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Bank Muscat (BMAO.OM)**January 15, 2009**

- Bank Muscat issued a statement today, January 15th, giving preliminary estimates of its full year 2008 financial results. Net profit for last year has reached around RO 90 million, 7% over the RO 84.2 million net profit reported in 2007. Bank Muscat's net profit in 9M2008 stood at RO 90 million, indicating that the bank's net profit in 4Q2008 was close to zero. The following two reasons were behind this performance in 4Q2008. First, an impairment loss of RO 16 million on the bank's 35% stake in SaudiPak Commercial Bank. Second, an impairment loss of RO 10.9 million on the bank's available for sale portfolio. This makes the total impairment losses from the above two exposures around RO 26.9 million, essentially wiping out all profits the bank has accumulated in 4Q2008.
- We had mentioned in our initiation of coverage report on Bank Muscat (dated December 04, 2008) that significant risks from the investment in SaudiPak Commercial Bank are present in the short term as Pakistan is facing significant macroeconomic problems and SaudiPak Commercial Bank has not been a profitable institution since 2006. The carrying value of SaudiPak Commercial Bank at the end of September 2008 stood at RO 34.2 million (4.6% of Bank's Muscat total equity as of 30 September 2008). Bank Muscat announced that this carrying value would drop to RO 17.9 million at the end of December 2008, following the RO 16 million impairment that was taken in 4Q2008. Hence, in a worst-case scenario, Bank Muscat would have to incur a maximum of RO 17.9 million impairment loss on that exposure during 2009 or beyond.
- The substantial decline in local and international stock markets had a significant impact on Bank Muscat's results in 4Q2008. The RO 10.9 billion loss from the marking-to-market of the available for sale portfolio was not taken directly to shareholders' equity, as customary, but was considered impaired and, hence, was taken to the income statement, thereby, affecting net profit in 4Q2008.
- On a more positive note, Bank Muscat announced that its operating profit for 2008 is expected to reach RO 152 million, 48% over 2007. However, we prefer to wait for the full financial statements before commenting on the bank's pre-impairment results for 4Q2008. Additionally, despite the significant impairment losses incurred in 4Q2008, Bank Muscat announced that its capital adequacy ratio stood at over 12.5% as of Dec.2008, compared with 12.22% as of September 2008, comfortably over the 10% minimum required by the Central Bank of Oman.
- We will issue an update report on Bank Muscat after we receive the full-year 2008 financial statements and after we receive further clarification from the bank's management, especially regarding their investment in SaudiPak Commercial Bank.

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Related Research

- Bank Muscat Initiation of Coverage - 04 Dec. 2008