

BankMuscat  بنك مسقط

CMA QUARTERLY REPORT

PERIOD ENDED 31 Mar 2004

BANK MUSCAT (SAOG)

CMA QUARTERLY REPORT -MARCH 2004

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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 2004.

The Bank achieved a net profit of RO 7 million during the first quarter of 2004 as against a net profit of RO 6.4 million during the first quarter of 2003 recording a growth of 10%. The net interest income has grown by 7% from RO 17.4 million as of March 31,2003 to RO 18.6 million as of March 31,2004. The non-interest income has also grown from RO 4.1 million as of March 31,2003 to RO 4.5 million as of March 31,2004 recording a growth of 7%. The operating profit at RO 13.1 million as of March 31,2004 has grown by 9% as compared to RO 11.9 million as of March 31,2003. The operating expenses have increased by 4% from RO 9.6 million as of March 31,2003 to RO 9.9 million as of March 31,2004.

The Bank has made a loan loss provision of RO 5.3 million during the first three months of 2004 which includes a general provision of RO 3 million as a measure of prudence as against RO 5.2 million made during the first three months of 2003. The loan loss provision coverage has increased to 102% as of March 31,2004 as compared to a provision coverage of 83.9% as of March 31,2003.

The basic earnings per share on an annualized basis works out to 546 baiza for every one Rial share of the Bank. This works out to a return of 54.6% on an annualized basis on share capital.

The Bank's net Loans and Advances portfolio grew by RO 21 million or 2% to RO 1244 million as of March 31,2004 as compared to RO 1223 million as of March 31,2003. The savings deposits have registered an impressive growth of 32% from RO 187 million as of March 31,2003 to RO 247 million as of March 31,2004. Total customer deposits have grown by RO 97 million or 9% to RO 1171 million as of March 31,2004 as compared to RO 1074 million as of March 31,2003.

I am pleased to inform you that the Bank continued on its path of measured growth over the past quarter, further consolidating thereby its position of pre-eminence in the Sultanate.

The beginning of the year saw considerable activity across both our Retail Banking and Corporate Banking divisions. We ushered in the New Year with the launch of our Mobile Banking services that offers our customers a host of facilities at the touch of their phone pads. The services rolled out are the result of detailed research to better understand the needs of customers in Oman and will be upgraded periodically in line with growing demand and varying customer requirements. On the Corporate front, we became the first Bank in the region to offer a comprehensive suite of Trade Finance services on the web

through the launch of BankMuscat eTrade, in association with Misys International Banking Systems Corporation. BankMuscat eTrade is expected to change the very way customers look at their Trade Finance business today, impacting each and every aspect of the business from online documentation to transaction tracking and even settlements online. Both Mobile Banking and BankMuscat eTrade have received extremely encouraging response from our customers in Oman. In fact, customer demand has spurred us on to planning to add further modules to the BankMuscat eTrade suite of services in the coming months.

Our flagship retail product, the Al Mazyona savings scheme continued to build bridges with the discerning retail banking customer in the Sultanate and the growth that we have witnessed in customer deposits during the period in question bears testimony to this. At BankMuscat we are committed to spreading and inculcating the savings habit in people. Al Mazyona, continues to provide good reason to people to go the extra mile and maintain a healthy balance in their Bank accounts.

Our cards division also saw us notching up another first in the Sultanate with the launch of our Corporate Purchasing Card, in association with MasterCard International. The Purchasing Card is a relatively new concept across the region that allows large organizations to better manage their procurement processes and inventory. The BankMuscat Purchasing Card was launched during the period in question, in the presence of officials from MasterCard International and Petroleum Development Oman, who have decided to become our first partner in this new product category. The Corporate Purchasing Card is another milestone in our endeavour to try and bring the finest of global banking products and services to Oman and the countries in which we operate to help corporations concentrate on what they do best: their businesses.

