بنك صحار
Bank Sohar

Board of Directors Report for the nine months ended September' 2009

On behalf of the Board of Directors, I am pleased to present the results of your bank as at 30 September 2009.

The bank continued with its focus on profitable growth achieving a Net Profit of OMR 2.769 million during the quarter ended 30^{th} September' 2009 as compared to a Net Profit of OMR 2.447 million during the quarter ended 30^{th} June'2009. The quarter on quarter increase in net profits have been 13.2%. The bank continued with its effort for sustainable and profitable growth.

As a result of the above, the Net Profit for the nine months ended 30^{th} September'2009 was RO 4.440 Million as compared to a Net Loss of OMR 0.656 million for the same period last year.

The Net Interest Income witnessed a significant improvement of 123.3 % from OMR 7.114 million in the first nine months of last year to OMR 15.886 million in the first nine months of the current year. The operating income has increased by 69.7% from OMR 11.640 million in the first nine months of last year to OMR 19.748 million in the first nine months of the current year. Further, the Cost to Income ratio has improved from 71.2% in the first nine months of last year to 63.5% in the first nine months of the current year even after considering the increase in operating cost by 51.4% from OMR 8.282 million to OMR 12.536 million during the same period due to increase in the bank's infrastructure.

Net loans and advances grew by 19.4% during this year to reach OMR 757 million as at 30 September 2009, while customer deposits grew by 18.5% to reach OMR 649 million in the same period. The bank's market share of Private Sector Credits was 7.97% while the Private Sector Deposit share was 7.89% as at end of August'2009.

The negative repercussions emanating from the ongoing global financial crises continued to haunt the global economy during the quarter. Your bank continued to take proactive steps to mitigate these factors and have succeeded in bringing about a stellar and sustainable performance. Such measures have resulted in the decline in the non performing assets from 0.43% at the end of the first quarter of 2009 and 0.33% at the end of the Second quarter of 2009 to 0.27 % at the end of the third quarter of 2009. In addition to the focus on quality of 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 and SMS banking. The bank presently has a network of 13 branches and 15 offsite ATM's. The bank re-launched its newly improved Al Mumayaz Savings Scheme during August'09. The scheme has been made attractive and is expected to provide an incentive for its customers to increase saving deposits. 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 30 September 2009 stood at 432 and the Omanisation ratio is at 85.7%.

The bank continues to get involved in many social and educational programs and supports social activities and events. During the quarter the bank participated in the Salalah Festival showcasing the tourism destinations in Oman. The bank also participated in the Ramadan Festival organized by Omani Women's Association. The bank also organized blood donation camps at its premises at MBD, Qurum and Salalah. Bank also sponsored the Financial Management Workshop for Non-financials organized by the Women in Business Conference 2009 and held over two days at the Golden Tulip Hotel Muscat.

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 Hamed Al Fannah Al Araimi
Chairman

BANK SOHAR SAOG

UNAUDITED FINANCIAL STATEMENTS

For the period ended 30 September 2009

Registered office and principal place of business:

Bank Sohar Building
Post Box 44, PC 114
Sultanate of Oman

UNAUDITED STATEMENT OF FINANCIAL POSITION
As at 30 September 2009

	Notes	*30 September 2009 RO'000*	*31 December 2008 RO'000*
ASSETS			
Cash and balances with Central Bank	*B1*	**28,247**	93,912
Due from Banks and other money market placements	*B2*	**3,611**	69,216
Loans and advances (net)	*B3*	**757,212**	634,265
Available-for-sale investments	*B4*	**99,897**	25,788
Property, equipment and fixture	*B5*	**13,544**	13,730
Other assets	*B6*	**8,444**	6,000
		910,955	842,911
LIABILITIES			
Due to Banks and other money market deposits	*B7*	**40,725**	90,234
Certificates of deposit	*B8*	**92,138**	90,100
Customers' deposits	*B9*	**649,438**	547,913
Deferred income	*B10*	**7,000**	7,000
Other liabilities	*B11*	**19,508**	11,177
		808,809	746,424
SHAREHOLDERS' EQUITY			
Share capital	*B12*	**100,000**	100,000
Legal reserve	*B13*	**1,731**	1,731
Fair value losses	*B14*	**725**	(494)
Accumulated losses		**(310)**	(4,750)
		102,146	96,487
		910,955	842,911
Net assets per share (in baizas)	***B15***	**102.146**	96.487
CONTINGENT LIABILITIES	*B16*	**87,663**	68,072
COMMITMENTS	*B16*	**115,687**	167,012

