(78)	(62)	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	(17)	(16)	(14)	(19)
Minority Interest	13	2	7	(0)
Net Profit	**4,202**	**5,704**	**6,919**	**8,030**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

The Commercial Bank of Qatar

Fair Value: QR 97.00
Recommendation: Buy
Risk Level: 3**

Key Data

Fair Value per Share (QR)	97.00
Closing Price (QR) *	75.10
Upside/ (Downside)	29%
52-week High / Low (QR)	94.00 / 63.30
% Below High / % Above Low	-20% / 19%
YTD / 12-month Return	-18% / 2%
Trailing P/B	1.5
Market Cap (USD Millions)	5,103
Shares Outstanding (Millions)	247.45
Average Daily Traded Value (USD Millions)	6.17
Free Float	77%
Reuters / Bloomberg	COMB.QA / CBQK QD

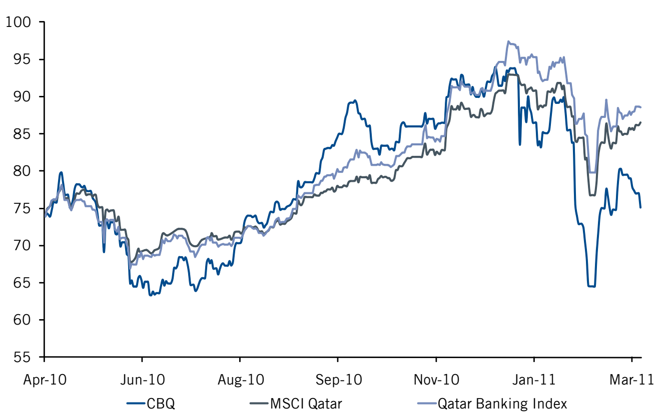
As of April 03, 2011 Sources: Reuters and NBK Capital

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (QR)	7.1	7.2	7.0	7.9
EPS Growth	-19%	2%	-3%	12%
P/B		1.5	1.3	1.3
P/E		11.4	10.9	9.5
Dividend Yield		8.5%	8.0%	8.7%
Dividend Payout	85%	97%	87%	83%
RoAA	2.6%	2.7%	2.7%	2.9%
RoAE	14%	13%	13%	13%
Net Interest Margin	3.1%	3.3%	3.3%	3.4%
Op. Income (QR millions)	2,931	2,717	2,820	3,076
Op. Income Growth	-2%	-7%	4%	9%
Net Profit (QR millions)	1,524	1,635	1,709	1,946
Net Profit Growth	-11%	7%	4%	14%
Income before Prov. (QR millions)	2,171	1,930	1,999	2,185
Income before Prov. Growth	-2%	-11%	4%	9%
Growth in Loans	-5.8%	5.1%	5.6%	11.0%
Growth in Deposits	-18.4%	26.7%	9.1%	14.2%
Loans-to-Deposits	122%	101%	98%	95%
Loans-to-Assets	56%	54%	56%	57%
NPL Ratio	3.6%	3.2%	3.7%	3.7%
NPL Coverage	62%	90%	88%	88%
Risk Cost	1.4%	0.5%	0.5%	0.4%
Capital Adequacy	18.9%	18.5%	21.2%	19.6%
Shareholders' Equity-to-Assets	21%	20%	22%	21%
Cost-to-Income	25.9%	29.0%	29.1%	29.0%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

The Commercial Bank of Qatar (CBQ) is Qatar's second largest bank with an 11% market share of assets. Although private-sector focused, CBQ is successfully increasing its focus on the public sector with the bank's public sector loans increasing by 85% in FY2010. Moreover, CBQ will be the primary beneficiary when private sector corporate lending activity picks up again. CBQ is one of the best capitalized banks in our coverage universe, with an equity-to-assets ratio of 20% and a CAR of 18.5%, providing the bank with ample space to grow without being constrained by capitalization issues. CBQ's capitalization has improved even further with the recent capital injection by the Qatar Investment Authority (QIA), which will result in a forecasted CAR of 21.2% as of December 2011. CBQ is trading at a P/B of 1.5x, lower than the 2.7x for the bank's Qatari peers. We expect CBQ to continue paying rich dividends with an expected dividend payout of 87% for FY2011, reflecting a generous 8% dividend yield. Despite the capital increase, we see a gradual increase in CBQ's RoAE and RoAA going forward. Finally, CBQ is one of the most liquid stocks in our coverage universe with an average daily trading value of USD 6.2 million.

Valuation

Our fair value for CBQ stands at QR 97 per share, offering 29% upside potential, the second-highest in our coverage universe; hence, our recommendation on CBQ is "Buy." CBQ's share price has dropped by 18% YTD, the largest decrease among our covered bank. We assume a 15% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 63% in our forecast horizon. Major upside risks are higher-than-expected loan growth and better-than-forecasted net interest margins. Key downside risks include weaker-than-expected asset quality indicators leading to higher provisioning and continued lackluster fee- and commission-income-generating ability.

