

Board of Directors Report for the nine month period ended 30th September 2010

On behalf of the Board of Directors, I am pleased to present the results of your bank as at 30th September 2010.

The Net Profit for the nine months period ending 30th September 2010 stood at OMR 8.264 million as compared to a Net Profit of OMR 4.440 million during the nine month period ended 30th September 2009, an increase of 86.1%. The bank continues its drive for sustainable and profitable growth.

The Net Interest Income witnessed a significant improvement of 43.9% from OMR 15.887 million for the period ended 30th September 2009 to OMR 22.867 million for the period ended 30th September 2010. The operating income has increased by 31.7% from OMR 19.748 million in the first nine months of last year to OMR 26.016 million in the first nine months of the current year. Further, the Cost to Income ratio has improved from 63.5% in the first nine months of last year to 53.6% in the first nine months of the current year even after considering the increase in operating cost by 11.2% from OMR 12.536 million to OMR 13.945 million during the same period.

Net loans and advances grew by 10.3% from 787 million in December 2009 to reach OMR 868 million as at 30th September 2010, while customer deposits increased by 8.9% from 832 million in December 2009 to reach OMR 907 million during the same period. The bank's market share of Private Sector Credit was 8.55% while the Private Sector Deposit share was 6.66% as at end of September 2010.

The bank continued to grow its deposits and loan book despite the sluggish growth rates in loans and deposits in the market. Bank Sohar also continued its focus on improving its quality of assets despite a challenging environment, and has maintained adequate provisioning cover for its delinquent assets. The bank continued with its effort on improving the yield on assets, reducing the cost of funds and operating expenses.

Customer satisfaction on the service level standards of the bank and their reliance and confidence in the products and services provided by the bank are key values for the bank. The bank offers its services through a variety of outlets such as branches, ATMs, the Call Center as well as electronic banking outlets such as Internet Banking and SMS banking. The bank presently has a network of 18 branches and 34 ATMs out of which 16 are offsite ATM's. The new improved Al Mumayaz savings scheme launched in the first quarter of this year has proven to be a success, as the savings deposits have increased by 9.7% in the current year.

The bank continues to recruit fresh Omani graduates and developing their abilities and providing good opportunities in the workplace. The bank total staff count as at 30th September 2010 stood at 499 and the Omanisation ratio is at 87.2%.

During the third quarter, the bank has supported several social and educational programs and events in order to execute its Corporate Social Responsibility. On the educational front, the Bank supported the Najah Initiative which is promoted by the Oman Chamber of Commerce and Industry. This Program works to provide opportunities for deserving high school graduates from families with limited resources to get access to higher education. The bank continues its efforts to support local charities in order to strengthen its position as a role model in the society by donating to the Oman Association for the Welfare of Children – Autism Center, Child Care Center, Oman Association for the Disabled – Muscat and the National Association for Cancer Awareness Project ‘Home Away from Home’. This new project seeks to help parents who bring children to the Royal Hospital for cancer treatment by providing them with family accommodation in order to encourage more families to bring their children for timely treatment. The bank also participated in sponsoring the 2010 Salalah Tourism Festival.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Salim Said Al Fannah Al Araimi
Chairman



UN AUDITED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

		<i>30 September 2010</i>	<i>31 December 2009</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>
ASSETS			
Cash and balances with Central Bank	<i>B1</i>	51,184	132,270
Due from Banks and other money market placements	<i>B2</i>	202,156	20,280
Loans and advances (net)	<i>B3</i>	868,116	786,784
Available-for-sale investments	<i>B4</i>	40,844	61,690
Property, equipment and fixtures	<i>B5</i>	13,352	14,340
Other assets	<i>B6</i>	10,361	9,246
		1,186,013	1,024,610
LIABILITIES			
Due to Banks and other money market deposits	<i>B7</i>	56,218	21,400
Certificates of deposit	<i>B8</i>	24,038	39,038
Customers' deposits	<i>B9</i>	906,773	832,449
Deferred income	<i>B10</i>	7,000	7,000
Other liabilities	<i>B11</i>	28,037	19,294
Subordinated Debt	<i>B12</i>	50,000	-
		1,072,066	919,181
SHAREHOLDERS' EQUITY			
Share capital	<i>B13</i>	100,000	100,000
Legal reserve	<i>B14</i>	2,533	2,533
Fair value reserve	<i>B15</i>	680	426
Retained earnings		10,734	2,470
		113,947	105,429
		1,186,013	1,024,610
Net assets per share (in baizas)	<i>B16</i>	113.947	105.429
CONTINGENT LIABILITIES			
COMMITMENTS	<i>B17</i>	159,758	106,927
	<i>B17</i>	176,629	26,706

The financial statements were approved and authorized for issue by the Board of Directors on **28th October 2010** and signed on their behalf by:

Chairman

Deputy Chairman

The attached notes A1 to D5 form an integral part of these financial statements

UN AUDITED NOTES TO FINANCIAL STATEMENTS

As At 30 September 2010

	<i>Notes</i>	9 Months ended 30 September 2010 RO'000	9 Months ended 30 September 2009 RO'000	3 Months ended 30 September 2010 RO'000	3 Months ended 30 September 2009 RO'000
Interest income	C1	43,147	38,587	14,928	13,846
Interest expense	C2	(20,280)	(22,700)	(7,206)	(7,693)
Net interest income		22,867	15,887	7,722	6,153
Other operating income	C3	3,149	3,861	1,033	1,499
OPERATING INCOME		26,016	19,748	8,755	7,652
OPERATING EXPENSES					
Staff costs		(8,500)	(7,614)	(2,718)	(2,692)
Other operating expenses	C4	(4,083)	(3,759)	(1,541)	(1,225)
Depreciation	B5	(1,362)	(1,163)	(470)	(408)
		(13,945)	(12,536)	(4,729)	(4,325)
OPERATING PROFIT		12,071	7,212	4,026	3,327
Impairment on investments		-	-	-	-
Impairment allowance on portfolio basis	B3	(787)	(1,648)	(206)	(274)
Impairment allowance on specific basis (net)	B3	(1,907)	(568)	(1,287)	(2)
PROFIT /(LOSS) BEFORE TAX		9,377	4,996	2,533	3,051
Income tax expense	C5	(1,113)	(556)	(304)	(282)
NET PROFIT/ (LOSS) FOR THE PERIOD		8,264	4,440	2,229	2,769
Basic earnings/ (loss) per share for the period - in baizas	C6	8.264	4.440	2.229	2.769
Basic earnings/ (loss) per share for the period (annualised) - in baizas	C6	11.049	5.936	8.84	10.987
Net changes in fair value of available for sale financial assets		254	1,219	303	189
Other comprehensive income for the period, net of income tax		254	1,219	303	189
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		8,518	5,659	2,532	2,958

The attached notes A1 to D5 form an integral part of these financial statements