

Bank Muscat achieved net profit of RO 60.4 million for the first six months of current fiscal compared to net profit of RO 57.8 million reported during the corresponding period in 2008.

Increase in Net Interest Income on a flattish loan book

Net Interest Income of RO 83.4 million achieved by the bank during the current fiscal is 11.7% higher than that achieved during corresponding period in 2008. On a quarterly basis the bank recorded an increase of 10.5% increase in its NII during the second quarter of the year as compared to first quarter. This was on the backdrop of 1% increase in loan book during the quarter. We assume that the bank had been able to reprice its loan agreements with customers, which resulted in higher NII despite a flattish loan book and higher cost of funds.

Sale of Investments in HDFC Bank

The bank sold its entire investments in HDFC Bank and realized an after tax gain of RO 53.2 million during the current fiscal. Earlier during the first quarter of the year the bank sold 81% of its investment in HDFC Bank and realized a post tax gain of RO 35.3 million. During the second quarter the bank could achieve a post tax gain of RO 17.9 million by selling the remaining part of its investments in HDFC Bank.

Moderation in non interest Income; but increase in operating profit

Non Interest Income excluding the gain on HDFC Bank sale during the first half of the year stood at RO 38.8 million, lower by 3.8 million or 9% as compared to that achieved in H1-2008. However, the operating income showed a growth of 75.7% at RO 24.8 million as compared to that of RO 14.1 million recorded in the first three months of current fiscal. Operating profit of the bank before extraordinary items and provisions during the first half of the year stood at RO 79.9 million, up by 8.1% compared to RO 73.8 million during H1-2009.

Huge increase in loan loss provisions due to Saudi exposure....

The increase in noninterest income coupled with gain on HDFC Bank investments provided the bank with cushion for earmarking RO 40.2 million as loan loss provisions during the second quarter of the year.

During the second quarter of 2009, the bank's exposures to troubled Saudi Groups Saad and Al Ghosaibi caused it to increase the credit loss provisions. The bank took provisions of RO 40.2 in Q2 2009 as against an average provision of RO 6 million over the last 10 quarters. During Q1 2009 the bank provided RO 11.2 million as loan loss provisions. We believe that the bank is trying to de-risk its loan portfolio by cleaning up its books to the extent possible. We assume that it had earmarked provision to the tune of RO 30 million towards its exposure of RO 49 million to the troubled Saudi groups. The timing of declaration of its investment sale and disclosure of exposure to Saudi groups makes us believe that the bank sold its investments in an attempt to soften the effect of huge provisions on its Profit and Loss Accounts.

During the first quarter the bank had accounted for RO 7.5 million in respect of realised and unrealised losses on the available for sale investment portfolio. In second quarter, an additional RO. 1.9 million of realised and unrealised losses on the AFS investment portfolio was accounted.

...and share of loss from associates dented the profitability

We estimate that the associates of the bank had contributed net loss to the tune of RO 11.3 million during the first six months of the year. We assume that majority of this loss could be contributed by its Bahrain Associate, Bank Muscat Interntaional. BMI had an exposure of RO 17 million to the troubled Saudi Groups and we believe that regulatory directives in Bahrain had forced the bank to make provisions on most of its exposure to the Saudi groups.