Summary Financial Statements

QR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	31,929	33,567	35,448	39,354
Customer Deposits	26,272	33,281	36,308	41,461
Total Shareholders' Equity	12,010	12,500	14,235	14,697
Total Assets	57,317	62,582	63,510	69,146

QR Millions	2009A	2010A	2011F	2012F
Net Interest Income	1,661	1,778	1,900	2,067
Fee and Commission Income	679	526	451	483
Other Operating Income	591	413	469	525
Operating Income	**2,931**	**2,717**	**2,820**	**3,076**
Total Costs	(759)	(787)	(821)	(891)
Provisions for Credit Losses	(461)	(167)	(192)	(164)
Other Provisions	(186)	(128)	(98)	(75)
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	-	-	-	-
Net Profit	**1,524**	**1,635**	**1,709**	**1,946**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Doha Bank

Fair Value: QR 62.00
Recommendation: Accumulate
Risk Level: 4**

Key Data

Fair Value per Share (QR)	62.00
Closing Price (QR) *	57.70
Upside/ (Downside)	7%
52-week High / Low (QR)	66.50 / 43.10
% Below High / % Above Low	-13% / 34%
YTD / 12-month Return	-11% / 14%
Trailing P/B	2.0
Market Cap (USD Millions)	3,275
Shares Outstanding (Millions)	206.70
Average Daily Traded Value (USD Millions)	4.33
Free Float	75%
Reuters / Bloomberg	DHBK.QA / DHBK QD

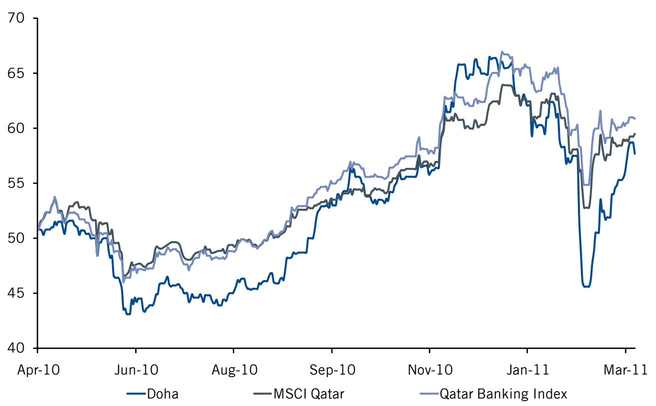
As of April 03, 2011 Sources: Reuters and NBK Capital

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (QR)	5.4	5.6	5.4	5.9
EPS Growth	-7%	3%	-3%	8%
P/B		2.0	1.7	1.7
P/E		11.3	10.3	9.0
Dividend Yield		7.9%	9.5%	9.5%
Dividend Payout	93%	90%	98%	85%
RoAA	2.3%	2.3%	2.4%	2.7%
RoAE	18%	18%	18%	19%
Net Interest Margin	3.0%	3.4%	3.4%	3.4%
Op. Income (QR millions)	2,044	2,096	2,153	2,297
Op. Income Growth	22%	3%	3%	7%
Net Profit (QR millions)	974	1,054	1,160	1,331
Net Profit Growth	3%	8%	10%	15%
Income before Prov. (QR millions)	1,385	1,413	1,394	1,480
Income before Prov. Growth	22%	2%	-1%	6%
Growth in Loans	8.2%	2.5%	1.2%	9.5%
Growth in Deposits	20.0%	10.5%	2.0%	10.5%
Loans-to-Deposits	93%	86%	85%	85%
Loans-to-Assets	56%	56%	56%	56%
NPL Ratio	3.2%	3.9%	4.4%	4.4%
NPL Coverage	84%	92%	98%	100%
Risk Cost	0.5%	1.2%	0.7%	0.5%
Capital Adequacy	14.4%	13.6%	14.9%	14.0%
Shareholders' Equity-to-Assets	13%	13%	15%	14%
Cost-to-Income	32.2%	34.5%	35.2%	35.5%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

Doha Bank (Doha) is the fourth largest bank in Qatar with an 8% market share of assets. Doha is increasing its focus on the fast-growing public sector and deliberately reducing its exposure to the retail sector. Hence, Doha faces interest margin compression as retail is high-yielding, and the public sector is lower yielding than retail and corporate. However, decreasing exposure to retail should be favorable to asset quality as most of the weakening in asset quality has stemmed from the retail business. We believe the drop in provisioning will be the primary driver of net profit growth in FY2011. Among our covered Qatari banks, we believe Doha has been the primary beneficiary of the QIA's recent capital injection as the bank's CAR (13.6%) is lower than its peers. In fact, Doha already had plans for a capital-raising activity sometime in 2011. On the upside, we expect Doha to continue paying high dividends with the dividend yield for 2011 standing at a generous 9.5%. Closing down Doha's Islamic banking business will have a much lower impact on the bank than, for example, on QNB as Doha's Islamic assets represent only 8% of the bank's total assets.

Valuation

Our fair value for Doha stands at QR 62 per share, 7% above the last closing price; hence, our recommendation on Doha is "Accumulate." After a strong rally (+38%) in 2010, Doha's share price has dropped by 13% since its recent high in early January 2011. We assume a 14% target CAR for the DECF valuation. For the DDM, we assume an average dividend payout of 77% in our forecast horizon. Major upside risks are better-than-forecasted net interest margins and a quicker-than-expected improvement in efficiency indicators. Key downside risks include ongoing loss of market share and higher-than-expected weakening in asset quality.

Summary Financial Statements

QR Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	25,896	26,547	26,867	29,423
Customer Deposits	27,890	30,822	31,450	34,741
Total Shareholders' Equity	5,851	6,034	6,985	7,179
Total Assets	45,996	47,230	47,799	52,346

QR Millions	2009A	2010A	2011F	2012F
Net Interest Income	1,241	1,532	1,564	1,656
Fee and Commission Income	412	395	402	439
Other Operating Income	391	169	187	201
Operating Income	**2,044**	**2,096**	**2,153**	**2,297**
Total Costs	(659)	(723)	(757)	(814)
Provisions for Credit Losses	(126)	(312)	(204)	(149)
Other Provisions	(285)	(47)	(30)	-
Other Income/Expenses	-	43	-	-
Income Taxes	(1)	(2)	(2)	(2)
Minority Interest	-	-	-	-
Net Profit	**974**	**1,054**	**1,160**	**1,331**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

