

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED 30 JUNE 2007

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Chairman's Report

Dear Shareholders,

I am glad to share with you the results achieved by the Bank during the first half of the year 2007.

The Bank achieved a net profit of RO 40.2 million for the half year ended June 30, 2007 as against a net profit of RO 28 million reported during the same period in 2006, thus recording an impressive growth of 43.6%.

Net interest income increased by 28.9% to RO 59.3 million during the first half of 2007 from RO 46 million reported during the corresponding period in 2006, mainly driven by asset growth. Non-interest income has grown by 39.5% to RO 20.8 million for the first half of 2007 as compared to RO 14.9 million of the same period in 2006. Operating expenses have increased by 28.3% in the first half of 2007 as compared to the same period in 2006 mainly due to increase in manpower and other administrative costs as a result of increased business activities and expansion of business lines. However, cost to income ratio reduced to 39.5% during the first half of 2007 as against 40.6% during the first half of 2006.

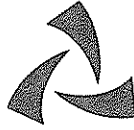
Impairment for credit losses was RO 7.7 million for the first half of 2007 as compared to RO 8.1 million during the corresponding period in 2006. Share of profit from associates have increased from RO 1.9 million in first half 2006 to RO 2.7 million in first half 2007 due to better performance of associates and contribution from Mangal Keshav Holdings, India where the Bank has taken a strategic stake of 43% in April 2007.

The basic earnings per share on an annualized basis works out to 88 baizas for every 100 baiza share of the Bank.

The Bank's net Loans and Advances of RO 2,199 million as of June 30, 2007 has grown by 41.4% as compared to the position as of June 30, 2006. Customer deposits have also seen a similar growth of 41.1% from RO 1,525 million as of June 30, 2006 to RO 2,152 million as of June 30, 2007. Savings deposits have registered an impressive growth of RO 144 million or 37% from RO 389 million as of June 30, 2006 to RO 533 million as of June 30, 2007.

In keeping with the dynamism witnessed in the regional and domestic economy, the key business lines of the Bank continued to turn in an impressive performance during the quarter in question.

The Consumer Banking division continued to reach out to people during the second quarter of the year, which also marked the kick-off of BankMuscat's 25th year anniversary celebrations. On this occasion, the Bank launched a mobile customer convoy that has been travelling around the country meeting people and sharing with them details of our latest product and service offerings. The convoy will be stationed in the Dhofar region right through the Khareef Festival in Salalah.



The Bank's key consumer banking product offerings, the Al Mazyona savings scheme and baituna home finance, continued to gain market share during the period in question. The efforts of the branch management and channel management teams to reach out to people nationwide also continued unabated, with the Bank opening 4 branches, 16 ATMs and 4 CDMs during the quarter.

To provide relief to victims of cyclone Gonu, the Bank's Consumer Banking team launched a number of initiatives in the last month of the quarter. Notable amongst these were a partnership with the Oman Charitable Organization to collect money for His Majesty's Cyclone Victims Relief Fund and the launch of the nation's (and perhaps the GCC region's) first 'zero interest' Al A'awn loans for those affected by the cyclone.

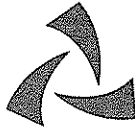
Customer relationships also remained at the heart of Corporate Banking strategy with the Bank supporting corporate houses through special packages for those affected by the Gonu cyclone. In addition, the Bank's emphasis on core areas such as oil and gas, petrochemicals, power & water, real estate and tourism projects continues. The Bank was one of the Mandated Lead Arrangers for the Barka II / Rusail power/water projects which achieved successful syndication as well as the Sur Water project. The Bank is also following developments in the real estate sector and has provided financing for some of the large tourism development projects under construction.

The Bank's Asset Management Division also launched a significant promotion during the period in question under the banner of the Muscat Fund. The Fund, which invests in the Muscat Securities Market, is without a doubt one of the leading stars of the Sultanate's mutual funds industry. This was seen once again in the bullish investor sentiment that the fund witnessed during the promotion in question.

During the period, the Financial Institution group (FIG) successfully played the role of a Mandated Lead Arranger in a USD 120 million 3-year syndicated term loan for BankMuscat International, Bahrain. The syndicated loan met with an extremely strong response from the regional investment community and was oversubscribed by over 60% from the initial loan amount.