The Investment Banking division of the Bank has been busy during the quarter preparing the groundwork for our maiden USD \$ 800 million Euro Medium Term Note (EMTN) programme. The Bank decided to embark on its proposed EMTN programme to enable it to play an even more meaningful role in the development projects that are currently in the pipeline across the Sultanate. HSBC and ABN Amro have been appointed Arrangers to the programme.

The recent past has witnessed a further strengthening of the bourses in Oman and across the region. This, perhaps, is a reflection of the growing confidence of the institutional and retail investor in the Omani economy and the improving geopolitical situation across the region. Riding on this feeling of well-being, our Brokerage, Asset Management and Private Banking Divisions have continued to strengthen their relationships with key clients across the Sultanate. We see this trend gathering further momentum during the course of the current year.

Our overseas operations too, continued to steadily prosper during the quarter. Our Bahrain operations also saw the first grand draw of our flagship retail product, Al Mazyona that has been especially tailored to meet the needs of the Bahraini market. The Al Mazyona scheme, which was launched in the last quarter of last year and set a

benchmark in terms of the number of prizes and chances people had to win a prize, continues to make rapid strides in winning the confidence of the Bahraini retail investor.

The merging of our operations in India with Centurion Bank is now formally complete. The Bank now has two nominees on the newly constituted Board of Centurion Bank and I am glad to share that we are now part of each of the key committees that are responsible for the overall strategic direction and corporate governance initiatives at the bank. To discuss how we may strengthen our business relationship even further, a senior delegation from Centurion Bank, including Rana Talwar, Chairman, Centurion Bank and Shailendra Bhandari, Chief Executive Officer of Centurion Bank also visited Muscat during the period in question. Our talks have resulted in a series of proposed initiatives, which shall be discussed and suitably considered during the course of the year.

The first quarter of the year has been especially rewarding for the Bank in terms of International awards and recognitions. Early this year, we were declared the 'Best Forex Bank and Provider', Oman by Global Finance magazine. I am proud to share with you that they have also recently declared us the 'Best Bank in Oman' for the 4th year running. In February, we were also declared the 'Best Corporate Bank in Oman' and 'Best Retail Bank in Oman' by the Banker Middle East. Closer to home, BusinessToday, one of the leading business magazines in the Sultanate, declared us 'Best Financial Services Brand in Oman', in their annual Best in Business survey. While we are extremely happy at having won these awards and being so recognized, we have not lost sight of the fact that these awards are milestones that also set for us benchmarks that we must continually strive to overcome in the days ahead.

The foundation provided to the Bank over the past years continues to hold us in good stead. We are confident of continuing to identify and seize on every opportunity that comes our way that will help us in our attempts to become a truly regional bank with global products and service standards.

On behalf of the Board of Directors, I would once again like 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 Mar 2004

| | 31-Mar-04 | 31-Mar-03 | Change % |
|---|-----------------------------------|-----------------------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Loans and advances net of provisions and reserved interest | 1,244,094 | 1,223,316 | 2% |
| Deposits | 1,171,118 | 1,074,171 | 9% |
| Net assets | 167,268 | 152,367 | 10% |
| Net assets per share * | 3.249 | 3.107 | 5% |
| | 3 months ended 31 Mar 2004 | 3 months ended 31 Mar 2003 | Change % |
| Net interest income | 18,569 | 17,386 | 7% |
| Net profit before tax for the period | 8,148 | 7,390 | 10% |
| Net profit after tax for the period | 7,028 | 6,370 | 10% |
| Basic earnings per share (annualised) ** | 0.546 | 0.520 | 5% |
| Diluted earnings per share (annualised) ** | 0.493 | 0.495 | 0% |
| Capital adequacy ratio *** | 15.07% | 15.38% | -2% |

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 31 Mar 2004 by 51,489 K number of ordinary shares. (2003 : 49,037 K ordinary shares)

** Basic and Diluted earnings per share is calculated as per International Accounting Standard No : 33. Diluted earnings per share is after considering the shares to be issued for convertible bonds.

