

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED JUNE 30, 2011

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Chairman's Report – First Half 2011

Dear Shareholders,

I am glad to share with you the encouraging results achieved by the Bank during the six months ending 30 June 2011. The key business lines of the Bank recorded impressive performance during the period in question. The focus remains adopting prudent policies and aligning growth with a cautious approach to market conditions.

Oman was ranked the 34th freest economy in the 2011 Index of Economic Freedom, reflecting improvements in business freedom, monetary freedom, and government spending. Numerous projects and initiatives are under way as part of the government's commitment to create over 100,000 jobs in the country.

Financial Overview

The Bank achieved a net profit of RO 57.2 million for the six months ended 30 June 2011 compared to RO 47 million reported during the same period in 2010, an increase of 21.7 per cent. Net interest income increased by 20.2 per cent to RO 105.9 million during the six months period ended 30 June 2011 from RO 88.1 million reported during the corresponding period in 2010. The increase in net interest income was due to combination of asset growth and improvement in net interest margin. Non-interest income at RO 40.9 million was higher by 21 per cent compared to RO 33.8 million in H1'10. Operating expenses for H1'11 at RO 61.2 million increased by 23.8 per cent as compared to the same period in 2010. Increase in operating expenses is attributable to higher manpower cost and operating expenses related to investment in facilities, which would enhance the working environment for staff, thus enabling the Bank to provide better customer services.

Impairment for credit losses for the first six-month period in 2011 was RO 25.7 million as against RO 20.7 million in H1'10. Recoveries from impairment for credit losses was RO 11.5





million as against RO 6.7 million for the six-month period ended 30 June 2010. Share of loss from associates was RO 3.6 million for the six months ended 30 June 2011 which was at the same level of H1'10.

Gross loans and advances increased by 11 per cent to RO 4,465 million as against RO 4,058 million as at June 30, 2010. Customer deposits, including CDs, increased by 21.7 per cent to RO 4,332 million as against RO 3,560 million as at June 30, 2010. Savings deposits witnessed an impressive growth of 27 per cent from RO 831 million as at 30 June 2010 to RO 1,057 million as at 30 June 2011. The current and call account grew by 26.5 per cent from RO 1,164 million as at 30 June 2010 to RO 1,473 million as at 30 June 2011.

Strategic initiatives

In line with the Royal directive of His Majesty Sultan Qaboos Bin Said, granting approval for an Islamic bank and allowing existing banks to open a window for Islamic banking products and services, the Bank has in place a comprehensive strategy to cater to the financial needs of people, subject to obtaining final regulatory approval. As the nation's leading financial services provider, BankMuscat is well positioned to roll out Islamic banking products and services.

The Bank hosted a round table discussion by CEOs to deliberate and discuss the prevailing economic situation, aspirations of younger generations and best practices for the way forward. The objective was to share views, experience and knowledge in order to advance common strategies in line with the national development objectives.

Accolades

The Bank achieved double honours at the Asian Banker Awards 2011, winning the Asian Banker Talent and Leadership Development Award while Abdullah Al Hinai, AGM – Investment Banking, won the Promising Young Banker Award. Both the awards highlight BankMuscat's achievements in human capital development.



In Conclusion

On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, for the confidence reposed in the Bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the Bank to record encouraging results.

The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity during the last 41 years.

Khalid bin Mustahail Al Mashani
Chairman of the Board of Directors

Summary of unaudited consolidated results as at 30 June 2011

	30-Jun-11	30-Jun-10
	RO' 000	RO' 000
Loans and advances net of provisions and reserved interest	4,267,252	3,826,340
Customer Deposits and Bonds	4,402,145	3,629,898
Net assets	812,106	735,871
Net assets per share *	0.524	0.547
	6 months ended 30 June 2011	6 months ended 30 June 2010
Net interest income	105,981	88,086
Net profit before tax for the period	67,311	55,017
Net profit after tax for the period	57,232	47,026
Basic earnings per share (for the period) **	0.037	0.035
Diluted earnings per share (for the period) **	0.037	0.035
Capital adequacy ratio ***	13.29%	14.54%

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 30 June 2011 by 1,548.38 million number of ordinary shares. (2010 : 1,346 million ordinary shares)

** Basic and Diluted earnings per share is calculated as per International Accounting Standard No : 33. These pertain to the reported period only and are not annualized for the full year.