The quarter also saw BankMuscat making an attempt to merge its operations with Alliance Housing Bank, the offer for which was subsequently withdrawn on account of the bank in question wanting to consider other possible strategic growth options. The merger proposal and process were noteworthy as it also marked the first time across the region that the management of one organization has chosen to speak directly to the shareholders of another, thanks to the vision of the nation's regulatory bodies. This marks a historic milestone in the history of shareholder empowerment in the Sultanate.

The Bank's international operations continued to strengthen during the quarter with the Bank's interests in India and Bahrain – Centurion Bank of Punjab and BankMuscat International respectively, continuing to rapidly gain market share and mindshare. The Bank's latest acquisition in India – 43% of the Mangal Keshav Group, one of the oldest and most respected securities houses – is also moving ahead with its plans for consolidation and further expansion into the fast-growing market of the Indian subcontinent.

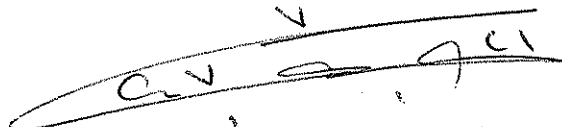


During the 2nd Quarter, the Bank was also declared the 'Best Bank in Oman' by Euromoney in its annual Euromoney Awards for Excellence. This is the 6th time that the Bank has been bestowed this honour. The Bank's premier position in the country was also seconded by BusinessToday in its annual survey of Banks in the Sultanate. The Bank's brokerage unit, the leading brokerage house on the Muscat Securities Market, also once again received the 'Best Brokerage Award' (by trading volume) for the third consecutive year. In addition, BankMuscat's brokerage unit also bagged the first position for Best Organisational Structure, in the Sultanate for the year 2006. The Bank's IT department also successfully completed the BS7799 surveillance assessment and Certification upgrade assessment to ISO 27001 during the quarter. The IT security section has been certified as compliant to ISO/IEC 27001:2005 standards by BSI.

Conscious of its social responsibilities, the Bank decided to make a direct donation of RO 3 million to the Ministry of Social Development (RO 2 million) and the Oman Charitable Organization (RO 1 million) to provide relief to those affected by Cyclone Gonu. The Bank's team of BankMuscat Hearts volunteers were also involved in a number of relief initiatives across the capital region and beyond. These included a blood donation camp, the distribution of drinking water to affected areas, several beach cleaning exercises and a bank-wide collection drive of essential items for those affected in the natural disaster.

The cyclone also proved to be a true test for the Bank's Business Continuity Planning abilities as a number of its branches and ATMs were affected as a result of the surging floodwaters and subsequent power and data connectivity failure. Forward planning and the knowledge of how to prepare and recover from such a crisis helped the bank significantly in its efforts to reach out to all its stakeholders, both within and outside the organization, in those trying times and bounce back to normalcy as soon as possible.

We would also like to take this opportunity once again to thank the national administration for all their efforts to prepare for this disaster and provide relief to those affected by the cyclone. We are confident that under the wise and visionary leadership of His Majesty Sultan Qaboos bin Said, our beloved country will soon bounce back to become even stronger than before.



AbdulMalik bin Abdullah Al-Khalili

Summary of unaudited results as at 30 June 2007

| | 30-Jun-07 | 30-Jun-06 | Change % |
|---|------------------------------------|------------------------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Loans and advances net of provisions and reserved interest | 2,199,052 | 1,555,115 | 41% |
| Deposits | 2,337,923 | 1,707,774 | 37% |
| Net assets | 333,461 | 287,485 | 16% |
| Net assets per share * | 0.364 | 0.345 | 5% |
| | 6 months ended 30 June 2007 | 6 months ended 30 June 2006 | Change % |
| Net interest income | 59,298 | 46,019 | 29% |
| Net profit before tax for the period | 46,562 | 32,931 | 41% |
| Net profit after tax for the period | 40,212 | 28,031 | 43% |
| Basic earnings per share (annualised) ** | 0.088 | 0.067 | 30% |
| Diluted earnings per share (annualised) ** | 0.088 | 0.067 | 30% |
| Capital adequacy ratio *** | 11.37% | 12.64% | -10% |