*** Capital adequacy ratio has been calculated in accordance with the Basle Capital Adequacy Accord of 1988.

*Unaudited Profit and loss account
For the three months ended 31 Mar 2004*

| | Notes | 3 months ended 31 Mar 2004 | 3 months ended 31 Mar 2003 | Change % |
|---|-------|----------------------------------|----------------------------------|----------|
| | | RO' 000 | RO' 000 | |
| Interest income | 1 | 25,379 | 25,830 | -2% |
| Interest expense | 2 | (5,674) | (6,617) | 14% |
| | | <u>19,705</u> | <u>19,213</u> | 3% |
| Interest expense on tier II capital | | (1,136) | (1,827) | 38% |
| Net interest income | | <u>18,569</u> | <u>17,386</u> | 7% |
| Investment income | 8 | 142 | 67 | 112% |
| Other operating income | 3 | 4,338 | 4,123 | 5% |
| Net operating income | | <u>23,049</u> | <u>21,576</u> | 7% |
| Other operating expenses | | (9,225) | (8,901) | -4% |
| Depreciation | | (758) | (718) | -6% |
| Total operating expenses | | <u>(9,983)</u> | <u>(9,619)</u> | -4% |
| Operating Profit | | 13,066 | 11,957 | 9% |
| Provision for possible credit losses | 5 | (5,347) | (5,227) | -2% |
| Recoveries from provision for loan losses | 5 | <u>429</u> | <u>660</u> | -35% |
| Net profit before tax | | 8,148 | 7,390 | 10% |
| Taxation | | (1,120) | (1,020) | -10% |
| Net profit after tax for the period | | <u>7,028</u> | <u>6,370</u> | 10% |

*Unaudited Balance sheet
As at 31 Mar 2004*

| | Notes | 31-Mar-04 | 31-Mar-03 | Change % |
|---|-------|------------------|------------------|----------|
| <i>On balance sheet items</i> | | RO' 000 | RO' 000 | |
| Assets | | | | |
| Cash and balances with the Central Banks | | 49,900 | 31,687 | 57% |
| Placements with banks | | 164,256 | 181,323 | -9% |
| Loans and advances | 4 & 5 | 1,244,094 | 1,223,316 | 2% |
| Non-trading investments | 9 | 135,130 | 69,694 | 94% |
| Tangible fixed assets | | 11,281 | 8,864 | 27% |
| Other assets | | 17,332 | 18,575 | -7% |
| Total Assets | | <u>1,621,993</u> | <u>1,533,459</u> | 6% |
| Liabilities | | | | |
| Deposits from banks | | 185,978 | 205,188 | -9% |
| Customers' deposits | 6 | 1,171,118 | 1,074,171 | 9% |
| Other liabilities | | 52,008 | 47,722 | 9% |
| Subordinated liabilities | | 45,621 | 54,011 | -16% |
| | | <u>1,454,725</u> | <u>1,381,092</u> | 5% |
| Shareholders' funds | | | | |
| Share capital | | 51,489 | 49,037 | 5% |
| Convertible bonds | | 27,100 | 27,100 | 0% |
| Proposed issue of bonus shares | | 2,849 | 2,452 | 16% |
| Share premium | | 4,482 | 4,482 | 0% |
| General reserve | | 19,812 | 15,500 | 28% |
| Non-distributable reserves | | 22,837 | 22,837 | 0% |
| Subordinated loan reserve | | 19,448 | 14,636 | 33% |
| Retained profit | | 12,223 | 9,953 | 23% |
| Net Profit for the period | | 7,028 | 6,370 | 10% |
| | | <u>167,268</u> | <u>152,367</u> | 10% |
| Total Liabilities and Shareholders' funds | | <u>1,621,993</u> | <u>1,533,459</u> | 6% |
| <i>Related party information</i> | | | | |
| Due from related parties | | 57,792 | 62,573 | -8% |
| Due to related parties | | 28,189 | 27,994 | 1% |
| <i>Off-balance sheet items</i> | | | | |
| Contingent liabilities | | | | |
| - letters of credit | | 88,455 | 69,585 | 27% |
| - guarantees | | 210,559 | 221,977 | -5% |
| - acceptances | | 36,946 | 40,506 | -9% |
| | | <u>335,960</u> | <u>332,068</u> | 1% |
| Commitments | | | | |
| - forward sales | | 196,340 | 229,162 | -14% |
| - forward purchases | | 196,840 | 229,172 | -14% |
| Options | | | | |
| - Sales | | 21,437 | 57,286 | -63% |
| - Purchases | | 21,437 | 57,286 | -63% |