The financial statements were approved and authorized for issue by the Board of Directors on 24 October 2009 and signed on their behalf by:

Chairman *Deputy Chairman*

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED INCOME STATEMENT
Period ended 30 September 2009

	Notes	*9 months ended 30 September 2009* RO'000	*9 months ended 30 September 2008* RO'000	*3 months ended 30 September 2009* RO'000	*3 months ended 30 September 2008* RO'000
Interest income	*C1*	**38,587**	22,346	**13,846**	8,705
Interest expense	*C2*	**(22,700)**	(15,232)	**(7,693)**	(5,462)
Net interest income		**15,887**	7,114	**6,153**	3,243
Other operating income	*C3*	**3,861**	4,526	**1,499**	1,662
OPERATING INCOME		**19,748**	11,640	**7,652**	4,905
OPERATING EXPENSES					
Staff costs		**(7,614)**	(4,447)	**(2,692)**	(1,673)
Other operating expenses	*C4*	**(3,759)**	(3,151)	**(1,225)**	(1,138)
Depreciation	*B5*	**(1,163)**	(684)	**(408)**	(299)
		(12,536)	(8,282)	**(4,325)**	(3,110)
OPERATING PROFIT		**7,212**	3,358	**3,327**	1,795
Impairment on investments		**-**	-	-	-
Impairment allowance on portfolio basis	*B3*	**(1,648)**	(3,768)	**(274)**	(1,410)
Impairment allowance on specific basis		**(568)**	(246)	**(2)**	(60)
PROFIT (LOSS) FROM OPERATIONS AFTER PROVISIONS		**4,996**	(656)	**3,051**	325
Deferred tax expense	*C5*	**(556)**	-	**(282)**	-
NET PROFIT (LOSS) FOR THE PERIOD		**4,440**	(656)	**2,769**	325
Basic profit (loss) per share for the period - **in baizas**	*C6*	**4.440**	(0.656)	**2.769**	0.325
Profit (Loss) per share for the period (annualised) - **in baizas**	*C6*	**5.936**	(0.876)	**10.987**	1.293

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
Period ended 30 September 2009

	Notes	***9 months ended 30 September 2009***	*9 months ended 30 September 2008*	***3 months ended 30 September 2009***	*3 months ended 30 September 2008*
		RO'000	*RO'000*	***RO'000***	*RO'000*
NET PROFIT(LOSS) FOR THE PERIOD		**4,440**	(656)	***2,769***	325
Other comprehensive income					
Fair value reserve (available for sale financial assets):					
Net changes in fair value reserve on available-for-sale financial assets		**1,219**	(1,368)	***189***	(1,372)
Other comprehensive income for the period, net of tax		**1,219**	(1,368)	***189***	(1,372)
Total comprehensive income for the period		**5,659**	(2,024)	***2,958***	(1,047)

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED STATEMENT OF CHANGES IN EQUITY
Period ended 30 September 2009

	Share capital	*Legal reserve*	*Fair Value Gain(losses)*	*Accumulated Gain(losses)*	*Total*
	(Note B12)	*(Note B13)*	*(Note B14)*		
	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Balance as at 1 January 2008	50,000	1,760	-	(2,486)	49,274
Final call on issued shares	50,000	-	-	-	50,000
Total recognized income and expenses	-	-	(1,368)	(656)	(2,024)
Balance as at 30 September 2008	100,000	1,760	(1,368)	(3,142)	97,250
Balance as at 1 October 2008	100,000	1,760	(1,368)	(3,142)	97,250
Total recognized income and expenses	-	-	874	(1,608)	(734)
Issue expenses	-	(29)	-	-	(29)
Balance as at 31 December 2008	100,000	1,731	(494)	(4,750)	96,487
Balance as at 1 January 2009	**100,000**	**1,731**	**(494)**	**(4,750)**	**96,487**
Total recognized income and expenses	**-**	**-**	**1,219**	**4,440**	**5,659**
Balance as at 30 September 2009	**100,000**	**1,731**	**725**	**(310)**	**102,146**

