

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED 31 MARCH 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 quarter of the year 2007.

The Bank achieved a net profit of RO 19.1 million for period ended March 31, 2007 as against a net profit of RO 13.3 million reported during the same period in 2006, thus recording an impressive growth of 43.8%.

Net interest income increased by 30% to RO. 28.2 million during the first quarter of 2007 from RO 21.7 million reported during the corresponding period in 2006, mainly driven by asset growth. Non-interest income has grown by 22.8% to RO 9.7 million for the first quarter of 2007 as compared to RO 7.9 million of the same period in 2006. Operating expenses have increased by 23.5% in the first quarter 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 39.2% during the first quarter of 2007 as against 40.6% during the first quarter of 2006.

Impairment for credit and other losses was RO 4.1 million for the first quarter of 2007 as compared to RO 4.0 million during the corresponding period in 2006.

The basic earnings per share on an annualized basis works out to 83 baizas for every 100 baiza share of the Bank.

The Bank's net Loans and Advances of RO 2,035 million as of March 31, 2007 has grown by 37.7% as compared to the position as of March 31, 2006. Customer deposits grew by RO 602 million or 41.8% from RO 1,439 million as of March 31, 2006 to RO 2,040 million as of March 31, 2007. Savings deposits have registered an impressive growth of RO 108 million or 30.8% from RO 351 million as of March 31, 2006 to RO 460 million as of March 31, 2007.

The Bank continued to prosper across its various business lines, thanks to the tireless efforts of our people to enhance product and service standards across the Bank's operations.

The Consumer Banking Group continued to focus on sales, which has resulted in keeping ahead of targeted volumes in the main lines of business – savings deposits and consumer loans.

The first quarter of the year witnessed the launch of 'Hayatuna' family protection plan, which has provided a promising Bancassurance product on the life insurance side. Initial feedback suggests that the product features are simple for customers to understand and therefore there is a potential to increase volumes.



In February 2007, BankMuscat and Nawras launched the mobile e-recharge service through the Bank's e-channels. This service provides a range of e-banking channels such as Internet banking, Call center, ATMs and Cash Deposit Machines (CDMs) for customers to choose from to recharge (also referred to as 'top up') Nawras prepaid cards instantly. Even non-BankMuscat customers can use CDMs for the recharge (or top up). This is the first time any bank in the Sultanate is providing such a service through this wide range of electronic channels.

In line with its vision of moving even closer to people, the Bank added 19 ATMs and one CDM during the first quarter of the year, thus expanding its ATM and CDM network to 219 and 33 respectively. The first quarter of the year also witnessed the official opening of three ladies sections within branches in Al Buraimi, Falaj Al Qabael and Mirbat (Salalah).

The Bank was the main sponsor of the Muscat Festival and put up two specially designed stalls in the festival grounds. In addition to providing exposure regarding the bank's products and services, there was a focused sales effort from credit cards and 'baituna' sales teams, which has resulted in increased cards and 'baituna' housing loans sales.

Final preparations are in place for the launch of Priority Banking division in the second quarter of the year. The priority banking division will cater to the needs of the High Net Worth customers who are not covered by Private Banking division.

The Bank's corporate banking group also continued to prosper during the first quarter of the year 2007. The emphasis on customer relationships and providing 'comprehensive business solutions' continues to be the focus of the Group's business strategy. The Corporate Credit and Marketing unit's re-enforced approach directed at specific economic sectors enhanced customer confidence, leading to stronger relationships.

Business also continued to gather momentum across the Bank's wholesale banking group. The investing community in Oman holds the Bank's Equity Research unit in high esteem. Local coverage includes 12 sectors and 35 companies representing 85% of market capitalization and in most cases, our research reports tend to be the opinion leader on MSM stocks. There are ongoing efforts to expand the scope of coverage to include the rest of the GCC region. Amongst the several macroeconomic reports prepared by the Equity Research Division, the "Country Report on Oman" released at the Annual MENA Retreat of Young Presidents Organization stands out. It was widely distributed and well appreciated by a group, which comprised owners, chairpersons and CEOs of companies.

The bank's brokerage division continued to maintain its leading position in the market. The brokerage division continues to focus its efforts on promoting the MSM as an investment destination to global emerging market funds.

The asset management unit entered into an agreement with Lloyds TSB - Asset Management division- to access their research on international mutual funds. This will help the unit select third party funds managed by best fund managers worldwide in accordance with its clients' risk/reward profile and also to set model portfolios for these clients. The unit also had a second close



of the BM Private Equity fund (II LP), a private equity fund that invests in top quartile private equity funds in the US, Europe and Asia.