National Bank of Abu Dhabi

Fair Value: AED 12.40
Recommendation: Buy
Risk Level: 2**

Key Data

Fair Value per Share (AED)	12.40
Closing Price (AED) *	9.74
Upside/ (Downside)	27%
52-week High / Low (AED)	10.37 / 8.32
% Below High / % Above Low	-6% / 17%
YTD / 12-month Return	-1% / 1%
Trailing P/B	1.2
Market Cap (USD Millions)	7,611
Shares Outstanding (Millions)	2,870.04
Average Daily Traded Value (USD Millions)	0.90
Free Float	30%
Reuters / Bloomberg	NBAD.AD / NBAD DH

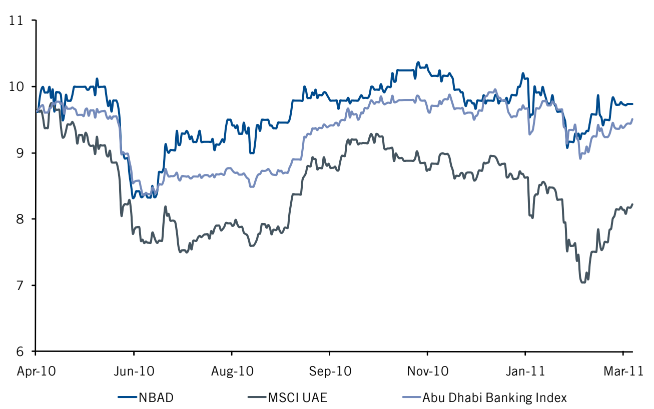
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (AED)	1.1	1.3	1.4	1.6
EPS Growth	-0.7%	22%	7%	16%
P/B		1.2	1.0	0.9
P/E		7.6	7.1	6.1
Dividend Yield		3.0%	3.1%	3.4%
Dividend Payout	7%	19%	22%	21%
RoAA	1.7%	1.8%	1.8%	1.9%
RoAE	17%	17%	15%	16%
Net Interest Margin	2.6%	2.7%	2.7%	2.7%
Op. Income (AED millions)	6,399	7,179	7,759	8,444
Op. Income Growth	21%	12%	8%	9%
Net Profit (AED millions)	3,020	3,683	3,932	4,578
Net Profit Growth	0%	22%	7%	16%
Income before Prov. (AED millions)	4,428	4,890	5,192	5,594
Income before Prov. Growth	19%	10%	6%	8%
Growth in Loans	18.3%	3.5%	7.9%	11.1%
Growth in Deposits	17.1%	1.6%	9.8%	11.0%
Loans-to-Deposits	109%	111%	109%	109%
Loans-to-Assets	67%	65%	64%	65%
NPL Ratio	1.3%	2.3%	3.1%	3.3%
NPL Coverage	158%	113%	103%	101%
Risk Cost	1.1%	0.8%	0.8%	0.6%
Capital Adequacy	17.4%	22.6%	22.8%	22.7%
Shareholders' Equity-to-Assets	10%	11%	12%	12%
Cost-to-Income	29.7%	30.5%	31.6%	32.1%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

National Bank of Abu Dhabi (NBAD) is the UAE's second largest bank with a 13% market share of assets. We believe NBAD is a well-managed bank with a conservative risk-taking appetite. NBAD derives a large benefit from its close ties with the Government of Abu Dhabi, which owns a 70.5% stake in the bank. With a strong focus on public sector lending, NBAD is well positioned to take advantage of increased government spending in the UAE. Moreover, NBAD has a meaningful presence abroad, and the bank is carrying on its aggressive expansionary strategy. Furthermore, NBAD's very high CAR (22.6%) places the bank in a comfortable position to grow without being constrained by capitalization issues. However, we caution against the rapid NPL formation in the past three quarters, which pushed the NPL ratio up to 2.3% and dropped the NPL coverage to 113%. We still see an increase in the NPL ratio going forward, but in our view, high provisioning will safeguard NPL coverage above 100%. NBAD's stock suffers from low liquidity, with an average daily traded value of USD 0.9 million. We expect NBAD to post 8% growth in operating income in FY2011 and similar net profit growth (7%) as provisioning remains high (risk cost of 0.8% for FY2011) before higher growth occurs in 2012.

Valuation

With a fair value of AED 12.40 per share, NBAD provides an upside potential of 27%; hence, our recommendation on NBAD is "Buy." NBAD is trading at a small premium with a P/B of 1.2x, higher than the 0.8x for its UAE peers, justified, we believe, by the bank's strong brand recognition, relationship with the Abu Dhabi government, and conservative nature. We assume a 14.5% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 25% over our forecast horizon. We believe the key upside risk is higher-than-expected NIM and lower-than-forecasted provisioning. Key downside risks are lower-than-forecasted loan growth and higher-than-expected cost growth driven by NBAD's ongoing expansion plans.

Summary Financial Statements

AED Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	132,258	136,833	147,600	163,929
Customer Deposits	121,205	123,131	135,239	150,097
Total Shareholders' Equity	20,441	24,113	27,328	31,045
Total Assets	196,807	211,427	229,332	251,008

AED Millions	2009A	2010A	2011F	2012F
Net Interest Income	4,571	5,249	5,721	6,249
Fee and Commission Income	1,136	1,262	1,390	1,563
Other Operating Income	692	668	648	632
Operating Income	**6,399**	**7,179**	**7,759**	**8,444**
Total Costs	(1,898)	(2,186)	(2,449)	(2,714)
Provisions for Credit Losses	(1,336)	(1,114)	(1,167)	(923)
Other Provisions	(72)	(93)	(93)	(93)
Other Income/Expenses	-	-	-	-
Income Taxes	(73)	(103)	(118)	(136)
Minority Interest	-	-		
Net Profit	**3,020**	**3,683**	**3,932**	**4,578**

