

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED 30 JUNE 2007

CONTENTS		PAGE NO.
1	CHAIRMAN'S REPORT	
2	SUMMARY OF UNAUDITED RESULTS	2
3	UNAUDITED PROFIT AND LOSS ACCOUNT	3
4	UNAUDITED BALANCE SHEET	4
5	UNAUDITED STATEMENT OF CASH FLOW	5
6	UNAUDITED STATEMENT OF CHANGES IN EQUITY	6
7	NOTES TO THE FINANCIAL STATEMENTS	7-13

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 ***	# #	12.64%	

* 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.

To be updated before submission to CMA.

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		46,562	32,931	24,298	17,477
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.