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

Unaudited Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2011

	Notes	6 months ended 30 Jun 2011 RO' 000	6 months ended 30 Jun 2010 RO' 000	3 months ended 30 Jun 2011 RO' 000	3 months ended 30 Jun 2010 RO' 000
Interest income	1	137,641	134,796	71,041	67,086
Interest expense	2	(24,843)	(39,812)	(15,397)	(19,914)
		<u>112,798</u>	<u>94,984</u>	<u>55,644</u>	<u>47,172</u>
Interest expense on tier II capital		(6,817)	(6,898)	(3,413)	(3,453)
Net interest income		<u>105,981</u>	<u>88,086</u>	<u>52,231</u>	<u>43,719</u>
Other operating income	3	40,909	33,840	18,316	16,521
OPERATING INCOME		<u>146,890</u>	<u>121,926</u>	<u>70,547</u>	<u>60,240</u>
OPERATING EXPENSES					
Other operating expenses		(55,743)	(45,387)	(26,948)	(22,641)
Depreciation		(5,414)	(3,984)	(2,751)	(2,087)
		<u>(61,157)</u>	<u>(49,371)</u>	<u>(29,699)</u>	<u>(24,728)</u>
Impairment for credit losses	5	(25,721)	(20,744)	(12,660)	(8,949)
Impairment for placements		(350)	-	(200)	-
Impairment for investments		(198)	(296)	(198)	(219)
Recoveries from impairment for credit losses	5	11,498	6,724	8,455	3,934
Recoveries from impairment for investments		-	284	-	222
Recoveries from impairment for placements		-	84	-	-
Share of profit / (loss) from associates	8a	(3,651)	(3,590)	(1,816)	(4,306)
		<u>(79,579)</u>	<u>(66,909)</u>	<u>(36,118)</u>	<u>(34,046)</u>
PROFIT BEFORE TAXATION		<u>67,311</u>	<u>55,017</u>	<u>34,429</u>	<u>26,194</u>
Tax expense		(10,079)	(7,991)	(5,036)	(3,643)
PROFIT FOR THE PERIOD		<u>57,232</u>	<u>47,026</u>	<u>29,393</u>	<u>22,551</u>
OTHER COMPREHENSIVE INCOME					
Profit / (loss) from foreign currency translation of investments in associates, before tax		(27)	(21)	(65)	(374)
Profit / (loss) from foreign currency translation of net investments in foreign operations, before tax		(29)	-	(13)	-
Change in fair value of investments available for sale, before tax		(7,805)	(906)	24	(1,746)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>(7,861)</u>	<u>(927)</u>	<u>(54)</u>	<u>(2,120)</u>
Profit attributable to:					
Equity holders of the parent company		57,278	47,062	29,414	22,568
Non-controlling interests		(46)	(36)	(21)	(17)
		<u>57,232</u>	<u>47,026</u>	<u>29,393</u>	<u>22,551</u>

**Unaudited Consolidated Statement of Financial Position
as at 30 June 2011**

	Notes	30-Jun-11 RO' 000	30-Jun-10 RO' 000
ASSETS			
Cash and balances with Central Banks		600,830	954,133
Placements with banks		780,115	938,857
Loans and advances	4 & 5	4,267,252	3,826,340
Investments	8b & c	313,016	146,197
Investment in associates	8a	51,237	63,568
Property and equipment		75,547	29,006
Other assets		195,657	189,605
		<u>6,283,654</u>	<u>6,147,706</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks		531,944	1,279,295
Customers' deposits	6	4,199,942	3,382,195
Certificates of deposit		132,000	177,500
Unsecured bonds		54,803	54,803
Floating rate notes		15,400	15,400
Other liabilities		326,859	295,248
Taxation		27,101	23,894
Subordinated liabilities		183,500	183,500
		<u>5,471,549</u>	<u>5,411,835</u>
EQUITY			
Capital and reserves attributable to equity holders of the parent company			
Share capital		154,838	134,641
Share premium		301,505	301,505
Mandatory Convertible bonds		32,314	32,314
General reserve		61,308	56,308
Legal reserve		44,881	35,905
Revaluation reserve		3,957	3,957
Subordinated loan reserve		80,100	48,400
Foreign exchange translation reserve		(559)	(905)
Cumulative changes in fair value	8a&8b	1,535	3,917
Retained profit		132,007	119,653
		<u>811,886</u>	<u>735,695</u>
Non-controlling interests in equity		220	176
Total Equity		<u>812,106</u>	<u>735,871</u>
TOTAL LIABILITIES AND EQUITY		<u>6,283,654</u>	<u>6,147,706</u>
Contingent liabilities	11	<u>1,384,109</u>	<u>1,092,968</u>
Related party information			
Due from related parties	9	68,428	49,685
Due to related parties		69,165	58,856