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED STATEMENT OF CASH FLOWS
Period ended 30 September 2009

	30 September 2009 RO'000	*30 September 2008 RO'000*
OPERATING ACTIVITIES		
Net Profit/(loss) For the period before tax	**4,996**	(656)
Adjustments for:		
Depreciation	**1,163**	684
Impairment for credit losses	**2,216**	4,014
Reserve interest on loans	**83**	27
Profit/(loss) on sale of property, equipment and fixtures	**(11)**	(1)
Loss on sale of investment securities	**89**	-
Interest on investment	**(533)**	(614)
Operating profit before changes in operating assets and liabilities	**8,003**	3,454
Changes in loans and advances (gross)	**(125,246)**	(259,085)
Change in due from banks	**-**	(11,550)
Changes in other assets	**(2,444)**	(64)
(Repayment) issue of certificates of deposit	**2,038**	1,000
Changes in customers' deposits	**101,525**	253,233
Changes in due to banks and other money market deposits	**(1600)**	(5,150)
Changes in other liabilities	**7,775**	4,293
Net cash (used in)/ from operating activities	**(9,949)**	(13,869)
INVESTING ACTIVITIES		
Purchase of investments (net)	**(19)**	3,432
Purchase of equipment and fixtures	**(984)**	(2,490)
(Proceeds) from sale of equipment and fixtures	**18**	19
Interest received on investments	**533**	614
Net cash used in investing activities	**(452)**	1,575
FINANCING ACTIVITIES		
Receipts from final call on shares	**-**	50,000
Net cash from financing activities	**-**	50,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(10,401)**	37,706
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	**89,429**	99,027
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**79,028**	136,733
REPRESENTING:		
Cash and balances with Central Banks	**28,247**	62,056
Due from Banks and other money market placements	**3,611**	50,880
Available-for-sale investments	**81,895**	31,898
Due to Banks and other money market deposits	**(34,725)**	(8,102)
Translation differences	**-**	1
	79,028	136,733

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG ("the Bank") was established in the Sultanate of Oman on 4 March 2007 as a joint stock company and is primarily engaged in corporate and retail banking activities within the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman.

The Bank employed **432** employees as of 30 September 2009 (30 September 2008: 371).

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting and the requirements of the Oman Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority and the applicable regulations of the Central Bank of Oman. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2008.

The condensed interim financial statements do not contain all information and disclosures for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the nine months ended 30 September 2009 are not necessarily indicative of the results that may be expected for the financial year.

The financial statements were approved by the Board of Directors on **24 October 2009**.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through income statement are measured at fair value
- available for sale financial assets are measured at fair value

A2.3 Functional and presentation currency

These financial statements are presented in Rials Omani rounded, except as indicated, to the nearest thousand Rials Omani. The functional currency of the Bank's operations is Rial Omani.

A2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on industry data and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods primarily consist of the provision for impairment of loans and advances.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

A3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

A3.1 Foreign currency translation

Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the balance sheet date. Realised and unrealised gains and losses are dealt with in the income statement. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period.

A3.2 Revenue & expense recognition

Revised IAS 1 Presentation of Financial Statements (2007) introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners.

A3.2.a Interest income & expense
Interest income and expense is recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Interest Income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on available for sale investment securities on an effective interest basis.
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

A3.2.b Fair value gains and losses
Fair value changes on derivatives held for risk management purposes, and financial assets other than loans and advances are carried at fair value through profit or loss, are presented in 'net income on other financial instruments carried at fair value' in the income statement.

Net Income from financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets designated at fair value through income statement, and include all realised and unrealised fair value changes interest, dividend and foreign exchange differences.

A3.2.c Dividend income
Dividend income is recognized when the right to receive income is established.

A3.2.d Fees and commission
Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and Commission income include account servicing fees, credit related fees, advisory fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

A3.2.e Provisions
A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities.

