

BANK MUSCAT (BMAO.OM)

- Bank Muscat announced its preliminary results for 1H2009, where net profit stood at RO 60.4 million, 4% over 1H2008. The net profit for 1H2009 includes a post tax gain of RO 53.2 million from the bank's sale of its stake in India's HDFC Bank.
- Net profit for 2Q2009 amounted to RO 12 million. The net profit in 2Q2009 includes RO 17.9 million in post tax gains from the sale of Bank Muscat's remaining stake in HDFC. Excluding this gain, Bank Muscat would have incurred a loss of close to RO 5.9 million in 2Q2009. However, results of the 2Q2009 also include a gross loan loss provisioning charge of around RO 40.2 million. In mid-June 2009, Bank Muscat announced a direct exposure of around RO 49 million to two troubled Saudi groups, namely, the Al Gosaibi Group and the Saad Group. It is not yet known how much of the total provisioning charge (RO 40.2 million) relates to the exposure to the these two groups. An additional loss (realized and unrealized) of RO 1.9 million on the bank's available-for-sale portfolio was incurred in 2Q2009, following a similar loss of RO 7.5 million in 1Q2009.
- On a more positive note, net interest income reached RO 43.8 million in 2Q2009, growing 16% y-on-y and 11% q-on-q. Cost control was impressive, with operating expenses dropping 6% y-on-y, and nearly 1% q-on-q.
- Lending was weak with net loans growing by 1% in 2Q2009, following a similar 1% growth in 1Q2009. Deposits, including CDs, were nearly flat in 2Q2009, standing at RO 3.2 billion.
- Provisioning aside, the results still carry some positive indicators. There is a rebound in net interest income, indicating an increase in spreads, reflecting the loan re-pricing that Bank Muscat is resorting to. Normalized non-interest income in 1H2009 is still below the same period in 2008; however, Bank Muscat's disclosure indicates that normalized non-interest income has witnessed an improvement in 2Q2009. Moreover, cost control has been impressive. From the jump in provisioning, it looks like Bank Muscat has provisioned for a large amount of its exposure to the two mentioned Saudi groups, although we cannot put a figure on that right now.
- We will wait for the release of the full financial statement to better assess the situation and see if a change in fair value is warranted.

Raja Ghoussoub, CFA

T. +971 4 365 2857

E. raja.ghoussoub@nbkcapital.com

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NBK CAPITAL**Kuwait****Head Office**

17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research

19th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq,
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage

8th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506, Dubai,
UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

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