

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED SEPTEMBER 30, 2008

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 Sep 2008

	30-Sep-08	30-Sep-07	Change %
	RO' 000	RO' 000	
Loans and advances net of provisions and reserved interest	3,485,391	2,361,344	48%
Deposits	3,014,957	2,462,395	22%
Net assets	741,210	357,512	107%
Net assets per share *	0.688	0.390	76%
	9 months ended 30 Sept 2008	9 months ended 30 Sept 2007	Change %
Net interest income	115,220	90,468	27%
Net profit before tax for the period	104,159	72,266	44%
Net profit after tax for the period	90,109	62,616	44%
Basic earnings per share (annualised) **	0.112	0.091	22%
Diluted earnings per share (annualised) **	0.112	0.091	22%
Capital adequacy ratio ***	12.22%	11.09%	1.13%

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 30 September 2008 by 1,077.1 million number of ordinary shares. (2007 : 915.56 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 submitting to CMA

*Unaudited Profit and loss account
For the nine months ended 30 September 2008*

	Notes	9 months ended 30 Sept 2008	9 months ended 30 Sept 2007	3 months ended 30 Sept 2008	3 months ended 30 Sept 2007
		RO' 000	RO' 000	RO' 000	RO' 000
Interest income	1	188,777	158,754	65,944	55,044
Interest expense	2	(68,397)	(64,321)	(23,678)	(22,339)
		<u>120,380</u>	<u>94,433</u>	<u>42,266</u>	<u>32,705</u>
Interest expense on tier II capital		(5,160)	(3,965)	(1,719)	(1,535)
Net interest income		<u>115,220</u>	<u>90,468</u>	<u>40,547</u>	<u>31,170</u>
Other operating income	3	58,921	34,528	16,206	13,758
OPERATING INCOME		<u>174,141</u>	<u>124,996</u>	<u>56,753</u>	<u>44,928</u>
OPERATING EXPENSES					
Other operating expenses		(60,287)	(46,389)	(19,357)	(16,549)
Depreciation		(4,110)	(2,876)	(1,510)	(1,050)
		<u>(64,397)</u>	<u>(49,265)</u>	<u>(20,867)</u>	<u>(17,599)</u>
Impairment for credit losses	5	(18,630)	(11,857)	(5,549)	(4,119)
Recoveries from impairment for Investments		583	-	-	-
Recoveries from impairment for credit losses	5	9,970	4,329	6,160	1,171
Share of profit from associates	8a	2,492	4,063	(315)	1,323
		<u>(69,982)</u>	<u>(52,730)</u>	<u>(20,571)</u>	<u>(19,224)</u>
PROFIT BEFORE TAXATION		<u>104,159</u>	<u>72,266</u>	<u>36,182</u>	<u>25,704</u>
Tax expense		(14,050)	(9,650)	(3,900)	(3,300)
NET PROFIT FOR THE PERIOD		<u>90,109</u>	<u>62,616</u>	<u>32,282</u>	<u>22,404</u>

*Unaudited Balance sheet
As at 30 September 2008*

	Notes	30-Sep-08 RO' 000	30-Sep-07 RO' 000
ASSETS			
Cash and balances with Central Banks		430,755	141,339
Placements with banks		910,853	555,600
Loans and advances	4 & 5	3,485,391	2,361,344
Investments	8b & c	458,363	358,693
Investment in associates	8a	112,924	50,716
Property and equipment		21,910	15,302
Other assets		143,158	197,519
		<u>5,563,354</u>	<u>3,680,513</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposits from banks		1,417,034	435,458
Customers' deposits	6	2,816,829	2,276,597
Certificates of deposit		31,675	19,345
Unsecured bonds		54,803	54,803
Floating rate notes		111,650	111,650
Other liabilities		253,669	299,680
Taxation		22,984	16,968
Subordinated liabilities		113,500	108,500
		<u>4,822,144</u>	<u>3,323,001</u>
SHAREHOLDERS FUNDS			
Share capital		107,713	91,556
Share premium		301,505	79,490
General reserve		56,308	56,308
Legal reserve		35,905	27,745
Revaluation reserve		3,957	1,215
Subordinated loan reserve		2,567	-
Cumulative changes in fair value	8a&8b	98,821	2,976
Retained profit		134,434	98,222
		<u>741,210</u>	<u>357,512</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>5,563,354</u>	<u>3,680,513</u>
Contingent liabilities	11	<u>1,138,949</u>	<u>1,013,528</u>
Related party information			
Due from related parties	9	50,018	44,523
Due to related parties		27,102	16,436