Sources: Company's financial statements and NBK Capital

Abu Dhabi Commercial Bank

Fair Value: AED 2.40
Recommendation: Hold
Risk Level: 4**

Key Data

Fair Value per Share (AED)	2.40
Closing Price (AED) *	2.52
Upside/ (Downside)	-5%
52-week High / Low (AED)	2.52 / 1.51
% Below High / % Above Low	0% / 67%
YTD / 12-month Return	22% / 21%
Trailing P/B	0.6
Market Cap (USD Millions)	3,300
Shares Outstanding (Millions)	4,810
Average Daily Traded Value (USD Millions)	0.79
Free Float	35%
Reuters / Bloomberg	ADCB.AD / ADCB DH

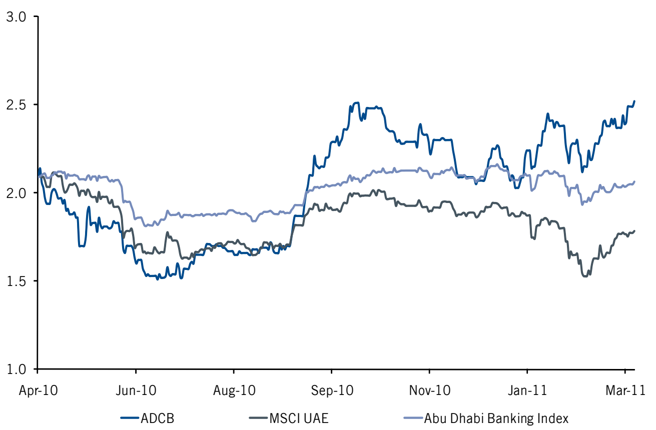
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (AED)	(0.1)	0.1	0.2	0.3
EPS Growth	N/A	N/A	177%	56%
P/B		0.6	0.6	0.5
P/E		31.8	10.3	6.3
Dividend Yield		0.0%	2.3%	3.7%
Dividend Payout	0%	0%	24%	23%
RoAA	-0.4%	0.2%	0.6%	1.0%
RoAE	-3%	2%	6%	9%
Net Interest Margin	2.4%	2.5%	2.5%	2.6%
Op. Income (AED millions)	4,783	5,336	5,810	6,431
Op. Income Growth	9%	12%	9%	11%
Net Profit (AED millions)	(559)	381	1,172	1,914
Net Profit Growth	N/A	N/A	208%	63%
Income before Prov. (AED millions)	3,194	3,668	4,004	4,434
Income before Prov. Growth	17%	15%	9%	11%
Growth in Loans	6.9%	5.3%	6.0%	7.1%
Growth in Deposits	2.3%	23.0%	9.2%	9.7%
Loans-to-Deposits	135%	116%	112%	110%
Loans-to-Assets	73%	69%	68%	68%
NPL Ratio	5.2%	5.8%	7.4%	8.0%
NPL Coverage	68%	84%	87%	94%
Risk Cost	2.6%	2.3%	2.0%	1.7%
Capital Adequacy	17.4%	16.7%	17.1%	16.7%
Shareholders' Equity-to-Assets	12%	11%	11%	11%
Cost-to-Income	32.2%	30.9%	30.7%	30.6%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

Abu Dhabi Commercial Bank (ADCB) is the third largest bank in the UAE with an 11% market share of total assets. We continue to find relief in the fact that ADCB is 64.8% owned by the Abu Dhabi government, which we believe will not hesitate to support the Abu Dhabi banks, if there is any need. Moreover, since ADCB was hit on many fronts during the financial crisis, we believe the bank is now taking a more conservative approach with a stronger focus on the UAE. However, we remain cautious about the bank's asset quality. We expect deposit growth to outpace loan growth, as in recent quarters, in an effort to bring down the bank's high LDR (116%). The planned sale of ADCB's 25% stake in RHB Capital will support ADCB's CAR, which is lower than its UAE peers. Furthermore, we expect ADCB to witness high growth in net profit in the next two years from the very low net profit achieved in 2010 as provisioning starts to decrease. On the downside, ADCB's stock suffers from low liquidity, with an average daily traded value of USD 0.79 million.

Valuation

Our fair value for ADCB stands at AED 2.40 per share, 5% below the last closing price; hence, our recommendation on ADCB is "Hold." Despite a 33% rally in the share price in 2010 and a further 22% YTD, ADCB is still the cheapest bank in our coverage universe, trading at a P/B ratio of 0.6x. We believe that the fear about the bank's weakening asset quality is more than adequately priced-in. We assume a 14.5% target CAR for the DECF model. ADCB's cost of equity is the highest among the covered banks due to the bank's high-risk profile. For the DDM, we assume an average dividend payout of 24% over our forecast horizon. We believe the key upside risks are stronger-than-expected loan growth and a higher-than-forecasted net interest margin. Key downside risks include greater-than-expected weakening in asset quality resulting in higher provisioning, and further impairment losses from the bank's credit default swaps (CDS) portfolio.