In line with its efforts to promote Arab trade, the Bank signed a line of credit agreement with the Arab Trade Financing Programme (ATFP) based in Abu Dhabi, United Arab Emirates. Through this agreement, an amount of USD 30 million has been made available to BankMuscat to be utilized in financing foreign trade in Oman. On the same note, the Bank also signed an agreement with International Finance Corporation, Washington (IFC-W) under its Global Trade Finance (GTF) Programme. The agreement would enable BankMuscat's customers to obtain confirmation / guarantees on Letters of Credit received by them for their exports to various emerging market countries such as Argentina, Armenia, Bangladesh, Bolivia, Brazil, Kenya, Lebanon, Malta, Mauritania, Nigeria, Mozambique, Russia, Pakistan, Uganda and others. This agreement, we believe, will help lend momentum to our clients' trade activities in several emerging market economies.

International operations of the Bank achieved a significant milestone with the opening of Riyadh Main Branch on April 1, 2007 in the Kingdom of Saudi Arabia – the largest market in the GCC. BankMuscat is the first Bank from the Sultanate of Oman to open a branch in the Kingdom. The Bank has launched consumer and corporate banking products under a new brand name 'Khayrat', reflecting the localization of our services for the Saudi market.

The Bank's associate in India, Centurion Bank of Punjab (CBOP) is among the top 10 private sector banks in India in terms of total assets and has 279 branches and 408 ATMs across 143 locations. Financially, as at December 31, 2006, total assets of CBOP grew 56.9% on a year on year basis to reach RO 1.38 billion, while net profit for the nine months period ended December 31, 2006 improved by 51.2% to RO 8.1 million as compared to the corresponding period in 2005

Strengthening its position in the high-growth Indian market, BankMuscat announced its entry in the Indian securities brokerage business with an agreement with the Mangal Keshav Group to acquire a 43% stake. Set up in 1939, which makes it one of the oldest security houses in India, the Group is today among the top 20 securities brokers in India by market share. The Group has a network of 20 branches and 220 franchisees across 70 locations.

BankMuscat International (BMI), Bahrain, is the second biggest overseas associate of BankMuscat. The Bank enjoys 49% ownership of BMI, which announced strong financial results for the year ended December 2006, achieving a net profits growth of 24.8% to RO 5.22 million and a 45.6% growth in total assets to RO 369.9 million.

As a responsible corporate citizen, the Bank continues to support various activities that relate to the societies in which the Bank operates. In the first quarter of the year, the Bank supported the National football team in the GCC cup and Dhofar football team in the AFC Cup. Under the 'BankMuscat Hearts' initiative, which was launched in the second half of 2006, the Bank also conducted a blood donation drive along with the blood bank in Sohar.



Once again, BankMuscat has been recognized for investing in its people. The Bank has been recently recognized as an Investor in People (IiP) organization. BankMuscat is the first bank from across the Middle East and North Africa (MENA) region to receive this certification. The Investors in People Standard was developed in 1990 in collaboration with UK's leading businesses, both large and small. The Standard provides a framework for improving business performance and competitiveness, through good practice in human resource development.

I would like to conclude by assuring you that we plan to continue to build stronger ties with people across the country with a variety of value-added banking products, services and solutions. It is from here that our philosophy of 'With You Always' stems: building multiple, long-term, sustainable relationships with each of our target customers nationwide.

On behalf of the Board of Directors, I would once again like to express our gratitude to His Majesty Sultan Qaboos bin Said for his inspired leadership and progressive vision that continues to lead the country along a road of growth and prosperity.

AbdulMalik bin Abdullah Al-Khalili

Summary of unaudited results as at 31 March 2007

	31-Mar-07	31-Mar-06	Change %
	RO' 000	RO' 000	
Loans and advances net of provisions and reserved interest	2,035,024	1,477,989	38%
Deposits	2,228,196	1,631,670	37%
Net assets	310,411	274,226	13%
Net assets per share *	0.339	0.329	3%
	3 months ended 31 March 2007	3 months ended 31 March 2006	Change %
Net interest income	28,182	21,675	30%
Net profit before tax for the period	22,264	15,454	44%
Net profit after tax for the period	19,064	13,254	44%
Basic earnings per share (annualised) **	0.083	0.064	31%
Diluted earnings per share (annualised) **	0.083	0.064	31%
Capital adequacy ratio ***	12.47%	12.14%	3%

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 31 March 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 three months ended 31 March 2007*