*Unaudited Consolidated Statement of Cash Flows
For the six months ended 30 June 2011*

	6 months ended 30 June 2011	6 months ended 30 June 2010
	RO' 000	RO' 000
Cash flow from operating activities		
Net profit for the period before taxation	67,311	55,017
Adjustments for :		
Depreciation	5,414	3,984
Investment income	(5,799)	(1,155)
Operating profit before working capital changes	<u>66,926</u>	<u>57,846</u>
Change in operating assets*	(413,477)	(103,266)
Change in operating liabilities**	<u>679,282</u>	<u>420,128</u>
Net cash (used in) / from operating activities	<u>332,731</u>	<u>374,708</u>
Net cash (used in) / from financing activities	(33,660)	(26,543)
Net cash (used in) / from investing activities	10,787	(10,428)
Net increase / (decrease) in cash and cash equivalents	<u>309,859</u>	<u>337,737</u>
Cash and cash equivalents brought forward	665,386	367,289
Cash and cash equivalents carried forward	<u><u>975,245</u></u>	<u><u>705,026</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 Consolidated Statement of Changes in Equity
Period ended 30 June 2011

	Share capital	Share premium	Convertible Bonds	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Foreign exchange translation reserve	Retained Earnings	Total before Non-controlling interest	Non-controlling interest	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Balance at 31 December 2009	107,713	301,505	32,314	56,308	35,905	3,957	48,400	4,823	(884)	121,063	711,104	212	711,316
Comprehensive income													
Profit for the year										101,669	101,669	(74)	101,595
Other comprehensive income													
Profit on translation of net investments in associate									381		381		381
Change in fair value of investments available for sale								4,517			4,517		4,517
Total other comprehensive income	-	-	-	-	-	-	-	4,517	381	-	4,898	-	4,898
Transactions with owners													
Dividends paid 2009										(21,543)	(21,543)		(21,543)
Issue of bonus shares 2009	26,928									(26,928)	-		-
Transfer to legal reserve					8,976					(8,976)	-		-
Transfer from Subordinated loan reserve				5,000			(5,000)				-		-
Transfer to Subordinated loan reserve							36,700			(36,700)	-		-
Total contributions by and distributions to owners	26,928	-	-	5,000	8,976	-	31,700	-	-	(94,147)	(21,543)	-	(21,543)
Non-controlling interest												128	128
Total transactions with owners	26,928	-	-	5,000	8,976	-	31,700	-	-	(94,147)	(21,543)	128	(21,415)
Balance at 31 December 2010	134,641	301,505	32,314	61,308	44,881	3,957	80,100	9,340	(503)	128,585	796,128	266	796,394
	Share capital	Share premium	Mandatory Convertible Bonds	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Foreign exchange translation reserve	Retained Earnings	Total before Non-controlling interest	Non-controlling interest	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Balance at 31 December 2010	134,641	301,505	32,314	61,308	44,881	3,957	80,100	9,340	(503)	128,585	796,128	266	796,394
Comprehensive income													
Profit for the year										57,278	57,278	(46)	57,232
Other comprehensive income													
Profit on translation of net investments in associates									(27)		(27)		(27)
Loss on translation of net investments in foreign operations									(29)		(29)		(29)
Change in fair value of investments available for sale								(7,805)			(7,805)		(7,805)
Total other comprehensive income	-	-	-	-	-	-	-	(7,805)	(56)	-	(7,861)	-	(7,861)
Transactions with owners													
Dividends paid 2010										(33,660)	(33,660)		(33,660)
Issue of bonus shares 2010	20,197									(20,197)	-		-
Total contributions by and distributions to owners	20,197	-	-	-	-	-	-	-	-	(53,856)	(33,660)	-	(33,660)
Non-controlling interest												-	-
Total transactions with owners	20,197	-	-	-	-	-	-	-	-	(53,856)	(33,660)	-	(33,660)
Balance at 30 June 2011	154,838	301,505	32,314	61,308	44,881	3,957	80,100	1,535	(559)	132,007	811,886	220	812,106

Notes to the Financial Statements as at 30 June 2011

1. Interest Income

Interest bearing assets earned interest at an overall rate of 5.16 % for the period ended 30 June 2011. (June 2010 : 4.92%).