Summary Financial Statements

AED Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	116,610	122,772	130,170	139,456
Customer Deposits	86,300	106,134	115,911	127,133
Total Shareholders' Equity	19,021	19,565	20,736	22,371
Total Assets	160,209	178,271	190,434	204,554

AED Millions	2009A	2010A	2011F	2012F
Net Interest Income	3,276	3,682	4,020	4,441
Fee and Commission Income	986	956	1,024	1,144
Other Operating Income	521	697	767	846
Operating Income	**4,783**	**5,336**	**5,810**	**6,431**
Total Costs	(1,539)	(1,649)	(1,782)	(1,968)
Provisions for Credit Losses	(2,968)	(2,860)	(2,632)	(2,408)
Other Provisions	(785)	(427)	(201)	(112)
Other Income/Expenses	-	-	-	-
Income Taxes	(3)	(9)	(11)	(12)
Minority Interest	(47)	(10)	(13)	(17)
Net Profit	**(559)**	**381**	**1,172**	**1,914**

Sources: Company's financial statements and NBK Capital

First Gulf Bank

Fair Value: AED 18.80
Recommendation: Accumulate
Risk Level: 4**

Key Data

Fair Value per Share (AED)	18.80
Closing Price (AED) *	16.30
Upside/ (Downside)	15%
52-week High / Low (AED)	18.52 / 13.00
% Below High / % Above Low	-12% / 25%
YTD / 12-month Return	-6% / -5%
Trailing P/B	1.0
Market Cap (USD Millions)	6,657
Shares Outstanding (Millions)	1,500
Average Daily Traded Value (USD Millions)	2.69
Free Float	26%
Reuters / Bloomberg	FGB.AD / FGB DH

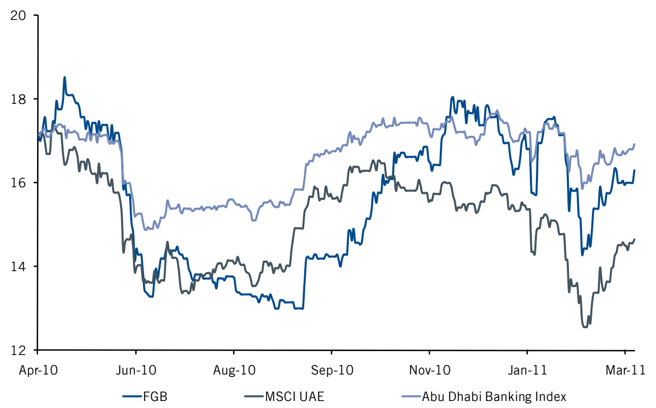
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (AED)	2.4	2.5	2.6	3.1
EPS Growth	10%	3%	3%	19%
P/B		1.0	0.9	0.8
P/E		7.1	6.5	5.3
Dividend Yield		3.7%	3.7%	3.7%
Dividend Payout	20%	23%	24%	20%
RoAA	2.8%	2.6%	2.6%	2.9%
RoAE	17%	15%	15%	16%
Net Interest Margin	3.6%	3.5%	3.5%	3.6%
Op. Income (AED millions)	6,164	6,305	6,777	7,478
Op. Income Growth	31%	2%	7%	10%
Net Profit (AED millions)	3,310	3,420	3,790	4,582
Net Profit Growth	10%	3%	11%	21%
Income before Prov. (AED millions)	5,081	5,060	5,394	5,918
Income before Prov. Growth	42%	0%	7%	10%
Growth in Loans	13.9%	5.8%	7.7%	9.4%
Growth in Deposits	16.8%	14.3%	10.0%	10.9%
Loans-to-Deposits	105%	97%	95%	94%
Loans-to-Assets	72%	68%	69%	69%
NPL Ratio	1.6%	3.7%	4.2%	4.3%
NPL Coverage	174%	89%	109%	123%
Risk Cost	1.9%	1.7%	1.6%	1.2%
Capital Adequacy	22.3%	22.9%	24.1%	24.4%
Shareholders' Equity-to-Assets	18%	17%	18%	19%
Cost-to-Income	17.5%	17.8%	18.6%	19.2%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

First Gulf Bank (FGB) is one of the fastest-growing banks in the UAE, having transformed itself from a small bank to one of the UAE's largest banks within a short period of time. We believe FGB is a well-managed bank with a clear strategy, in which a focus on profitability is the main pillar. Initially a private-sector focused bank, FGB is increasing its exposure to the public sector, which we believe will put some pressure on interest margins. The bank's active involvement in the real estate market, earnings from which contributed between 10% and 25% of operating income in the past four years, remains a source of concern as the sector has shown few signs of a positive turnaround. We expect FGB to continue to maintain its cost-efficiency advantage over its peers, although we do not believe the current low CIR (18%) is sustainable in the long run. With the strongest CAR among the UAE banks (22.9%), we believe FGB has the ability to capture additional loan market share. We foresee weakening in FGB's asset quality indicators in FY2011 with the NPL ratio reaching 4.2% by the end of 2011. FGB is the most liquid stock among the UAE banks we cover, with an average daily traded value of USD 2.7 million.

Valuation

Our fair value for FGB stands at AED 18.80 per share, 15% above the last closing price; hence, our recommendation on FGB is "Accumulate." FGB's stock price has declined by 6% YTD, underperforming the 1% decline in the Abu Dhabi banking index. Therefore, we believe there is room for the price to increase. We assume a 14.5% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 23% over our forecast horizon. We believe the major upside risk is a better-than-expected NIM. Major downside risks include more-than-expected weakening in asset quality and slower-than-expected loan growth.