*Unaudited Statement of cash flow
For the three months ended 31 Mar 2004*

| | 3 months ended 31 Mar 2004 | 3 months ended 31 Mar 2003 | Change % |
|---|---|----------------------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Cash flow from operating activities | | | |
| Net profit for the period before taxation | 8,148 | 7,390 | 10% |
| Adjustments for : | | | |
| Depreciation | 758 | 718 | 6% |
| Profit on sale of tangible fixed assets | (11) | (3) | 267% |
| Investment income | (106) | (90) | 18% |
| Operating profit before working capital changes | <u>8,789</u> | <u>8,015</u> | 10% |
| Change in operating assets* | (2,489) | 5,021 | -150% |
| Change in operating liabilities** | <u>53,258</u> | <u>(7,453)</u> | -815% |
| Cash (used in) from operations | 59,558 | 5,583 | 967% |
| Translation adjustment on operating assets and liabilities of overseas branches | <u>-</u> | <u>32</u> | -100% |
| Net cash from operating activities | <u>59,558</u> | <u>5,615</u> | 961% |
| Net cash used in financing activities | - | - | |
| Net cash (used in) from investing activities | (14,945) | (2,759) | 442% |
| Net increase in cash and cash equivalents | <u>44,613</u> | <u>2,856</u> | 1462% |
| Cash and cash equivalents brought forward | 62,108 | 64,114 | -3% |
| Cash and cash equivalents carried forward | <u><u>106,721</u></u> | <u><u>66,970</u></u> | 59% |

* 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.

Bank Muscat (SAOG)**Unaudited Statement of Changes in Equity**
Period Ended 31 Mar 2004

| | Share capital | Share premium | Proposed issue of bonus shares | Convertible bonds | General reserve | Legal reserve | Revaluation reserve | Subordinated loan reserve |
|--|---------------|---------------|--------------------------------|-------------------|-----------------|---------------|---------------------|---------------------------|
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| <i>Balance at 1 January 2003</i> | 49,037 | 4,482 | 2,452 | 27,100 | 15,500 | 21,622 | 1,215 | 14,636 |
| Net profit for the year | | | | | | | | |
| Bonus shares issued | 2,452 | | (2,452) | | | | | |
| Proposed dividends | | | | | - | | | |
| Dividends paid - 2002 | | | | | | | | |
| Proposed issue of bonus shares | | | 2,848 | | | | | |
| Transfer to Subordinate loan reserve | | | | | | | | 9,124 |
| Transfer to general reserve | | | | | 4,312 | | | (4,312) |
| Profit arising on translation of the operating assets and liabilities of overseas branch | | | | | | | | |
| <i>Balance at 31 December 2003</i> | <u>51,489</u> | <u>4,482</u> | <u>2,848</u> | <u>27,100</u> | <u>19,812</u> | <u>21,622</u> | <u>1,215</u> | <u>19,448</u> |
| Dividends - 2003 | | | | | | | | |
| Net Profit for the year | | | | | | | | |
| Balance at 31 Mar 2004 | <u>51,489</u> | <u>4,482</u> | <u>2,848</u> | <u>27,100</u> | <u>19,812</u> | <u>21,622</u> | <u>1,215</u> | <u>19,448</u> |

*Notes to the Financial Statements as at 31 Mar 2004***1. Interest Income**

Interest bearing assets earned interest at an overall rate of 7.04% for the three months ended 31 Mar 2004. (2003 : 7.07%)

2. Interest expense

For the three months ended 31 Mar 2004 the average overall cost of funds was 2.17% (2003 : 2.76%).