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.2.f Offsetting of income & expense

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Banks trading activity

A3.3 Financial Assets and Liabilities

A3.3.a Recognition

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through income statement) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Where assets are received without consideration these are accounted at 'fair value' in the balance sheet under the appropriate classification and consequently 'deferred income' is created and disclosed as 'other liabilities'. Deferred income is recognized as 'other income' based on the encumbrance stipulated or usage of the asset.

A3.3.b Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or its transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

A3.3.c Offsetting of assets and liabilities

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

.

A3.3.d Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A3.3.e Fair value measurement

For investments traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

A3.3.f Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term. Loans and advances are carried at amortized cost less specifically identified after collective allowance for impairment. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and advances to their recoverable amounts.

A3.3.g Identification and measurement of impairment

Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically identified within the portfolio of loans and advance. The recoverable amount of loans and advances is calculated at the present value of the expected future cash flows discounted at the original effective interest rate. Short-term balances are not discounted.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to income statement.
Non Specific provisions are established to meet the credit risks inherent within the loans and advances portfolio. This provision has been made to cover potential impairment which although not specifically identified, is to be present in the Bank's portfolio of financial assets based on industry data.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities *(continued)*

A3.3.h Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the balance sheet.

A3.3.i Balances due from Banks and other money market placements
These are stated at amortized cost less any allowance for impairment.

A3.3.j Designation at fair value through income statement
This category includes those assets and liabilities, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement in the period in which they arise.

A3.3.k Trading assets and liabilities
Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a portfolio that is managed together for short term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to income statement. All changes in fair value realised or unrealised are recognised as a part of net trading income in income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition. Interest earned or dividends received are included in the interest and dividend income respectively.

A3.3.l Non-trading investments
These are classified as follows:
- Available for sale
- Held to maturity

All non –trading investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale
Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through income statement, held to maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include equity instruments, money market papers and other debt instruments.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Available for sale reserve.' When the security is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net gains or loss from financial investments through equity'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments are reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of income has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments.'

Held to maturity
Held-to-maturity investments are non derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold financial assets to maturity; they are stated at amortized cost using the effective interest rate method less impairment losses. Any sale or re-classification of a significant amount of held-to-maturity investments not close to their maturity would result in the re-classification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and following two financial years.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3.m Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the balance sheet and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in due to Banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet and the amounts paid under these agreements are included in deposits with Banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.n Acceptances

Acceptances are disclosed on the balance sheet under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off balance sheet commitment for acceptances.

A3.3.o Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivative held for risk management purposes are measured at fair value in the balance sheet. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect income statement, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in income statement in the same period as the hedged cash flows affect profit or loss under the same income statement line item as the hedged item. Any ineffective portion change in the fair value of the derivative is recognised immediately in income statement.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then the hedge accounting is discontinued and the amount recognised in equity, remains in equity until the forecast transaction affects income statement. If the forecast transaction is no longer expected to occur, then the hedge accounting is discontinued and the balance in equity is recognised immediately in income statement.

Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in income statement as a component of net income on other financial instruments carried at fair value.

A3.3.p Property, equipment and fixtures

Items of property, equipment and fixtures are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	3
Furniture & fixtures	3
Office Equipment	6-7
Production Software	6-7

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance sheet date.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3.q Deposits, debt securities issued and subordinated liabilities
All money market and customer deposits are carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A3.3.r Impairment of financial assets and provisions
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows or fair value, recognised in the income statement.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from the contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Bank also recognises any impairment loss on the asset associated with the contract before establishing a provision.

A3.4 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3.5 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

A3.6 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A3.7 Leases
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.8 Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument.
Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

A3.9 Employee benefits

A3.9.a Terminal benefits
The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991, and are recognised as an expense in the income statement as incurred.

The Bank's obligation in respect of non Omani terminal benefits, which is an unfunded defined benefit retirement plan, is amount of future benefit that such employees have earned in return for their services in the current and prior periods. The obligation is calculated using the project unit credit methods and is discounted to its present value.

A3.9.b Short term benefits
Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3.10 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3.11 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on responsibility centres for customer focus.

A3.12 Comparative figures

The corresponding figures included for comparative purposes have been reclassified to conform to the presentation in the current year.