Summary Financial Statements

AED Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	90,386	95,628	103,012	112,734
Customer Deposits	86,422	98,742	108,621	120,462
Total Shareholders' Equity	22,518	24,126	27,136	30,818
Total Assets	125,473	140,758	149,448	163,796

AED Millions	2009A	2010A	2011F	2012F
Net Interest Income	3,834	4,257	4,685	5,154
Fee and Commission Income	1,207	1,487	1,581	1,754
Other Operating Income	1,123	561	511	570
Operating Income	**6,164**	**6,305**	**6,777**	**7,478**
Total Costs	(1,081)	(1,122)	(1,259)	(1,436)
Provisions for Credit Losses	(1,680)	(1,639)	(1,604)	(1,336)
Other Provisions	(90)	-	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	-	-	-	-
Minority Interest	(3)	(124)	(124)	(124)
Net Profit	**3,310**	**3,420**	**3,790**	**4,582**

Sources: Company's financial statements and NBK Capital

Union National Bank

Fair Value: AED 3.80
Recommendation: Buy
Risk Level: 3**

Key Data

Fair Value per Share (AED)	3.80
Closing Price (AED) *	2.91
Upside/ (Downside)	31%
52-week High / Low (AED)	3.3 / 2.56
% Below High / % Above Low	-12% / 14%
YTD / 12-month Return	2% / 2%
Trailing P/B	0.6
Market Cap (USD Millions)	1,977
Shares Outstanding (Millions)	2,495.63
Average Daily Traded Value (USD Millions)	0.48
Free Float	40%
Reuters / Bloomberg	UNB.AD / UNB DH

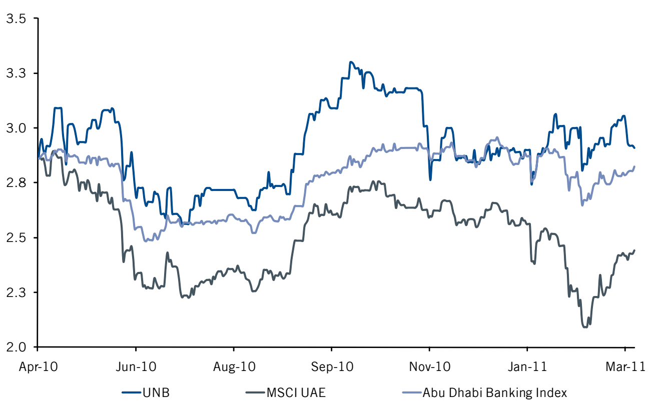
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (AED)	0.5	0.5	0.7	0.8
EPS Growth	-17%	17%	21%	15%
P/B		0.6	0.5	0.5
P/E		5.3	4.4	3.8
Dividend Yield		3.0%	3.4%	3.8%
Dividend Payout	0%	17%	15%	14%
RoAA	1.6%	1.7%	1.9%	2.0%
RoAE	13%	12%	13%	14%
Net Interest Margin	2.4%	2.6%	2.5%	2.6%
Op. Income (AED millions)	2,118	2,555	2,855	3,120
Op. Income Growth	-8%	21%	12%	9%
Net Profit (AED millions)	1,160	1,359	1,651	1,898
Net Profit Growth	-17%	17%	21%	15%
Income before Prov. (AED millions)	1,449	1,841	2,057	2,224
Income before Prov. Growth	-10%	27%	12%	8%
Growth in Loans	0.7%	11.4%	8.4%	9.0%
Growth in Deposits	3.7%	13.0%	9.1%	9.6%
Loans-to-Deposits	99%	98%	97%	96%
Loans-to-Assets	67%	69%	69%	69%
NPL Ratio	1.5%	1.4%	1.5%	1.6%
NPL Coverage	102%	146%	164%	174%
Risk Cost	0.5%	0.9%	0.7%	0.5%
Capital Adequacy	20.7%	20.1%	20.9%	21.1%
Shareholders' Equity-to-Assets	14%	14%	15%	15%
Cost-to-Income	30.6%	28.0%	27.4%	28.2%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

Investment Thesis

Union National Bank (UNB) is a mid-sized UAE bank with a 5% market share of assets. UNB is 50% owned by the Government of Abu Dhabi, and 10% owned by the Government of Dubai. In an effort to improve margins, UNB has successfully increased its focus on private sector lending. UNB was the most conservative among our covered banks in the UAE during the financial crisis, restricting loan growth until recent quarters. We expect the bank to maintain its conservative strategy going forward. The bank is well-capitalized (20.1%), allowing it to expand loans without restraint going forward. UNB's liquidity position is also good (LDR at 98%, liquid assets-to-total assets at 21%). UNB has upheld its solid asset quality throughout the crisis period, which we expect to be the case going forward, as UNB maintains the lowest NPL ratio and highest NPL coverage (well above 100%) among the UAE banks we cover. After UNB considerably surpassed its peers in FY2010, we expect UNB's operating income growth to normalize in FY2011 to 12%, resulting in 21% net profit growth as provisioning starts to decline. However, UNB is one of the least liquid stocks in our coverage universe, with an average daily traded value of USD 0.48 million.

Valuation

Our fair value for UNB stands at AED 3.80 per share, 31% higher than the last closing price; hence, our recommendation on UNB is "Buy." We believe there is considerable potential given that UNB's P/B is the lowest in the coverage universe at 0.6x, versus a P/B of 1.0x for its UAE peers. We assume a 14.5% target CAR for the DECF model. For the DDM, we assume an average dividend payout of 19% over our forecast horizon. Key upside risks are a better-than-expected NIM and faster-than-forecasted loan growth. The key downside risk, we believe, is weaker-than-expected asset quality leading to higher provisioning.