Unaudited Statement of cash flow
For the nine months ended 30 Sept 2008

	9 months ended 30 Sept 2008	9 months ended 30 Sept 2007
	RO' 000	RO' 000
Cash flow from operating activities		
Net profit for the period before taxation	104,159	72,266
Adjustments for :		
Depreciation	4,110	2,876
Investment income	(10,820)	(2,127)
Operating profit before working capital changes	<u>97,449</u>	<u>73,015</u>
Change in operating assets*	(758,133)	(630,148)
Change in operating liabilities**	<u>715,651</u>	<u>605,247</u>
Net cash from operating activities	<u>54,967</u>	<u>48,114</u>
Net cash used in financing activities	(48,857)	40,868
Net cash used in investing activities	(92,152)	(21,242)
Net (decrease) / increase in cash and cash equivalents	<u>(86,041)</u>	<u>67,740</u>
Cash and cash equivalents brought forward	328,177	298,601
Cash and cash equivalents carried forward	<u><u>242,136</u></u>	<u><u>366,341</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 Sept 2008

	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 2006</i>	83,233	79,490	56,308	27,745	1,215		1,052	71,042	320,085
Bonus shares issued	8,323							(8,323)	-
Issue of Shares during the year	16,157	222,015							238,172
Net profit for the year								84,257	84,257
Dividend paid - 2006								(29,132)	(29,132)
Transfer of subordinate loan reserve to general reserve						2,567		(2,567)	-
Transfer to legal reserve				8,160				(8,160)	-
Revaluation of land and building					2,742				2,742
Profit on translation of net investments in associates								2,240	2,240
Change in fair value of investments available for sale							9,206		9,206
<i>Balance at 31 December 2007</i>	107,713	301,505	56,308	35,905	3,957	2,567	10,258	109,357	627,570
Net Profit for the period								90,109	90,109
Dividends paid - 2007								(53,857)	(53,857)
Change in fair value of investments available for sale							88,563		88,563
Profit on translation of net investments in associates								(11,175)	(11,175)
Balance at 30 June 2008	107,713	301,505	56,308	35,905	3,957	2,567	98,821	134,434	741,210

Notes to the Financial Statements as at 30 Sep 2008
1. Interest Income

Interest bearing assets earned interest at an overall rate of 5.86% for the nine months ended 30 September 2008. (2007 : 6.93%).

2. Interest expense

For the nine months ended 30 September 2008 the average overall cost of funds was 2.48%. (2007 : 3.36%).

3. Other operating income

	For the nine months ended		For the quarter ended	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07
	RO' 000	RO' 000	RO' 000	RO' 000
Foreign Exchange	4,924	4,436	1,905	1,855
Commission and fees (net)	41,537	26,734	13,901	11,047
Dividend income	2,524	1,168	17	145
Profit/(loss) on sale of investment securities	8,296	959	(64)	394
Other income	1,640	1,231	447	317
	<u>58,921</u>	<u>34,528</u>	<u>16,206</u>	<u>13,758</u>

The commission and fees shown above is net off commission and fees paid of RO 509 K. (2007 : RO 176 K.)

4. Loans and advances

Loans and advances is analysed as follows:

	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
Corporate and Other Loans	2,174,708	1,406,351
Personal and Housing loans	1,432,845	1,037,551
Gross loans and advances	<u>3,607,553</u>	<u>2,443,902</u>
Less : Provisions and reserved interest	122,162	104,167
Net loans and advances	<u>3,485,391</u>	<u>2,339,735</u>

Notes to the Financial Statements as at 30 Sep 2008 (continued)
4. Loans and advances (continued)

The maturity of these is analysed as follows:

	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
Less than 1 year	966,873	802,715
1 to 3 years	582,497	355,803
3 to 5 years	466,493	204,878
Over 5 years	1,591,690	1,102,115
	<u>3,607,553</u>	<u>2,465,511</u>

The interest rate band of these are as follows:

	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
0-5%	1,133,468	111,565
5-7%	656,381	966,390
7-9%	1,620,673	1,171,819
9-11%	142,670	152,723
11-13%	32,418	46,287
more than 13%	21,943	16,727
	<u>3,607,553</u>	<u>2,465,511</u>