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

B1 CASH AND BALANCES WITH CENTRAL BANK

	30 September 2009 RO'000	*31December 2008 RO'000*
Cash	**4,574**	4,005
Insurance deposit with Central Bank of Oman	**5**	5
Capital deposit with Central Bank of Oman	**500**	420
Unrestricted balances with Central Banks	**23,168**	89,482
	28,247	93,912

The capital and insurance deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

	30 September 2009 RO'000	*31 December 2008 RO'000*
Local Currency:		
Due from other Banks	-	3,000
	-	3,000
Foreign Currency:		
Due from other Banks	-	63,686
Nostro balances abroad	**3,611**	2,530
	3,611	66,216
Total	**3,611**	69,216

B3 LOANS AND ADVANCES

	30 September 2009 RO'000	*31 December 2008 RO'000*
Corporate loans	**413,857**	330,684
Personal loans	**355,490**	313,417
Gross loans and advances	**769,347**	644,101
Impairment allowance on portfolio basis	**(11,210)**	(9,562)
Impairment allowance on specific basis	**(925)**	(274)
Net loans and advances	**757,212**	634,265

Personal loans include RO 15,144,504 provided to staff on concessional terms (2008: RO 12,346,914).

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprise:

	30 September 2009 RO'000	*31 December 2008 RO'000*
Loans	**720,360**	590,522
Overdrafts	**34,149**	39,178
Loan against trust receipts	**11,721**	11,527
Bills discounted	**3,117**	2,874
Gross loans and advances	**769,347**	644,101
Impairment allowance on portfolio basis	**(11,210)**	(9,562)
Impairment allowance on specific basis	**(925)**	(274)
Net loans and advances	**757,212**	634,265

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

Loan Loss Provision	***30 September 2009 RO'000***	*31 December 2008 RO'000*
Impairment allowance on portfolio basis		
Balance at beginning of period	**9,562**	4,403
Provided during the period	**1,648**	5,159
Balance at end of period	**11,210**	9,562
Specific Provision		
Balance at beginning of period	**238**	-
Provided during the period	**642**	238
Released during the period	**-**	-
Write back during the period	**(74)**	-
Balance at end of period	**806**	238
Reserve Interest		
Balance at beginning of period	**36**	-
Reserved during the period	**91**	36
Interest released during the period	**-**	-
Write back during the period	**(8)**	-
Balance at end of the period	**119**	36

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans and advances on portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 30 September 2009, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 2,054,328 (2008: RO 772,436).

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

B4 AVAILABLE-FOR-SALE INVESTMENTS

	Carrying/ Fair value 30 September 2009	***Cost 30 September 2009***	*Carrying/ Fair value 31 Dec 2008*	*Cost 31 Dec 2008*
	RO'000	***RO'000***	*RO'000*	*RO'000*
Unquoted investments	**314**	**515**	34	34
Quoted investments	**99,583**	**99,579**	25,754	28,636
Balance at end of period	**99,897**	**100,094**	25,788	28,670

Treasury bills and Certificates of Deposit were earlier shown as held to maturity and valued at amortised cost. During the year 2007, a significant amount of treasury bills were sold before maturity and accordingly under IAS 39 these are classified as available-for-sale investments and valued at fair value.

The figures for December 2008 have been reclassified to conform to the presentation in the current period.

B5 PROPERTY, EQUIPMENT AND FIXTURES

	Freehold Land RO'000	***Production Software RO'000***	***Furniture & fixtures RO'000***	***Office Equipments RO'000***	***Motor Vehicles RO'000***	***Capital Work in progress RO'000***	***Total RO'000***
At cost:							
1 January 2009	**7,000**	**3,523**	**1,389**	**2,602**	**341**	**246**	**15,101**
Additions*	**-**	**599**	**168**	**119**	**40**	**58**	**984**
Disposals/ reallocation	**-**	-	**-**	**-**	**(30)**	**-**	**(30)**
Transfers	**-**	-	**-**	**-**	**-**	**-**	**-**
Carrying Value at Cost	**7,000**	**4,122**	**1,557**	**2,721**	**351**	**304**	**16,055**
Accumulated Depreciation:							
1 January 2009	**-**	**(641)**	**(299)**	**(326)**	**(105)**	**-**	**(1,371)**
Depreciation	**-**	**(435)**	**(338)**	**(304)**	**(86)**	**-**	**(1,163)**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**23**	**-**	**23**
Total Depreciation	**-**	**(1,076)**	**(637)**	**(630)**	**(168)**	**-**	**(2,511)**
Net carrying value at 30 September 2009	**7,000**	**3,046**	**920**	**2,091**	**183**	**304**	**13,544**
Net carrying value at 31 December 2008	7,000	2,882	1,090	2,276	236	246	13,730