Summary Financial Statements

AED Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	50,769	56,573	61,329	66,829
Customer Deposits	51,279	57,941	63,215	69,253
Total Shareholders' Equity	10,504	11,781	13,205	14,853
Total Assets	75,726	81,780	88,907	96,796

AED Millions	2009A	2010A	2011F	2012F
Net Interest Income	1,648	1,951	2,109	2,298
Fee and Commission Income	445	560	611	678
Other Operating Income	26	44	135	144
Operating Income	**2,118**	**2,555**	**2,855**	**3,120**
Total Costs	(649)	(715)	(782)	(879)
Provisions for Credit Losses	(277)	(467)	(406)	(327)
Other Provisions	(12)	(16)	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	(24)	(7)	(6)	(5)
Minority Interest	3	9	(10)	(12)
Net Profit	**1,160**	**1,359**	**1,651**	**1,898**

Sources: Company's financial statements and NBK Capital

Bank Muscat

Fair Value: RO 0.760
Recommendation: Accumulate
Risk Level: 3**

Key Data

Fair Value per Share (RO)	0.760
Closing Price (RO) *	0.722
Upside/ (Downside)	5%
52-week High / Low (RO)	0.900 / 0.650
% Below High / % Above Low	-19% / 11%
YTD / 12-month Return	-14% / -2%
Trailing P/B	1.4
Market Cap (USD Millions)	2,906
Shares Outstanding (Millions)	1,548.38
Average Daily Traded Value (USD Millions)	2.25
Free Float	27%
Reuters / Bloomberg	BMAO.OM / BKMB OM

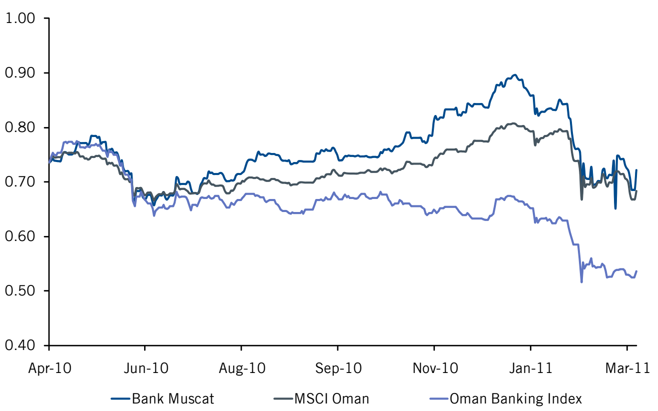
**As of April 03, 2011 Sources: Reuters and NBK Capital*

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (RO)	0.05	0.07	0.07	0.08
EPS Growth	-21%	38%	3%	17%
P/B		1.4	1.2	1.1
P/E		11.0	10.7	9.1
Dividend Yield		3.0%	3.5%	4.2%
Dividend Payout	29%	33%	37%	38%
RoAA	1.2%	1.7%	1.7%	1.9%
RoAE	10%	13%	12%	13%
Net Interest Margin	3.1%	3.4%	3.4%	3.4%
Op. Income (RO millions)	227	253	263	290
Op. Income Growth	-3%	11%	4%	10%
Net Profit (RO millions)	74	102	105	123
Net Profit Growth	-21%	38%	3%	17%
Income before Prov. (RO millions)	164	134	134	147
Income before Prov. Growth	36%	-18%	0%	10%
Growth in Loans	3.0%	4.4%	7.0%	8.7%
Growth in Deposits	-3.3%	14.9%	9.0%	9.5%
Loans-to-Deposits	125%	114%	112%	111%
Loans-to-Assets	66%	68%	68%	67%
NPL Ratio	4.3%	3.5%	3.9%	4.0%
NPL Coverage	107%	107%	106%	109%
Risk Cost	2.2%	0.8%	0.7%	0.5%
Capital Adequacy	15.2%	15.4%	16.2%	15.0%
Shareholders' Equity-to-Assets	12%	14%	14%	14%
Cost-to-Income	36.1%	40.7%	42.5%	42.3%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

Bank Muscat is Oman's heavyweight with a 37% market share of assets. Bank Muscat boasts the largest branch network (127) in Oman, providing the bank with a strong presence in the country. Yet Bank Muscat has been able to maintain better cost efficiency than most of the bank's Omani peers, which we believe will be the case going forward. The "clean-up" of the balance sheet in 2009 and 2010 has put Bank Muscat in a much stronger position to be able to post good results in FY2011. On the downside, high provisioning at BMI Bank, Bank Muscat's subsidiary in Bahrain, has been a drag on profitability, and we remain cautious about BMI Bank's performance going forward. Bank Muscat's efforts to diversify its funding base are visible through the completion of the CD issuance program and the renewal of the USD 800 million Euro Medium Term Notes (EMTN) program. We believe this will provide Bank Muscat more room for loan growth, given that the bank's LDR of 114% stands above the sector's average of 102%. Bank Muscat is one of the most liquid stocks in Oman, with a daily average traded value of USD 2.2 million.

Valuation

Our fair value for Bank Muscat stands at RO 0.760 per share, 5% above the last closing price; hence, our recommendation on Bank Muscat is "Accumulate." Bank Muscat's share price has declined by 19% since its recent high in mid-January 2011. We assume a target CAR of 14% for the DECF model. For the DDM, we assume an average dividend payout of 37% in our forecast horizon. We believe the major upside risk is better-than-expected loan growth. Key downside risks include weakening in asset quality resulting in higher-than-forecasted provisioning, and continued losses from BMI Bank in Bahrain.

Summary Financial Statements

RO Millions	2009A	2010A	2011F	2012F
Net Loans and Advances	3,838	4,008	4,288	4,660
Customer Deposits	3,068	3,527	3,844	4,210
Total Shareholders' Equity	711	796	901	985
Total Assets	5,851	5,851	6,343	6,914

RO Millions	2009A	2010A	2011F	2012F
Net Interest Income	174	187	194	210
Fee and Commission Income	50	52	54	58
Other Operating Income	3	14	15	22
Operating Income	**227**	**253**	**263**	**290**
Total Costs	(82)	(103)	(112)	(123)
Provisions for Credit Losses	(88)	(33)	(29)	(24)
Other Provisions	(3)	1	-	-
Other Income/Expenses	33	-	-	-
Income Taxes	(14)	(16)	(17)	(21)
Minority Interest	0	-	-	-
Net Profit	**74**	**102**	**105**	**123**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