3. Other operating income

| | 31-Mar-04 | 31-Mar-03 | Change % |
|---------------------------|------------------|--------------|-----------------|
| | RO' 000 | RO' 000 | |
| Foreign Exchange | 487 | 667 | -27% |
| Commission and fees (net) | 2,089 | 1,594 | 31% |
| Other income | 1,762 | 1,862 | -5% |
| | <u>4,338</u> | <u>4,123</u> | 5% |

The commission and fees shown above is net off commission and fees paid of RO. 27 K.
(2003 : RO.5 K.)

4. Loans and advances

Loans and advances is analysed as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|---|------------------|------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Corporate lending | 745,991 | 747,601 | 0% |
| Personal lending | 470,315 | 425,511 | 11% |
| Overdrafts | 145,862 | 153,026 | -5% |
| Gross loans and advances | <u>1,362,168</u> | <u>1,326,138</u> | 3% |
| Less : Provisions and reserved interest | 118,074 | 102,822 | 15% |
| Net loans and advances | <u>1,244,094</u> | <u>1,223,316</u> | 2% |

*Notes to the Financial Statements as at 31 Mar 2004 (continued)***4. Loans and advances (continued)**

The maturity of these is analysed as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|------------------|------------------|------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Less than 1 year | 445,856 | 477,734 | -7% |
| 1 to 3 years | 124,203 | 104,823 | 18% |
| 3 to 5 years | 153,259 | 180,236 | -15% |
| Over 5 years | 638,850 | 563,345 | 13% |
| | <u>1,362,168</u> | <u>1,326,138</u> | 3% |

The interest rate band of these are as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|---------------|------------------|------------------|-----------------|
| | RO' 000 | RO' 000 | |
| 0-5% | 536,770 | 520,256 | 3% |
| 5-7% | 91,344 | 65,492 | 39% |
| 7-9% | 132,996 | 130,403 | 2% |
| 9-11% | 373,500 | 260,590 | 43% |
| 11-13% | 214,663 | 338,054 | -37% |
| more than 13% | 12,896 | 11,342 | 14% |
| | <u>1,362,168</u> | <u>1,326,137</u> | 3% |

The fair value of net loans and advances is as follows:

| | 31-Mar-04 | | 31-Mar-03 | |
|------------|-------------------|-------------------|------------------|------------------|
| | Book value | Fair value | Book value | Fair value |
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| Corporate | 690,093 | 690,870 | 692,178 | 694,451 |
| Personal | 452,716 | 455,722 | 411,632 | 413,008 |
| Overdrafts | 101,286 | 101,825 | 119,506 | 120,447 |
| | <u>1,244,094</u> | <u>1,248,416</u> | <u>1,223,316</u> | <u>1,227,906</u> |

The fair value represents the net present value calculated by discounting the expected future repayments (including interest) by the average market rates of interest.

Notes to the Financial Statements as at 31 Mar 2004 (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:

| | Specific Provision RO' 000 | General Provision RO' 000 | Total RO' 000 | Reserved Interest RO' 000 |
|--------------------------------------|----------------------------------|---------------------------------|------------------|---------------------------------|
| At 1 January 2004 | 82,653 | | 82,653 | 29,524 |
| Provided during the period | 2,347 | 3,000 | 5,347 | |
| Released/recovered during the period | (429) | | (429) | |
| Written off during the period | (390) | | (390) | (247) |
| Interest reserved during the period | | | - | 2,772 |
| Reserved interest recovered | | | | (1,156) |
| At 31 Mar 2004 | <u>84,181</u> | <u>3,000</u> | <u>87,181</u> | <u>30,893</u> |

| | Specific Provision RO' 000 | General Provision RO' 000 | Total RO' 000 | Reserved Interest RO' 000 |
|--------------------------------------|----------------------------------|---------------------------------|------------------|---------------------------------|
| At 1 January 2003 | 71,711 | - | 71,711 | 25,806 |
| Provided during the period | 5,227 | - | 5,227 | |
| Released/recovered during the period | (660) | | (660) | |
| Written off during the period | (569) | | (569) | (420) |
| Interest reserved during the period | | | - | 2,727 |
| Reserved interest recovered | | | | (1,000) |
| At 31 Mar 2003 | <u>75,709</u> | <u>-</u> | <u>75,709</u> | <u>27,113</u> |