*Bank Sohar has received three plots of land as grant from the Government of Sultanate of Oman, one plot is in Sohar and two plots are in Muscat region. The Bank has recorded the land based on the average valuation of the two professional valuators. The valuation was conducted on an estimated market value basis assuming a willing buyer and seller acting prudently, knowledgeably and assuming the price is not affected by extraneous circumstances. An amount equivalent to the value of the land has also been recorded as deferred income and disclosed as a separate liability.

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

B6 OTHER ASSETS

	30 September 2009 RO'000	*31 December 2008 RO'000*
Interest receivable	**4,214**	3,062
Prepayments and deposits	**1,176**	509
Acceptances	**2,255**	753
Fair value receivables – forward exchange contracts	**184**	691
Deferred tax asset *(Note C5)*	**-**	373
Others	**615**	612
	8,444	6,000

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	30 September 2009 RO'000	*31 December 2008 RO'000*
Local Currency:		
Money market borrowings	**8,000**	10,000
	8,000	10,000
Foreign Currency:		
Money market borrowings	**32,725**	80,234
Nostro credit balances	**-**	-
	32,725	80,234
Total	**40,725**	90,234

B8 CERTIFICATES OF DEPOSIT

The Bank had received approval from Central Bank of Oman to issue Certificates of Deposits (CDs) up to RO 100 million in 2007. Pursuant to the approval CD's amounting to RO 90,100,000were issued with a maturity ranging from 2 – 5 years, at a fixed rate of interest and denominated in Riyal Omani. CDs amounting to RO 5 million were redeemed during the year. During the year, the Bank received approval from CBO to issue further CDs worth RO 100,000,000. The Bank has issued CDs amounting to RO 7,037,863 during the year with maturity ranging from 2-3 years at a fixed interest rate and denominated in Rial Omani.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

B9 CUSTOMERS' DEPOSITS

	30 September 2009 RO'000	*31 December 2008 RO'000*
Current deposits	**60,615**	33,163
Call deposits	**50,756**	23,115
Savings deposits	**83,068**	73,670
Term deposits	**453,965**	417,354
Margin accounts	**1,034**	611
	649,438	547,913

Retail customers:		
Current deposits	**1,939**	2,852
Saving deposits	**83,068**	73,670
Corporate customers:		
Term deposits	**453,965**	417,354
Current deposits	**58,676**	30,311
Call deposits	**50,756**	23,115
Others	**1,034**	611
	649,438	547,913

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

B10 DEFERRED INCOME

	30 September 2009 RO'000	*31 December 2008 RO'000*
Deferred income on grants received from the Government in the form of freehold land	**7,000**	7,000
	7,000	7,000

B11 OTHER LIABILITIES

	30 September 2009 RO'000	*31 December 2008 RO'000*
Interest payable	**11,766**	6,053
Staff entitlements	**1,603**	924
Acceptances	**2,255**	753
Accounts payable in suspense	**1**	1
Fair value payables – forward exchange contracts	**204**	92
Deferred tax liability	**183**	-
Other accruals and provisions	**3,496**	3,354
	19,508	11,177

B12 SHARE CAPITAL

The authorised, issued and paid up share capital of the Bank is 1,000,000,000 shares of RO 0.100 each.

The Bank issued 100,000,000 shares of RO 1 each to the public in December 2006. An amount of RO 0.500 with the issue expenses of RO 0.020 was payable on application. Each RO 1 share was split into 10 shares of RO 0.100 each in an extraordinary general meeting held on 26 April 2008. Consequently the balance callable amount was reduced to RO 0.050 per share. The balance RO 0.050 per share was called upon to be paid by the shareholders on 10 May'08. The Bank has received the call money on the issued shares.

As of 30th September 2009, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members.