Notes to the Financial Statements as at 30 Sep 2008 (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 2008	85,036	23,664
Provided during the period	18,630	-
Released/recovered during the period	(6,476)	-
Written off during the period	(728)	(1,288)
Interest reserved during the period	-	6,661
Reserved interest recovered	-	(3,337)
At 30 September 2008	<u>96,462</u>	<u>25,700</u>
	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2007	88,290	30,236
Provided during the period	11,857	-
Released/recovered during the period	(4,100)	-
Written off during the period	(14,608)	(11,783)
Transferred during the period	(759)	-
Interest reserved during the period	-	7,584
Reserved interest recovered	-	(2,550)
At 30 September 2007	<u>80,680</u>	<u>23,487</u>

Recoveries of RO 9,970 K (Sep 2007: 4,329 K) reported in the income statement includes RO 3,494 K (2007: 229 K) recovered from loans written off earlier.

Interest is reserved on loans and advances which are impaired.

At 30 Sep 2008 loans and advances on which interest had been reserved amounted to RO 72.39 Million (2007 : RO. 62.88 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 Sep 2008 (continued)
6. Deposits

Deposits are analysed as follows:

	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
Current accounts	749,465	527,747
Call accounts	190,416	209,285
Savings accounts	745,893	537,670
Time deposits	1,117,088	993,085
Other	13,967	8,810
Customer Deposits	2,816,829	2,276,597
CD's / Unsecured Bonds / FRN's	198,128	185,798
Total Deposits	3,014,957	2,462,395

The maturities of deposits are as follows

	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
Less than 1 year	1,739,152	1,307,933
1 to 3 years	400,244	471,452
3 to 5 years	362,959	244,470
Over 5 years	512,602	438,540
	3,014,957	2,462,395

The interest rate bands of deposits are as follows:

	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
0%	1,258,736	905,981
0-2%	452,042	186,601
2-4%	749,411	392,305
4-6%	488,748	872,883
more than 6%	66,020	104,625
	3,014,957	2,462,395

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

<i>Maturities</i>	30-Sep-08			30-Sep-07		
	Assets	Liabilities	Mismatch	Assets	Liabilities	Mismatch
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Less than 1 year	2,562,740	3,116,146	(553,406)	1,840,436	1,967,993	(127,557)
1 to 3 years	716,475	598,470	118,005	424,625	508,135	(83,510)
3 to 5 years	533,672	477,484	56,188	228,394	294,470	(66,076)
Over 5 years	1,750,467	1,371,254	379,213	1,187,058	909,915	277,143
	5,563,354	5,563,354	-	3,680,513	3,680,513	-

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 Sep 2008 (continued)

8. Non Trading Investments
8.a. Investment in associates
1 Investment in Centurion Bank of Punjab Limited (CBoP), India

As at September 30, 2008 the carrying value of the investment in CBoP was as follows:

	30-Sep-08	30-Sep-07
	RO. 000's	RO. 000's
Carrying value of the investment at December 31	21,832	17,934
Investments in GDR of CBoP	-	209
Share of profit for the period Oct07 to Dec07	803	1,844
Profit / (loss) on translation of foreign currency investments	(1,086)	1298
Carrying value as on May 31, 2008 transferred to investment securities	(21,549)	-
Carrying value of the investment at September 30	<u>-</u>	<u>21,285</u>

With effect from May 23, 2008, CBoP merged with HDFC Bank, India. Prior to merger BankMuscat held a strategic stake of 17.33% & accounted investment in CBoP as an associate as per the equity method of accounting. Post merger, the shareholding in the merged entity has reduced to 2.67%. The investment is now treated as 'Available for sale' investment and unrealised gain of RO 92,441 K has been booked under Equity as on Sept 30, 2007.

