Bank Muscat had announced their preliminary results for the first quarter of 2009.

Bank Muscat reported net profit of RO 48.4 million for the period as against net profit of RO 26.5 million reported during the corresponding period in 2008. This includes a onetime post tax gain of RO 35.3 million on sale of HDFC Bank investment.

Net interest income during the quarter increased by 7% to RO 39.6 million from RO 37.0 million during Q1 2008. The NII during the quarter had declined by RO 7 million or 15% as compared to the NII during the fourth quarter of 2008. We assume that high cost of funds had caused the bank in realizing lower net interest income on a qoq basis despite an increase in the loan portfolio. Non Interest Income excluding the gain of HDFC bank stake sale and including other realized losses in available for sale portfolio decreased by 16%. Operating expenses remained unchanged at about RO 21 million.

Impairment provisions: The bank has accounted for RO 7.5 million towards realised and unrealised losses on its available for sale investment portfolio taking the total impairment on the portfolio to RO 18.4 million over the last two quarters. The bank believes that it has substantially de-risked its investment portfolio and therefore does not expect any major write downs on the AFS investment portfolio during the remaining course of 2009.

Loan loss provisions for the first quarter 2009 stood at RO 11.2 million for a loan book addition of RO 49.3. We assume that the bank has taken specific provisions to the extent of RO 9.8 million on its existing loan portfolio. We also assume that there could be an increase in the bank's nonperforming assets during this quarter. However, historically Bank Muscat has a loan book of high quality assets and the bad assets are fully covered by adequate provisions. As at the end of December 2008 the non performing loans and impairment provision for loan loss stood at RO 90.5 million and 125.6 million respectively. If the initial indication holds in the future, we can assume a rise in nonperforming assets. Going forward, a dilution in the provision coverage or a dent in profitability due to higher provisions for loan impairment would not be surprising for us.

Loan book growth: During the first quarter the bank had been very conservative in lending its customers which is evident from the addition in its loan book. On the back drop of slow economic growth, the bank had disbursed loans worth RO 49.3 million only as against RO 242.3 million during the last quarter of 2008. During the entire year of 2008, the bank was able to add more than a billion of rials into its loan book. We anticipate the situation to improve in the coming quarters as fiscal spending kick in, and demand for credit to improve as various projects announced by the government starts getting executed.

Deposit mobilization: The bank has seen one of its worst quarters in terms of deposit addition. Despite the mobilization of funds to the extent of RO 50 million by way of CD auction, customer deposits at the end of March 2009 declined by RO 9.7 million as compared to end of December 2008. The bank is in the process of raising additional funds of RO 60 million by way of issuing subordinated bonds that carry a coupon rate of 8% per annum. The bank has introduced a number of attractive deposit schemes for attracting low cost savings deposits. We expect these schemes to be successful thereby helping the bank in attracting low cost Current Accounts and Savings Accounts (CASA).

By honoring its long credit line commitments, we believe that the bank would start lending at a faster rate than Q1 2009 in the coming quarters. With lower impairment provisions in the future for investments, profitability of the bank are poised for a growth in the coming quarters. We maintain our positive outlook on the bank, while keeping a watch on the credit quality.

We shall release a detailed update on the results once the company publishes its financial statements