	Number of shares	***% Holding***
Al Ghadeer Investments	**160,000,000**	**16.00%**
Royal Court of Affairs	**145,690,340**	**14.57%**

B13 LEGAL RESERVE

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital which has been complied with. The legal reserves also include issue expenses of RO 0.020 per share which were collected from the shareholders of the Bank net of issue expenses.

B14 FAIR VALUE LOSSES

The fair value losses include the cumulative net change in the fair value of the available-for-sale investments until the investment is derecognised or impaired.

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

B15 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets of RO 102,145,830 as at 30 September 2009 attributable to ordinary shareholders on 1,000,000,000 ordinary shares, being the number of shares outstanding as at 30 September 2009 (RO 96,487,000 as at 31 December 2008).

B16 CONTINGENT LIABILITIES AND COMMITTMENTS

B16.1 Contingent Liabilities

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

	30 September 2009 RO'000	*31 December 2008 RO'000*
Guarantees	**64,781**	50,782
Documentary letters of credit	**22,882**	17,290
	87,663	68,072

B16.2 Commitments

Contractual obligation including contracts for purchase and sale of foreign exchange are stated at fair value as commitments. Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

	30 September 2009 RO'000	*31 December 2008 RO'000*
Capital commitments	**1,009**	875
Credit related commitments	**114,678**	166,137
	115,687	167,012

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

B17 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. These transactions are conducted on an arms length basis and are approved by the Bank's management.

No specific provision has been recognised in respect of the loans given to related parties.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	30 September 2009 RO'000	*31 December 2008 RO'000*
A) Loans and Advances		
Opening Balance	**14,790**	6,709
Loans issued during the period	**36,714**	33,033
Loans repayment during the period	**(35,937)**	(24,952)
Closing balances for the period	**15,567**	14,790
B) Deposits		
Opening Balance	**20,861**	16,387
Deposits received during the period	**26,529**	158,081
Deposits repaid during the period	**(28,307)**	(153,607)
Closing balances for the period	**19,083**	20,861
C) Income Statement		
Interest income	**851**	554
Interest expense	**(2,180)**	(1,397)
D) Senior Management compensation		
Salaries and other short term benefits	**1,477**	1,493
E) Directors sitting fees	**50**	65

B18 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the Bank's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Bank considers that the fair value of financial instruments is not significantly different to their carrying value at each of those dates.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

B19 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The derivative financial instruments used by the Bank are described below:

B19.1 Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank transacts only in currency options for its customers. The Bank does not engage in the writing of options.

B19.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit of 40% as mandated by the Central Bank of Oman.

In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

B19.2 Derivatives held or issued for hedging purposes (continued)

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at 30 September 2009

		Notional amounts by term to maturity		
	Notional amount	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**136,993**	**108,782**	**28,211**	**-**
Forward foreign exchange sales contracts	**138,773**	**111,428**	**27,345**	**-**

As at 31 December 2008

		Notional amounts by term to maturity		
	Notional amount	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	33,935	30,120	3,815	-
Forward foreign exchange sales contracts	56,446	29,526	26,920	-

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

C1 INTEREST INCOME

	9 months ended 30 September 2009 RO'000	*9 months ended 30 September 2008 RO'000*	**3 months ended 30 September 2009 RO'000**	*3 months ended 30 September 2008 RO'000*
Due from Banks	**193**	1,133	**46**	347
Loans and advances to customers	**37,861**	20,599	**13,599**	8,142
Investment securities	**533**	614	**201**	216
	38,587	22,346	**13,846**	8,705

C2 INTEREST EXPENSE

	9 months ended 30 September 2009 RO'000	*9 months ended 30 September 2008 RO'000*	**3 months ended 30 September 2009 RO'000**	*3 months ended 30 September 2008 RO'000*
Deposits from Banks	**2,323**	1,889	**598**	751
Deposits from customers	**20,377**	13,343	**7,095**	4,711
	22,700	15,232	**7,693**	5,462