2 Investment in Bank Muscat International (BMI), Bahrain

As at Sep 30, 2008 the carrying value of the investment in BMI was as follows:

	30-Sep-08	30-Sep-07
	RO. 000's	RO. 000's
Carrying value of the investment at December 31	67,124	14,615
Investment in BMI during the year	-	2,504
Share of profit for the period	1,839	1,634
Carrying value of the Investment at September 30	<u>68,963</u>	<u>18,753</u>

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

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 Sep 30, 2008 the carrying value of the investment in MKH was as follows:

	30-Sep-08	30-Sep-07
	RO. 000's	RO. 000's
Carrying value of the Investment at June 30	10,745	-
Purchase consideration paid	-	9,347
Share of profit for the period Apr07 to Jun07	-	585
Share of profit for the period Oct07 to June08	759	-
Profit / (loss) on translation of foreign currency investments	(1806)	746
Carrying value of the Investment at September 30	<u>9,698</u>	<u>10,678</u>

Notes to the Financial Statements as at 30 Sep 2008 (continued)

4 Investment in SaudiPak Commercial Bank Limited (SPCB), Pakistan

In March 2008, the bank completed an acquisition of a strategic stake of 40.17% (200,899,633 shares) in SaudiPak Commercial Bank, a public limited company engaged in Banking services in Pakistan.

The investment was made in consortium with Sinthos Capital, Nomura Group and International Finance Corporation (IFC).

In June 2008, SPCB announced a Rights issue wherein the Bank acquired 114,313,228 shares in SPCB. Subsequent to the rights issued the Banks stake reduced to 35.07% in SPCB.

As at September 30, 2008 the carrying value of the investment in Saudi PAK Bank was as follows:

	30-Sep-08
	RO. 000's
Total consideration paid	43,458
Add: Share of profit / (loss) for the period Apr 08 to June08	(909)
Profit / (loss) on translation of foreign currency investments	(8,286)
Carrying value of the Investment at September 30	<u><u>34,263</u></u>

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

	Fair Value	Fair Value
	30-Sep-08	30-Sep-07
	RO' 000	RO' 000
<i>Quoted Investments</i>		
Industrial sector	10,766	5,879
Financial services sector	9,838	4,170
Other services sector	33,826	7,729
Foreign securities*	133,515	14,103
Corporate Bonds	7,412	5,721
Government bonds	51,200	16,336
Total	<u>246,557</u>	<u>53,938</u>
Less : Impairment losses	<u>(2,236)</u>	<u>(2,753)</u>
	<u>244,321</u>	<u>51,185</u>
<i>Unquoted investments</i>		
Unquoted local securities	5,969	4,051
Unquoted foreign securities	7,177	4,351
Investment fund units	769	871
Total	<u>13,915</u>	<u>9,273</u>
Total available for sale	<u><u>258,236</u></u>	<u><u>60,458</u></u>

8.c. Held To Maturity

Treasury Bills	179,760	265,051
Government Bonds	20,367	33,184
	<u><u>200,127</u></u>	<u><u>298,235</u></u>

* Includes RO 112,682 relating to investment in HDFC Bank.

Notes to the Financial Statements as at 30 Sep 2008 (continued)
9. Related Party Transactions*

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

	30-Sep-08	30-Sep-07
	RO. 000's	RO. 000's
Loans and advances	50,018	44,523
Current, deposit and other accounts	27,102	16,436
Customers' liabilities under documentary credits, guarantees and other commitments	3,175	7,024

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

	9 months	9 months
	ended 30 Sept	ended 30
	2008	Sept 2007
	RO. 000's	RO. 000's
Interest income	1,210	1,726
Interest expenditure	565	486
Commission and other income	44	53

* Sheikh Mustahil Ahmed Al Mashani and Group Companies hold 5.97% in the Bank as at 30 September 2008 (2007: 9.96%). Although, the holding reduced below 10%, the exposure is reported for the purpose of comparative figures.

10. Shareholders

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

	30-Sep-08	30-Sep-07
	RO. 000's	RO. 000's
Royal Court Affairs	26,754	18,364
Dubai Financial Group LLC	16,157	-
Sh.Mustahil Ahmed Al Mashani - Group*	6,435	9,116
	<u>49,346</u>	<u>27,480</u>

* Sheikh Mustahil Ahmed Al Mashani and Group Companies hold 5.97% in the Bank as at 30 September 2008 (2007: 9.96%). Although, the holding reduced below 10%, the exposure is reported for the purpose of comparative figures.

11. Contingent liabilities

Letters of Credit	574,158	478,730
Guarantees	564,791	534,798
	<u>1,138,949</u>	<u>1,013,528</u>

12. Forwards and options
Forwards

- Sales	5,026,541	587,666
- Purchases	5,005,754	587,666

Options

- Sales	33,117	117,601
- Purchases	40,420	117,601

13. Comparative Figures

The corresponding figures for 2007 included for comparative purposes have been reclassified to conform with the presentation in the current year.