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 30 June 2007 by 915.56 million number of ordinary shares. (2006 : 832.32 million ordinary shares)

** Basic and Diluted earnings per share is calculated as per International Accounting Standard No : 33.

*** Capital adequacy ratio has been calculated in accordance with the Basle II guidelines.

*Unaudited Profit and loss account
For the six months ended 30 June 2007*

| | Notes | 6 months ended 30 June 2007 | 6 months ended 30 June 2006 | 3 months ended 30 June 2007 | 3 months ended 30 June 2006 |
|--|-------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| Interest income | 1 | 103,710 | 70,081 | 55,377 | 37,160 |
| Interest expense | 2 | (41,982) | (23,052) | (22,764) | (12,797) |
| | | <u>61,728</u> | <u>47,029</u> | <u>32,613</u> | <u>24,363</u> |
| Interest expense on tier II capital | | (2,430) | (1,010) | (1,497) | (19) |
| Net interest income | | <u>59,298</u> | <u>46,019</u> | <u>31,116</u> | <u>24,344</u> |
| Other operating income | 3 | 20,770 | 14,901 | 11,040 | 6,983 |
| OPERATING INCOME | | <u>80,068</u> | <u>60,920</u> | <u>42,156</u> | <u>31,327</u> |
| OPERATING EXPENSES | | | | | |
| Other operating expenses | | (29,840) | (23,156) | (15,880) | (11,897) |
| Depreciation | | (1,826) | (1,551) | (930) | (785) |
| | | <u>(31,666)</u> | <u>(24,707)</u> | <u>(16,810)</u> | <u>(12,682)</u> |
| Impairment for credit losses | 5 | (7,738) | (8,119) | (3,619) | (4,060) |
| Recoveries from impairment for credit losses | 5 | 3,158 | 2,884 | 1,121 | 1,431 |
| Share of profit from associates | 8a | 2,740 | 1,953 | 1,450 | 1,461 |
| | | <u>(33,506)</u> | <u>(27,989)</u> | <u>(17,858)</u> | <u>(13,850)</u> |
| PROFIT BEFORE TAXATION | | <u>46,562</u> | <u>32,931</u> | <u>24,298</u> | <u>17,477</u> |
| Tax expense | | (6,350) | (4,900) | (3,150) | (2,700) |
| NET PROFIT FOR THE PERIOD | | <u>40,212</u> | <u>28,031</u> | <u>21,148</u> | <u>14,777</u> |

*Unaudited Balance sheet
As at 30 June 2007*

| | Notes | 30-Jun-07 RO' 000 | 30-Jun-06 RO' 000 |
|--|--------|----------------------|----------------------|
| ASSETS | | | |
| Cash and balances with Central Banks | | 200,546 | 66,867 |
| Placements with banks | | 555,387 | 404,839 |
| Loans and advances | 4 & 5 | 2,199,052 | 1,555,115 |
| Investments | 8b & c | 261,564 | 188,040 |
| Investment in associates | 8a | 48,594 | 29,919 |
| Property and equipment | | 14,445 | 11,087 |
| Other assets | | 176,074 | 131,233 |
| | | <u>3,455,662</u> | <u>2,387,100</u> |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | |
| LIABILITIES | | | |
| Deposits from banks | | 433,946 | 171,694 |
| Customers' deposits | 6 | 2,152,125 | 1,524,976 |
| Certificates of deposit | | 19,345 | 31,745 |
| Unsecured bonds | | 54,803 | 54,803 |
| Floating rate notes | | 111,650 | 96,250 |
| Other liabilities | | 248,414 | 171,993 |
| Taxation | | 13,418 | 9,654 |
| Subordinated liabilities | | 88,500 | 38,500 |
| | | <u>3,122,201</u> | <u>2,099,615</u> |
| SHAREHOLDERS FUNDS | | | |
| Share capital | | 91,556 | 83,233 |
| Share premium | | 79,490 | 79,490 |
| General reserve | | 56,308 | 24,612 |
| Legal reserve | | 29,186 | 25,222 |
| Revaluation reserve | | 1,215 | 1,215 |
| Subordinated loan reserve | | - | 31,696 |
| Cumulative changes in fair value | 8b | 1,893 | 1,298 |
| Retained profit | | 73,813 | 40,719 |
| | | <u>333,461</u> | <u>287,485</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS | | <u>3,455,662</u> | <u>2,387,100</u> |
| <i>Related party information</i> | | | |
| Due from related parties | | 42,425 | 50,077 |
| Due to related parties | | 25,259 | 19,556 |
| <i>Off-balance sheet items</i> | | | |
| Contingent liabilities | | | |
| - letters of credit | | 413,433 | 133,886 |
| - guarantees | | 496,465 | 322,548 |
| | | <u>909,898</u> | <u>456,434</u> |
| Commitments | | | |
| - forward sales | | 348,019 | 274,029 |
| - forward purchases | | 347,971 | 273,774 |
| Options | | | |
| - Sales | | 66,912 | 33,078 |
| - Purchases | | 66,912 | 33,078 |