2. Interest expense

For the period ended 30 June 2011 the average overall cost of funds was 1.62%. (June 10 : 1.91%).

3. Other operating income

	For the six months ended		For the three months ended	
	30-Jun-11 RO' 000	30-Jun-10 RO' 000	30-Jun-11 RO' 000	30-Jun-10 RO' 000
Foreign Exchange	4,763	5,737	2,646	2,995
Commission and fees (net)	29,011	26,452	14,624	12,758
Dividend income	2,529	990	38	144
Profit/(loss) on sale of investment securities	3,270	164	293	136
Other income	1,336	497	715	488
	<u>40,909</u>	<u>33,840</u>	<u>18,315</u>	<u>16,521</u>

The commission and fees shown above is net off commission and fees paid of RO 380 K. (2010 : RO 366 K.)

4. Loans and advances

Loans and advances is analysed as follows:	30-Jun-11 RO' 000	30-Jun-10 RO' 000
Corporate and Other Loans	2,682,592	2,458,948
Personal and Housing loans	1,782,671	1,599,083
Gross loans and advances	<u>4,465,263</u>	<u>4,058,031</u>
Less : Provisions and reserved interest	198,011	231,692
Net loans and advances	<u>4,267,252</u>	<u>3,826,339</u>

The maturity of these is analysed as follows:	30-Jun-11 RO' 000	30-Jun-10 RO' 000
Less than 1 year	1,339,280	1,073,945
1 to 3 years	690,434	759,716
3 to 5 years	426,840	424,113
Over 5 years	2,008,709	1,800,258
	<u>4,465,263</u>	<u>4,058,032</u>

The interest rate band of these are as follows:	30-Jun-11 RO' 000	30-Jun-10 RO' 000
0-5%	1,449,734	1,039,237
5-7%	797,682	611,955
7-9%	2,032,213	2,172,365
9-11%	113,897	158,738
11-13%	43,751	49,281
more than 13%	27,986	26,456
	<u>4,465,263</u>	<u>4,058,032</u>

Notes to the Financial Statements as at 30 June 2011
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 2011	157,350	28,916
Provided during the period	25,721	
Released/recovered during the period	(10,970)	
Written off during the period	(1,881)	(5,339)
Interest reserved during the period		7,368
Reserved interest recovered		(3,154)
At 30 June 2011	<u>170,220</u>	<u>27,791</u>

	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2010	184,190	29,655
Provided during the period	20,744	
Released/recovered during the period	(5,825)	
Written off during the period	(767)	(753)
Transferred during the period	-	-
Interest reserved during the period	-	7,637
Reserved interest recovered	-	(3,189)
At 30 June 2010	<u>198,342</u>	<u>33,350</u>

Recoveries of RO 11,498 K (June 2010: 6,724 K) reported in the income statement includes RO 528 K (June 2010: 899 K) recovered from loans written off earlier.

Interest is reserved on loans and advances which are impaired.

At 30 June 2011 loans and advances on which interest had been reserved amounted to RO 191.22 Million (2010 : RO. 216.88 Million). This includes off balance sheet exposure.

* *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 2011

6. Deposits

Deposits are analysed as follows:

	30-Jun-11	30-Jun-10
	RO' 000	RO' 000
Current accounts	1,249,080	889,008
Call accounts	224,309	275,477
Savings accounts	1,056,755	830,924
Time deposits	1,648,188	1,369,338
Other	21,609	17,449
Customer Deposits	<u>4,199,942</u>	<u>3,382,195</u>
CD's / Unsecured Bonds / FRN's	202,203	247,703
Total Deposits	<u><u>4,402,145</u></u>	<u><u>3,629,898</u></u>

The maturities of deposits are as follows

	30-Jun-11	30-Jun-10
	RO' 000	RO' 000
Less than 1 year	2,253,770	1,731,219
1 to 3 years	820,109	714,179
3 to 5 years	644,419	471,547
Over 5 years	683,847	712,953
	<u>4,402,145</u>	<u>3,629,898</u>

The interest rate bands of deposits are as follows:

	30-Jun-11	30-Jun-10
	RO' 000	RO' 000
0%	1,790,544	1,452,836
0-2%	1,642,400	942,840
2-4%	395,767	399,605
4-6%	507,043	768,896
more than 6%	66,391	65,721
	<u>4,402,145</u>	<u>3,629,898</u>

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

<i>Maturities</i>	30-Jun-11			30-Jun-10		
	Assets	Liabilities	Mismatch	Assets	Liabilities	Mismatch
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Less than 1 year	2,760,852	2,956,855	(196,003)	2,903,615	3,207,240	(303,625)
1 to 3 years	840,953	964,556	(123,603)	865,488	836,670	28,818
3 to 5 years	464,104	678,719	(214,615)	455,160	528,867	(73,707)
Over 5 years	2,217,745	1,683,524	534,221	1,923,443	1,574,929	348,514
	<u>6,283,654</u>	<u>6,283,654</u>	<u>-</u>	<u>6,147,706</u>	<u>6,147,706</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 2011

8. Non Trading Investments
8.a. Investment in associates
1 Investment in Bank Muscat International (BMI), Bahrain

The carrying value of the investment in BMI was as follows:

	30-Jun-11	30-Jun-10
	RO. 000's	RO. 000's
Carrying value of the investment at January 1	44,016	57,328
Estimated share of (loss) / profit for the period	<u>(3,947)</u>	<u>(3,955)</u>
Carrying value of the Investment at June 30	<u>40,069</u>	<u>53,373</u>

2 Investment in Mangal Keshav Holdings Private Limited (MKH), India

The carrying value of the investment in MKH was as follows:

	30-Jun-11	30-Jun-10
	RO. 000's	RO. 000's
Carrying value of the Investment at January 1	10,901	9,844
Share of profit for the period Oct09 to Mar 10		373
Share of profit for the period Oct10 to Mar 11	296	
Profit / (loss) on translation of foreign currency investments	<u>(27)</u>	<u>(21)</u>
Carrying value of the Investment at June 30	<u>11,170</u>	<u>10,195</u>

Notes to the Financial Statements as at 30 June 2011

8. Non Trading Investments (continued)
8.b. Available For Sale

	Fair Value 30-Jun-11 RO' 000	Fair Value 30-Jun-10 RO' 000
<i>Quoted Investments</i>		
Industrial sector	4,369	4,940
Financial services sector	4,970	4,181
Other services sector	18,926	15,156
Foreign securities	34,810	28,163
Corporate Bonds	2,005	4,696
Investment fund units	9,528	9,474
Government bonds	109,033	45,864
Total	<u>183,641</u>	<u>112,474</u>
<i>Unquoted investments</i>		
Unquoted local securities	29,278	8,692
Unquoted foreign securities	14,397	12,060
Investment fund units	50	50
Total	<u>43,725</u>	<u>20,802</u>
Impairment losses	(5,576)	(5,674)
Total available for sale	<u>221,790</u>	<u>127,602</u>
8.c. Held To Maturity		
Treasury Bills	91,224	17,294
Government Bonds	-	1,301
	<u>91,224</u>	<u>18,595</u>

Notes to the Financial Statements as at 30 June 2011
9. Related Party Transactions

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

	30-Jun-11	30-Jun-10
	RO' 000	RO' 000
Loans and advances	68,428	49,685
Current, deposit and other accounts	69,165	58,856
Customers' liabilities under documentary credits, guarantees and other commitments	6,363	5,985

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

	6 months	6 months
	ended 30	ended 30
	June 2011	June 2010
	RO' 000	RO' 000
Interest income	1,639	675
Interest expenditure	198	207
Commission and other income	2	17

10. Shareholders

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

	30-Jun-11	30-Jun-10
	RO' 000	RO' 000
Royal Court Affairs	38,459	33,442
Dubai Financial Group LLC	23,226	20,196
	<u>61,684</u>	<u>53,638</u>

11. Contingent liabilities

Letters of Credit	388,698	361,054
Guarantees	995,411	731,915
	<u>1,384,109</u>	<u>1,092,968</u>

12. Spot / Forwards and options
Spot and Forwards

- Purchases	932,995	1,845,294
- Sales	932,758	1,845,401

Options

- Sales	205,925	101,663
- Purchases	205,925	101,663

13. Comparative Figures

The corresponding figures for 2010 included for comparative purposes have been reclassified to conform with the presentation in the current year.