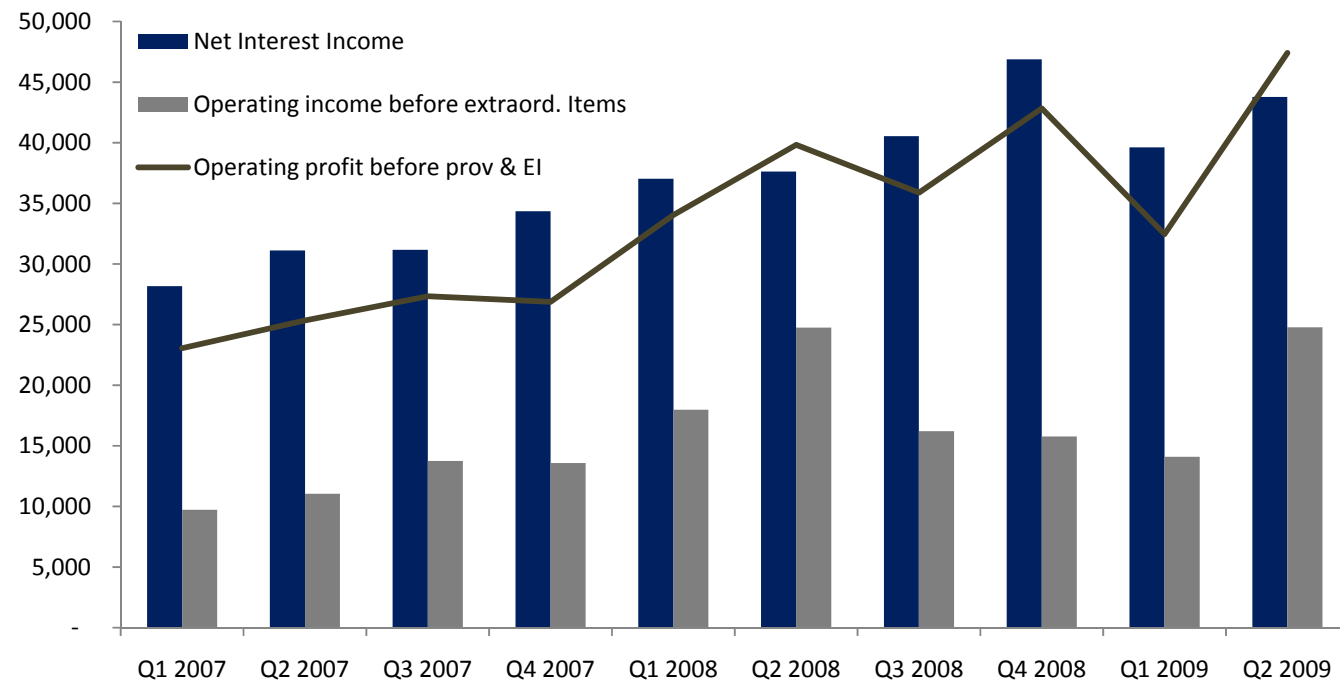
Moderation in credit growth and decrease in deposit base

Net loans and advances increased by 20% to RO 3,818 million as against RO 3,192 million as at June 30, 2008. However, the net loan addition during the second quarter stood at RO 40.2 million as against RO 50 million of loans added during the first quarter.

Despite an addition of RO 7.9 million by way of Certificates of Deposit during the second quarter, the bank’s customer deposits including CDs decreased by RO 11 million to RO 3,214 million. However on a YoY basis the deposits have shown a growth of 14% from RO 2,816 million at the end of June 2008.

Networth remains unchanged; share price at par with book value

We estimate that the total equity of the bank remains unchanged from Q1 2009 at RO 684 million resulting in a book value per share of RO 0.635. At the current price of RO 0.667, the bank’s shares are trading almost at par with its book value while the peer banks are trading at an average of 1.4x their respective book value. We feel that bank Muscat being the market leader in Oman has to trade at a premium to its book value. We maintain our positive outlook on the shares on the Bank.



Income Statement	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009E	Change Y-o-Y (H1)	Change Q-o-Q
Net Interest Income	37,042	37,631	40,547	46,887	39,618	43,782	11.69%	10.51%
Other Operating income before extraordinary Items	17,974	24,741	16,206	15,773	14,099	24,772	-9.00%	75.70%
Gain on sale of HDFC Bank	0	0	0	0	35,300	17,900	-	-
Total Operating income	55,016	62,372	56,753	62,660	89,017	86,454	49.48%	-2.88%
Operating expenses	20,982	22,548	20,867	19,827	21,255	21,145	-2.60%	-0.52%
Operating profit before provisions and extraordinary items	34,034	39,824	35,886	42,833	32,462	47,409	8.14%	46.04%
Net impairments	4,851	3,837	(611)	33,437	11,770	40,165	497.78%	241.25%
Share of profit from associate	2,107	700	(315)	(5,144)	(325)	(11,009)	-503.78%	3287.38%
Profit before tax	31,290	36,687	36,182	4,252	55,667	14,135	2.68%	-74.61%
Net profit after tax	26,540	31,287	32,282	3,622	48,417	12,031	4.53%	-75.15%

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