Unaudited Statement of cash flow
For the six months ended 30 June 2007

| | 6 months ended 30 June 2007 | 6 months ended 30 June 2006 |
|--|--|-----------------------------------|
| | RO' 000 | RO' 000 |
| Cash flow from operating activities | | |
| Net profit for the period before taxation | 46,562 | 32,931 |
| Adjustments for : | | |
| Depreciation | 1,826 | 1,551 |
| Profit(Loss) on sale of tangible fixed assets | - | (4) |
| Investment income | (2,280) | (1,055) |
| Operating profit before working capital changes | <u>46,108</u> | <u>33,423</u> |
| Change in operating assets* | (456,761) | (358,798) |
| Change in operating liabilities** | 442,207 | 271,158 |
| Net cash from operating activities | <u>31,554</u> | <u>(54,217)</u> |
| Net cash used in financing activities | 20,868 | (27,839) |
| Net cash used in investing activities | (9,497) | (7,829) |
| Net increase in cash and cash equivalents | <u>42,925</u> | <u>(89,885)</u> |
| Cash and cash equivalents brought forward | 298,601 | 296,270 |
| Cash and cash equivalents carried forward | <u><u>341,526</u></u> | <u><u>206,385</u></u> |

* Operating assets includes deposits with central banks, bank placements, loans and advances and other assets.

** Operating liabilities includes customer deposits, deposits from banks and other liabilities.

Unaudited Statement of Changes in Equity
Period ended 30 June 2007

| | Share capital | Share premium | General reserve | Legal reserve | Revaluation reserve | Subordinated loan reserve | Cumulative changes in fair value | Retained profit | Total |
|--|------------------|------------------|--------------------|------------------|------------------------|------------------------------|--|--------------------|----------------|
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| <i>Balance at 31 December 2005</i> | 75,666 | 79,490 | 24,612 | 25,222 | 1,215 | 31,696 | 1,233 | 46,973 | 286,107 |
| Bonus shares issued | 7,567 | | | | | | | (7,567) | - |
| Net profit for the year | | | | | | | | 60,432 | 60,432 |
| Dividend paid - 2005 | | | | | | | | (26,483) | (26,483) |
| Transfer of subordinate loan reserve to general reserve | | | 31,696 | | | (31,696) | | | - |
| Transfer to legal reserve | | | | 2,523 | | | | (2,523) | - |
| Change in fair value of investments available for sale | | | | | | | (181) | | (181) |
| Profit on translation of net investments in associates | | | | | | | | 210 | 210 |
| <i>Balance at 31 December 2006</i> | <i>83,233</i> | <i>79,490</i> | <i>56,308</i> | <i>27,745</i> | <i>1,215</i> | <i>-</i> | <i>1,052</i> | <i>71,042</i> | <i>320,085</i> |
| Bonus shares issued | 8,323 | | | | | | | (8,323) | - |
| Net Profit for the period | | | | | | | | 40,212 | 40,212 |
| Dividends paid - 2006 | | | | | | | | (29,132) | (29,132) |
| Change in fair value of investments available for sale | | | | | | | 841 | | 841 |
| Profit on translation of net investments in associates | | | | | | | | 1,455 | 1,455 |
| Balance at 30 June 2007 | 91,556 | 79,490 | 56,308 | 27,745 | 1,215 | - | 1,893 | 75,254 | 333,461 |

Notes to the Financial Statements as at 30 June 2007
1. Interest Income

Interest bearing assets earned interest at an overall rate of 7.00% for the six months ended 30 June 2007. (2006 : 7.03%).