	Notes	3 months ended 31 March 2007	3 months ended 31 March 2006
		RO' 000	RO' 000
Interest income	1	48,333	32,921
Interest expense	2	(19,218)	(10,255)
		<u>29,115</u>	<u>22,666</u>
Interest expense on tier II capital		(933)	(991)
Net interest income		<u>28,182</u>	<u>21,675</u>
Other operating income	3	9,730	7,918
OPERATING INCOME		<u>37,912</u>	<u>29,593</u>
OPERATING EXPENSES			
Other operating expenses		(13,960)	(11,259)
Depreciation		(896)	(766)
		<u>(14,856)</u>	<u>(12,025)</u>
Impairment for credit losses	5 & 8b	(4,119)	(4,059)
Recoveries from impairment for credit losses	5	2,037	1,453
Share of profit from associates	8a	1,290	492
		<u>(15,648)</u>	<u>(14,139)</u>
PROFIT BEFORE TAXATION		22,264	15,454
Tax expense		(3,200)	(2,200)
NET PROFIT FOR THE PERIOD		<u>19,064</u>	<u>13,254</u>

Unaudited Statement of cash flow
For the three months ended 31 March 2007

	3 months ended 31 March 2007	3 months ended 31 March 2006
	RO' 000	RO' 000
Cash flow from operating activities		
Net profit for the period before taxation	22,264	15,454
Adjustments for :		
Depreciation	896	766
Profit(Loss) on sale of tangible fixed assets	-	(13)
Investment income	(1,494)	(911)
Operating profit before working capital changes	<u>21,666</u>	<u>15,296</u>
Change in operating assets*	(233,239)	(249,047)
Change in operating liabilities**	269,712	168,140
Net cash from operating activities	<u>58,139</u>	<u>(65,611)</u>
Net cash used in financing activities	12,128	(26,403)
Net cash used in investing activities	6,815	(2,263)
Net increase in cash and cash equivalents	<u>77,082</u>	<u>(94,277)</u>
Cash and cash equivalents brought forward	298,601	296,270
Cash and cash equivalents carried forward	<u><u>375,683</u></u>	<u><u>201,993</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 31 March 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								19,064	19,064
Dividends paid - 2006								(29,132)	(29,132)
Change in fair value of investments available for sale							180		180
Profit on translation of net investments in associates								214	214
Balance at 31 March 2007	91,556	79,490	56,308	27,745	1,215	-	1,232	52,865	310,411

Notes to the Financial Statements as at 31 March 2007
1. Interest Income

Interest bearing assets earned interest at an overall rate of 7.08% for the three months ended 31 March 2007. (2006 : 7.01%).

2. Interest expense

For the three months ended 31 March 2007 the average overall cost of funds was 3.37%. (2006 : 2.70%).

3. Other operating income

	For the three months ended	
	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
Foreign Exchange	1,090	684
Commission and fees (net)	7,277	5,932
Dividend income	693	463
Profit/(loss) on sale of investment securities	138	448
Other income	532	391
	<u>9,730</u>	<u>7,918</u>

The commission and fees shown above is net off commission and fees paid of RO 66 K. (2006 : RO 40 K.)

4. Loans and advances

Loans and advances is analysed as follows:

	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
Corporate and Other lending	1,271,128	920,581
Personal lending	862,722	670,594
Gross loans and advances	<u>2,133,850</u>	<u>1,591,175</u>
Less : Provisions and reserved interest	98,826	113,186
Net loans and advances	<u>2,035,024</u>	<u>1,477,989</u>

Notes to the Financial Statements as at 31 March 2007 (continued)

4. Loans and advances (continued)

The maturity of these is analysed as follows:

	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
Less than 1 year	718,083	520,207
1 to 3 years	288,077	180,268
3 to 5 years	166,463	122,024
Over 5 years	961,227	768,676
	<u>2,133,850</u>	<u>1,591,175</u>

The interest rate band of these are as follows:

	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
0-5%	107,943	327,224
5-7%	818,688	410,710
7-9%	973,210	480,802
9-11%	179,692	262,723
11-13%	37,620	96,171
more than 13%	16,697	13,545
	<u>2,133,850</u>	<u>1,591,175</u>

Notes to the Financial Statements as at 31 March 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	4,119	-
Released/recovered during the period	(2,031)	-
Written off during the period	(14,397)	(9,302)
Transferred during the period	-	-
Interest reserved during the period	-	2,425
Reserved interest recovered	-	(514)
At 31 March 2007	<u>75,981</u>	<u>22,845</u>
	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2006	80,721	29,182
Provided during the period	4,059	-
Released/recovered during the period	(1,453)	-
Written off during the period	(654)	(306)
Interest reserved during the period	-	2,680
Reserved interest recovered	-	(1,043)
At 31 March 2006	<u>82,673</u>	<u>30,513</u>

Recoveries of RO 2,037 K (March 2006: 1,453 K) reported in the income statement includes RO 6 K (March 2006: Nil) recovered from loans written off earlier.

Provisions (excluding general provision) represent 105.10% of impaired loans and advances at 31 March 2007. (2006 : 96.65%)

Interest is reserved on loans and advances which are impaired.

During the quarter, the Bank has written off impaired consumer loan portfolio amounting to RO 21.6 mn which was fully provided for.