Provisions (including general provision) represent 102.2% of gross non-performing loans and advances at 31 Mar 2004. (2003 : 83.9%)

Interest is reserved on all non-performing loans and advances where recovery is considered doubtful.

At 31 Mar 2004 loans and advances on which interest had been reserved amounted to RO. 115.6 Million (2003 : RO. 122.6 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 Mar 2004 (continued)

6. Deposits

Deposits are analysed as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|---------------------------|------------------|------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Current accounts | 242,639 | 268,706 | -10% |
| Call and savings accounts | 321,888 | 246,128 | 31% |
| Certificate of deposits | 64,437 | 81,456 | -21% |
| Time deposits | 513,957 | 475,050 | 8% |
| B M Bonds 10 Yrs | 25,000 | - | |
| Other | 3,197 | 2,831 | 13% |
| | <u>1,171,118</u> | <u>1,074,171</u> | 9% |

The maturities of deposits are as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|------------------|------------------|------------------|-----------------|
| | RO' 000 | RO' 000 | |
| Less than 1 year | 1,076,410 | 1,007,333 | 7% |
| 1 to 3 years | 40,628 | 31,915 | 27% |
| 3 to 5 years | 25,779 | 33,636 | -23% |
| Over 5 years | 28,299 | 1,287 | 2099% |
| | <u>1,171,118</u> | <u>1,074,171</u> | 9% |

The interest rate bands of deposits are as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|--------------|------------------|------------------|-----------------|
| | RO' 000 | RO' 000 | |
| 0% | 364,292 | 271,500 | 34% |
| 0-2% | 608,316 | 535,055 | 14% |
| 2-4% | 61,601 | 145,259 | -58% |
| 4-6% | 73,518 | 36,798 | 100% |
| more than 6% | 63,391 | 85,559 | -26% |
| | <u>1,171,118</u> | <u>1,074,171</u> | 9% |

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

| <i>Maturities</i> | 31-Mar-04 | | | 31-Mar-03 | | |
|-------------------|------------------|--------------------|-----------------|------------------|------------------|-----------|
| | Assets | Liabilities | Mismatch | Assets | Liabilities | Mismatch |
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| Less than 1 year | 639,954 | 1,247,363 | (607,409) | 637,341 | 1,177,141 | (539,800) |
| 1 to 3 years | 138,204 | 128,374 | 9,830 | 118,836 | 152,761 | (33,925) |
| 3 to 5 years | 174,243 | 25,779 | 148,464 | 184,369 | 33,636 | 150,733 |
| Over 5 years | 669,592 | 220,477 | 449,115 | 592,913 | 169,921 | 422,992 |
| | <u>1,621,993</u> | <u>1,621,993</u> | <u>-</u> | <u>1,533,459</u> | <u>1,533,459</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 Mar 2004 (continued)

8. Investment Income

Investment income can be analysed as follows:

| | 31-Mar-04 | 31-Mar-03 | Change % |
|-----------------------|------------------|-----------|-----------------|
| | RO' 000 | RO' 000 | |
| a) Dividend income | 106 | 90 | 18% |
| b) Realised gain/loss | 36 | (23) | -257% |
| | <u>142</u> | <u>67</u> | 112% |