National Bank of Oman

Fair Value: RO 0.340
Recommendation: Hold
Risk Level: 4**

Key Data

Fair Value per Share (RO)	0.340
Closing Price (RO) *	0.328
Upside/ (Downside)	4%
52-week High / Low (RO)	0.370 / 0.302
% Below High / % Above Low	-11% / 9%
YTD / 12-month Return	-7% / 0%
Trailing P/B	1.3
Market Cap (USD Millions)	922
Shares Outstanding (Millions)	1,081
Average Daily Traded Value (USD Millions)	0.46
Free Float	18%
Reuters / Bloomberg	NBO.OM / NBOB OM

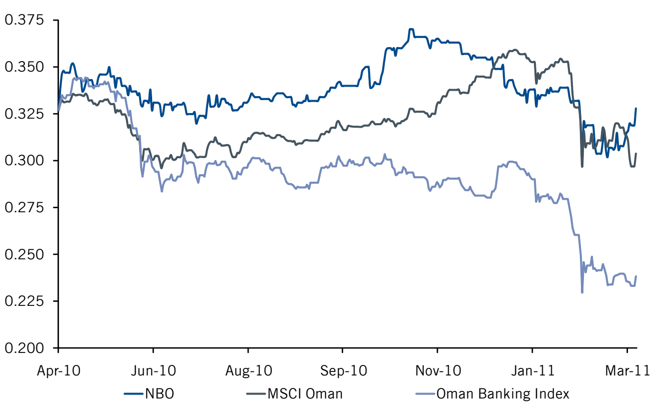
As of April 03, 2011 Sources: Reuters and NBK Capital

Key Ratios and Metrics

	2009A	2010A	2011F	2012F
EPS (RO)	0.02	0.03	0.03	0.03
EPS Growth	-56%	29%	7%	11%
P/B		1.3	1.3	1.2
P/E		13.0	12.2	11.0
Dividend Yield		4.6%	4.3%	5.1%
Dividend Payout	61%	60%	53%	56%
RoAA	1.1%	1.5%	1.6%	1.6%
RoAE	9%	11%	11%	11%
Net Interest Margin	3.1%	3.2%	3.2%	3.2%
Op. Income (RO millions)	82	78	82	87
Op. Income Growth	-7%	-5%	5%	6%
Net Profit (RO millions)	21	27	29	32
Net Profit Growth	-56%	29%	7%	11%
Income before Prov. (RO millions)	43	35	35	37
Income before Prov. Growth	-14%	-19%	0%	4%
Growth in Loans	-2.9%	0.2%	5.2%	6.9%
Growth in Deposits	-6.0%	5.1%	6.7%	7.9%
Loans-to-Deposits	108%	103%	101%	101%
Loans-to-Assets	76%	76%	75%	75%
NPL Ratio	4.3%	3.5%	3.5%	3.4%
NPL Coverage	94%	115%	122%	124%
Risk Cost	0.7%	0.5%	0.4%	0.3%
Capital Adequacy	16.6%	15.5%	16.6%	16.5%
Shareholders' Equity-to-Assets	14%	15%	15%	14%
Cost-to-Income	42.5%	51.1%	52.5%	52.7%

Sources: Company's financial statements and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Investment Thesis

National Bank of Oman (NBO) is Oman's second largest bank with a 12% market share of assets. NBO's alliance with the Commercial Bank of Qatar (CBQ), which owns a 35% stake in the bank, has proven beneficial with better risk management procedures and an improvement in asset quality. However, the management contract held with CBQ since July 2005 has not been renewed in 2011. We are concerned about growth in personal lending at NBO, which can grow, at best, in line with the corporate book. Furthermore, NBO's small balance sheet restrains the bank from participating in large-scale corporate projects. We believe NBO requires stability in senior management in order to be able to implement a long-term growth strategy, which has been difficult given the bank's history of frequent changes in senior management. We expect NBO to safeguard net interest margins and improve cost-efficiency, as the bank has the highest CIR in our coverage universe. We believe the decline in provisioning will be the key driver of net profit growth for NBO going forward. We expect NBO to continue paying rich dividends with a forecasted dividend yield of 4.3% for FY2011. However, NBO's stock suffers from low liquidity, with an average daily traded value of USD 0.46 million, the lowest in our coverage universe.

Valuation

Our fair value for NBO stands at RO 0.340 per share, 4% above the last closing price; hence, our recommendation on NBO is "Hold." NBO's stock price has declined by 7% YTD, slightly lower than the 8% decline in the Omani index. We assume a target CAR of 14.5% for the DECF model. For the DDM, we assume an average dividend payout of 53% in our forecast horizon. We believe the major upside risk is higher-than-expected loan growth. We believe the key downside risks include weakening in asset quality resulting in higher-than-forecasted provisioning, and a slower-than-forecasted improvement in cost efficiency.

Summary Financial Statements

	2009A	2010A	2011F	2012F
Net Loans and Advances	1,361	1,363	1,435	1,534
Customer Deposits	1,261	1,325	1,414	1,525
Total Shareholders' Equity	250	266	279	295
Total Assets	1,798	1,805	1,913	2,057

RO Millions	2009A	2010A	2011F	2012F
Net Interest Income	57	56	58	61
Fee and Commission Income	18	16	17	18
Other Operating Income	7	6	7	7
Operating Income	**82**	**78**	**82**	**87**
Total Costs	(35)	(40)	(43)	(46)
Provisions for Credit Losses	(10)	(8)	(6)	(5)
Other Provisions	(12)	(0)	-	-
Other Income/Expenses	-	-	-	-
Income Taxes	(4)	(3)	(4)	(5)
Minority Interest	-	-	-	-
Net Profit	**21**	**27**	**29**	**32**

Sources: Company's financial statements and NBK Capital

***Please refer to page 19 for recommendations and risk ratings.*

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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