2. Interest expense

For the six months ended 30 June 2007 the average overall cost of funds was 3.36%. (2006 : 2.70%).

3. Other operating income

| | For the six months ended | | For the quarter ended | |
|--|--------------------------|---------------|-----------------------|--------------|
| | 30-Jun-07 | 30-Jun-06 | 30-Jun-07 | 30-Jun-06 |
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| Foreign Exchange | 2,581 | 1,548 | 1,491 | 864 |
| Commission and fees (net) | 15,687 | 11,638 | 8,410 | 5,706 |
| Dividend income | 1,023 | 688 | 330 | 225 |
| Profit/(loss) on sale of investment securities | 565 | 367 | 427 | (81) |
| Other income | 914 | 660 | 382 | 269 |
| | <u>20,770</u> | <u>14,901</u> | <u>11,040</u> | <u>6,983</u> |

The commission and fees shown above is net off commission and fees paid of RO 121 K. (2006 : RO 76 K.)

4. Loans and advances

Loans and advances is analysed as follows:

| | 30-Jun-07 | 30-Jun-06 |
|---|------------------|------------------|
| | RO' 000 | RO' 000 |
| Corporate and Other lending | 1,406,354 | 945,047 |
| Personal lending | 893,041 | 725,128 |
| Gross loans and advances | <u>2,299,395</u> | <u>1,670,175</u> |
| Less : Provisions and reserved interest | 100,343 | 115,060 |
| Net loans and advances | <u>2,199,052</u> | <u>1,555,115</u> |

Notes to the Financial Statements as at 30 June 2007 (continued)

4. Loans and advances (continued)

The maturity of these is analysed as follows:

| | 30-Jun-07 | 30-Jun-06 |
|------------------|------------------|------------------|
| | RO' 000 | RO' 000 |
| Less than 1 year | 773,485 | 595,150 |
| 1 to 3 years | 317,868 | 228,844 |
| 3 to 5 years | 199,471 | 136,103 |
| Over 5 years | 1,008,571 | 710,078 |
| | <u>2,299,395</u> | <u>1,670,175</u> |

The interest rate band of these are as follows:

| | 30-Jun-07 | 30-Jun-06 |
|---------------|------------------|------------------|
| | RO' 000 | RO' 000 |
| 0-5% | 104,553 | 162,593 |
| 5-7% | 961,299 | 535,864 |
| 7-9% | 1,004,033 | 650,976 |
| 9-11% | 162,862 | 223,062 |
| 11-13% | 47,526 | 83,742 |
| more than 13% | 19,122 | 13,938 |
| | <u>2,299,395</u> | <u>1,670,175</u> |

Notes to the Financial Statements as at 30 June 2007 (continued)
5. Provisions and reserved interest

The movement on the provision for possible credit losses and reserved interest for the period is analysed as follows:

| | Provisions RO' 000 | Reserved Interest RO' 000 |
|--------------------------------------|-----------------------|---------------------------------|
| At 1 January 2007 | 88,290 | 30,236 |
| Provided during the period | 7,738 | - |
| Released/recovered during the period | (3,045) | - |
| Written off during the period | (15,781) | (10,510) |
| Transferred during the period | - | - |
| Interest reserved during the period | - | 4,885 |
| Reserved interest recovered | - | (1,470) |
| At 30 June 2007 | <u>77,202</u> | <u>23,141</u> |
| | Provisions RO' 000 | Reserved Interest RO' 000 |
| At 1 January 2006 | 80,721 | 29,182 |
| Provided during the period | 8,119 | - |
| Released/recovered during the period | (2,784) | - |
| Written off during the period | (1,267) | (1,971) |
| Interest reserved during the period | - | 5,299 |
| Reserved interest recovered | - | (2,239) |
| At 30 June 2006 | <u>84,789</u> | <u>30,271</u> |

Recoveries of RO 3,158 K (June 2006: 2,884 K) reported in the income statement includes RO 113 K (2006: 100 K) recovered from loans written off earlier.