9. Non Trading Investments**9.a. Investment in associates and subsidiaries**

Bank Muscat has invested RO. 6.3 M in Centurion Bank (CB), India, a private sector bank, and the shares of Centurion Bank have been allotted to Bank Muscat on Feb 10, 2004. As this investment would be treated as "Investment in Associate" as per the International Financial Reporting Standards, the Bank has decided to follow the "equity method" for valuing this investment as per IAS 28. As of March 31, 2004, the investment in CB is carried at cost in the bank's book since CB follows the April to March financial year, their audited results for March 31, 2004 would be available only after April 30, 2004. Hence, appropriate treatment as per equity method of accounting in line with IAS 28 would be given effect to from the next reporting period. Based on the limited information available at present, the Bank's management considers that the impact of treatment as per equity method of accounting would not be material for the first quarter results.

9.b. Available For Sale

| | Fair Value | Book Value | Fair Value | Book Value |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31-Mar-04 | 31-Mar-04 | 31-Mar-03 | 31-Mar-03 |
| | RO' 000 | RO' 000 | RO' 000 | RO' 000 |
| <i>Marketable securities - MSM</i> | | | | |
| Banking | - | - | - | - |
| Financial Services | 1,225 | 1,132 | 4,614 | 4,585 |
| Other Services | 3,717 | 3,589 | 1,629 | 1,568 |
| Industrial | 1,375 | 1,382 | 1,531 | 1,466 |
| Government bonds | 12,562 | 12,562 | 12,025 | 12,025 |
| | <u>18,879</u> | <u>18,665</u> | <u>19,799</u> | <u>19,644</u> |
| <i>Marketable securities- Foreign by sector</i> | | | | |
| Banking | - | - | - | - |
| Industrial/Services | 4,544 | 4,493 | 3,365 | 3,351 |
| Bonds | - | - | - | - |
| | <u>4,544</u> | <u>4,493</u> | <u>3,365</u> | <u>3,351</u> |
| <i>Unquoted and other investments</i> | | | | |
| Unquoted Omani shares | 1,067 | 1,067 | 347 | 347 |
| Investment fund units | 769 | 769 | 1,088 | 1,088 |
| Unquoted foreign shares | 2,810 | 2,810 | 2,348 | 2,348 |
| Debt and other securities | - | - | - | - |
| | <u>4,646</u> | <u>4,646</u> | <u>3,783</u> | <u>3,783</u> |
| Total portfolio | <u>28,069</u> | <u>27,804</u> | <u>26,947</u> | <u>26,778</u> |

9.c. Held To Maturity

| | | |
|-----------------------|-----------------------|----------------------|
| Treasury Bills | 66,330 | 24,652 |
| Government Bonds | 30,036 | 17,966 |
| Quoted/Unquoted Bonds | 4,687 | 298 |
| | <u>101,053</u> | <u>42,916</u> |

Notes to the Financial Statements as at 31 Mar 2004 (continued)

10. Related Party Transactions

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

| | 31-Mar-04 | 31-Mar-03 | Change % |
|--|------------------|-----------|-----------------|
| | RO' 000 | RO' 000 | |
| Loans and advances | 57,792 | 62,573 | -8% |
| Current, deposit and other accounts | 28,189 | 27,994 | 1% |
| Customers' liabilities under documentary credits, guarantees and other commitments | 2,140 | 2,428 | -12% |

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

| | 3 months | 3 months | Change % |
|-----------------------------|-----------------|----------|-----------------|
| | ended 31 | ended 31 | |
| | Mar 2004 | Mar 2003 | |
| | RO' 000 | RO' 000 | |
| Interest income | 719 | 838 | -14% |
| Interest expenditure | 213 | 146 | 46% |
| Commission and other income | 8 | 4 | 100% |

11. Shareholders

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

| | 31-Mar-04 | 31-Mar-03 |
|------------------------------|----------------------|----------------------|
| | RO' 000 | RO' 000 |
| Diwan of Royal Court | 12,573 | 11,426 |
| Sh.Mustahil Ahmed Al Mashani | 8,128 | 7,454 |
| Societe Generale | 5,742 | 5,469 |
| | <u>26,443</u> | <u>24,349</u> |