At 31 March 2007 loans and advances on which interest had been reserved amounted to RO 64.4 Million (2006 : RO. 94.15 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 31 March 2007 (continued)
6. Deposits

Deposits are analysed as follows:

	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
Current accounts	509,301	346,696
Call accounts	145,469	204,025
Savings accounts	459,535	351,417
Time deposits	919,494	529,897
Other	6,674	6,837
	<u>2,040,473</u>	<u>1,438,872</u>

The maturities of deposits are as follows

	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
Less than 1 year	1,198,039	801,902
1 to 3 years	427,226	182,051
3 to 5 years	209,073	314,612
Over 5 years	393,858	333,105
	<u>2,228,196</u>	<u>1,631,670</u>

The interest rate bands of deposits are as follows:

	31-Mar-07	31-Mar-06
	RO' 000	RO' 000
0%	723,282	549,238
0-2%	198,093	401,541
2-4%	344,028	99,053
4-6%	800,260	502,256
more than 6%	162,533	79,582
	<u>2,228,196</u>	<u>1,631,670</u>

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

<i>Maturities</i>	31-Mar-07			31-Mar-06		
	Assets	Liabilities	Mismatch	Assets	Liabilities	Mismatch
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Less than 1 year	1,714,870	1,789,622	(74,752)	1,025,042	1,090,214	(65,172)
1 to 3 years	359,013	451,875	(92,862)	233,328	156,925	76,403
3 to 5 years	173,662	236,173	(62,511)	151,560	354,002	(202,442)
Over 5 years	1,022,095	791,970	230,125	820,372	629,161	191,211
	<u>3,269,640</u>	<u>3,269,640</u>	<u>-</u>	<u>2,230,302</u>	<u>2,230,302</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 31 March 2007 (continued)
8. Non Trading Investments
8.a. Investment in associates
1 Investment in Centurion Bank of Punjab Limited, India (CBoP)

As at March 31, 2007 the carrying value of the investment in CBoP was as follows:

	31-Mar-07	31-Mar-06
	RO. 000's	RO. 000's
Carrying value of the investment at December 31	17,934	16,153
Share of profit for the period Oct 06 to Dec 06 *	651	-
Translation of foreign currency profit / (loss)	214	65
Carrying value of the investment at March 31	<u>18,799</u>	<u>16,218</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. CBoP's financials for the quarter ended 31 Mar 2007 are not yet published. Hence the Bank's share of profit for this period has not been considered.

2 Disposal of Bahrain Branch and Investment in Bank Muscat International, Bahrain (BMI)

As at March 31, 2007 the carrying value of the investment in BMI was as follows:

	31-Mar-07	31-Mar-06
	RO. 000's	RO. 000's
Carrying value of the investment at December 31	14,615	12,062
Share of profit for the period	639	492
Carrying value of the investment at March 31	<u>15,254</u>	<u>12,554</u>

Notes to the Financial Statements as at 31 March 2007 (continued)
8. Non Trading Investments (continued)
8.b. Available For Sale

	Fair Value 31-Mar-07 RO' 000	Fair Value 31-Mar-06 RO' 000
<i>Quoted Investments</i>		
Industrial sector	4,993	4,605
Financial services sector	3,756	5,206
Other services sector	6,950	4,074
Foreign securities	10,035	8,665
Corporate Bonds	6,170	6,133
Government bonds	13,270	13,329
Total	45,174	42,012
Less : Impairment losses	(1,993)	(1,761)
	<u>43,181</u>	<u>40,251</u>
<i>Unquoted investments</i>		
Unquoted local securities	2,676	1,571
Unquoted foreign securities	3,844	2,781
Investment fund units	871	870
Total	7,391	5,222
Total available for sale	<u>50,572</u>	<u>45,473</u>

8.c. Held To Maturity

Treasury Bills	215,632	146,300
Government Bonds	33,177	32,498
	<u>248,809</u>	<u>178,798</u>

Notes to the Financial Statements as at 31 March 2007 (continued)
9. Related Party Transactions

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

	31-Mar-07	31-Mar-06
	RO. 000's	RO. 000's
Loans and advances	51,318	51,777
Current, deposit and other accounts	32,763	17,469
Customers' liabilities under documentary credits, guarantees and other commitments	6,290	8,665

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

	3 months ended 31 March 2007	3 months ended 31 March 2006
	RO. 000's	RO. 000's
Interest income	667	825
Interest expenditure	155	190
Commission and other income	8	47

10. Shareholders

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

	31-Mar-07	31-Mar-06
	RO. 000's	RO. 000's
Royal Court Affairs	18,364	16,695
Sh.Mustahil Ahmed Al Mashani - Group	9,956	10,879
	28,320	27,574

11. Comparative Figures

The corresponding figures for 2005 included for comparative purposes have been reclassified to conform with the presentation in the current year.