Provisions (excluding general provision) represent 105.50% of impaired loans and advances at 30 June 2007. (2006 : 98.9%)

Interest is reserved on loans and advances which are impaired.

At 30 June 2007 loans and advances on which interest had been reserved amounted to RO 65.64 Million (2006 : RO. 93.9 Million).

* *Specific provisions are established after considering security on a case by case basis in respect of specific loans and advances where recovery appears doubtful.*

** *General Provisions are established to meet the credit risks inherent within the loans and advances portfolio.*

Notes to the Financial Statements as at 30 June 2007 (continued)

6. Deposits

Deposits are analysed as follows:

| | 30-Jun-07 | 30-Jun-06 |
|------------------|------------------|------------------|
| | RO' 000 | RO' 000 |
| Current accounts | 454,685 | 360,771 |
| Call accounts | 150,672 | 216,882 |
| Savings accounts | 533,065 | 389,023 |
| Time deposits | 1,006,242 | 549,988 |
| Other | 7,461 | 8,312 |
| | <u>2,152,125</u> | <u>1,524,976</u> |

The maturities of deposits are as follows

| | 30-Jun-07 | 30-Jun-06 |
|------------------|------------------|------------------|
| | RO' 000 | RO' 000 |
| Less than 1 year | 1,231,155 | 799,561 |
| 1 to 3 years | 463,687 | 310,107 |
| 3 to 5 years | 227,724 | 267,788 |
| Over 5 years | 415,358 | 330,318 |
| | <u>2,337,923</u> | <u>1,707,774</u> |

The interest rate bands of deposits are as follows:

| | 30-Jun-07 | 30-Jun-06 |
|--------------|------------------|------------------|
| | RO' 000 | RO' 000 |
| 0% | 816,746 | 587,427 |
| 0-2% | 138,040 | 418,406 |
| 2-4% | 317,492 | 102,254 |
| 4-6% | 903,415 | 534,598 |
| more than 6% | 162,230 | 65,089 |
| | <u>2,337,923</u> | <u>1,707,774</u> |

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

| <i>Maturities</i> | 30-Jun-07 | | | 30-Jun-06 | | |
|-------------------|------------------|--------------------|-----------------|------------------|------------------|-----------|
| | Assets | Liabilities | Mismatch | Assets | Liabilities | Mismatch |
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| Less than 1 year | 1,773,788 | 1,847,541 | (73,753) | 1,177,578 | 1,112,442 | 65,136 |
| 1 to 3 years | 387,085 | 491,714 | (104,629) | 289,078 | 319,748 | (30,670) |
| 3 to 5 years | 211,651 | 277,724 | (66,073) | 159,481 | 267,788 | (108,307) |
| Over 5 years | 1,083,137 | 838,683 | 244,454 | 760,963 | 687,122 | 73,841 |
| | <u>3,455,662</u> | <u>3,455,662</u> | <u>-</u> | <u>2,387,100</u> | <u>2,387,100</u> | <u>-</u> |

The mismatch represents the difference between assets and liabilities for each maturity band. Share capital is included within liabilities.

Notes to the Financial Statements as at 30 June 2007 (continued)
8. Non Trading Investments
8.a. Investment in associates
1 Investment in Centurion Bank of Punjab Limited, India (CBoP)

As at June 30, 2007 the carrying value of the investment in CBoP was as follows:

| | 30-Jun-07 | 30-Jun-06 |
|---|----------------------|----------------------|
| | RO. 000's | RO. 000's |
| Carrying value of the investment at December 31 | 15,822 | 14,055 |
| Goodwill as at December 31 | 2,112 | 2,021 |
| Share of profit for the period Oct 06 to Mar 07 * | 1,198 | - |
| Share of profit for the period Jan to Jun | | 1,019 |
| Translation of foreign currency profit | 967 | (171) |
| Carrying value of the investment at June 30 | <u><u>20,099</u></u> | <u><u>16,924</u></u> |

* CBoP's financials for the quarter ended 31 Dec 2006 were received in Jan 2007 and accordingly the share of profit for the quarter ended 31 Dec 2006 is accounted in this financials of BankMuscat. Besides share of profit for the quarter ended 31 March 2007 is also included in the current years profit. CBoP's financials for the quarter ended 30 June 2007 are not yet published. Hence the Bank's share of profit for this period has not been considered.

2 Investment in Bank Muscat International, Bahrain (BMI)

As at June 30, 2007 the carrying value of the investment in BMI was as follows:

| | 30-Jun-07 | 30-Jun-06 |
|---|----------------------|----------------------|
| | RO. 000's | RO. 000's |
| Carrying value of the investment at December 31 | 14,615 | 12,062 |
| Investment in BMI during the year | 2,504 | - |
| Share of profit for the period | 1,192 | 933 |
| Carrying value of the investment at June 30 | <u><u>18,311</u></u> | <u><u>12,995</u></u> |

3 Investment in Mangal Keshav Holdings Private Limited (MKH)

In April 2007, the bank acquired 43% strategic stake in MKH, a securities company in India for a purchase consideration of RO 9,347 K

As at June 30, 2007 the carrying value of the investment in MKH was as follows:

| | 30-Jun-07 |
|---|----------------------|
| | RO. 000's |
| Total Consideration paid | 9,347 |
| Share of profit for the period - Apr 07 to Jun 07 | 349 |
| Translation of foreign currency profit | 488 |
| Carrying value of the investment at June 30 | <u><u>10,184</u></u> |

Notes to the Financial Statements as at 30 June 2007 (continued)

8. Non Trading Investments (continued)

8.b. Available For Sale

| | Fair Value 30-Jun-07 RO' 000 | Fair Value 30-Jun-06 RO' 000 |
|-----------------------------|------------------------------------|------------------------------------|
| <i>Quoted Investments</i> | | |
| Industrial sector | 4,786 | 3,924 |
| Financial services sector | 3,359 | 4,111 |
| Other services sector | 6,241 | 4,360 |
| Foreign securities | 10,920 | 8,394 |
| Corporate Bonds | 5,721 | 6,151 |
| Government bonds | 13,270 | 13,329 |
| Total | 44,297 | 40,269 |
| Less : Impairment losses | (1,993) | (1,761) |
| | 42,304 | 38,508 |
| <i>Unquoted investments</i> | | |
| Unquoted local securities | 4,051 | 1,571 |
| Unquoted foreign securities | 4,026 | 3,083 |
| Investment fund units | 871 | 871 |
| Total | 8,948 | 5,525 |
| Total available for sale | 51,252 | 44,033 |

8.c. Held To Maturity

| | | |
|------------------|----------------|----------------|
| Treasury Bills | 177,132 | 107,800 |
| Government Bonds | 33,180 | 36,207 |
| | 210,312 | 144,007 |

Notes to the Financial Statements as at 30 June 2007 (continued)
9. Related Party Transactions

The balances of directors and their related concerns were as follows:

| | 30-Jun-07 | 30-Jun-06 |
|--|------------------|-----------|
| | RO. 000's | RO. 000's |
| Loans and advances | 42,425 | 50,077 |
| Current, deposit and other accounts | 25,259 | 19,556 |
| Customers' liabilities under documentary credits, guarantees and other commitments | 9,170 | 11,442 |

The income and expenses in respect of related parties are as follows:

| | 6 months ended 30 June 2007 | 6 months ended 30 June 2006 |
|-----------------------------|------------------------------------|-----------------------------|
| | RO. 000's | RO. 000's |
| Interest income | 1,207 | 1,168 |
| Interest expenditure | 323 | 404 |
| Commission and other income | 35 | 56 |

10. Shareholders

Shareholders of the bank who hold 10% or more of the bank's shares are given below:

| | 30-Jun-07 | 30-Jun-06 |
|--------------------------------------|----------------------|----------------------|
| | RO. 000's | RO. 000's |
| Royal Court Affairs | 18,364 | 16,695 |
| Sh.Mustahil Ahmed Al Mashani - Group | 9,116 | 10,639 |
| | <u>27,480</u> | <u>27,334</u> |

11. Comparative Figures

The corresponding figures for 2006 included for comparative purposes have been reclassified to conform with the presentation in the current year.