C3 OTHER OPERATING INCOME

	9 months ended 30 September 2009 RO'000	*9 months ended 30 September 2008 RO'000*	**3 months ended 30 September 2009 RO'000**	*3 months ended 30 September 2008 RO'000*
Net gain from foreign exchange dealings	**336**	75	**142**	19
Fees and commission	**3,468**	4,358	**928**	1,639
Dividend income	**146**	1	**(6)**	-
Gains from financial investments through equity	**-**	-	**-**	-
Realised gains on financial investments through income statement	**(89)**	92	**435**	4
	3,861	4,526	**1,499**	1,662

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

C4 OTHER OPERATING EXPENSES

	9 months ended 30 September 2009 RO'000	*9 months ended 30 September 2008 RO'000*	**3 months ended 30 September 2009 RO'000**	*3 months ended 30 September 2008 RO'000*
Establishment costs	**794**	718	**278**	255
Operating and administration costs	**2,915**	2,380	**935**	872
Directors sitting fees	**50**	53	**12**	11
	3,759	3,151	**1,225**	1,138

C5 DEFERRED TAX INCOME

The Bank is liable to income tax for the year 2009 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	9 months ended 30 September 2009 RO'000	*9 months ended 30 September 2008 RO'000*	**3 months ended 30 September 2009 RO'000**	*3 months ended 30 September 2008 RO'000*
Tax Expenses (Income)				
Current tax	-	-	-	-
Deferred tax expenses/ (income)	**556**	-	**282**	-
Total tax expenses/ (income)	**556**	-	**282**	-
Reconciliation of tax expenses/ (income)				
Accounting Gain (loss) for the year	**4,440**	**(656)**	**2,769**	**325**
Income tax	-	-	-	-
Non deductible expenses	-	-	-	-
Tax exempt revenue	-	-	-	-
Previously unrecognized tax losses	-	-	-	-
Current year tax expenses	**556**	-	**282**	-
Deferred tax expense	**556**	-	**282**	-

The deferred tax liability/(asset) comprises the following temporary differences:

	9 months ended 30 September 2009 RO'000	*9 months ended 30 September 2008 RO'000*	**3 months ended 30 September 2009 RO'000**	*3 months ended 30 September 2008 RO'000*
Tax losses	**(217)**	-	**(284)**	-
Fair value adjustment on investments	**34**	-	**2**	-
	183	-	**(282)**	-

UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2009

C6 BASIC EARNINGS/(LOSS) PER SHARE

Earnings/ (loss) per share is calculated by dividing the net profit/(loss) for the period by the weighted average number of shares outstanding during the period.

	9 months ended 30 September 2009	*9 months ended 30 September 2008*	***3 months ended 30 September 2009***	*3 months ended 30 September 2008*
	RO'000	*RO'000*	***RO'000***	*RO'000*
Net profit/(loss) for the period	**4,440**	(656)	**2,769**	325
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands) **	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Net earnings/(loss) per share for the period (in baizas)	**4.440**	(0.656)	**2.769**	0.325
Net earnings/(loss) per share for the period (annualised - in baizas)	**5.936**	(0.876)	**10.987**	1.293

No figure for diluted earnings per share has been presented, as the Bank has not issued any convertible instruments, which would have an impact on earnings per share when exercised.

** Weighted average number of shares for 2008 has been restated taking into effect the split and for comparability**.**

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

D FINANCIAL RISK MANAGEMENT

D1 Exposure to liquidity risk

The table below summarises the maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

Residual contractual maturities of financial liabilities

As at 30 September 2009:

	Carrying amount	***Gross Nominal Outflow***	*Within 3 months*	*3 - 12 months*	*Over 1 year*
	RO'000	***RO'000***	*RO'000*	*RO'000*	*RO'000*
Non-derivative liabilities					
Due to banks and other money market deposits	**40,725**	**41,191**	**34,776**	**6,415**	**-**
Certificates of deposits	**92,138**	**97,294**	**44,414**	**28,016**	**24,864**
Customers' deposits	**649,438**	**682,995**	**380,881**	**91,983**	**210,131**
Deferred income	**7,000**	**7,000**	**-**	**-**	**7,000**
Other liabilities	**19,508**	**19,316**	**19,316**	**-**	**-**
Total	**808,809**	**847,796**	**479,387**	**126,414**	**241,995**

As at 31 December 2008:

	Carrying amount	***Gross Nominal Outflow***	***Within 3 months***	***3 - 12 months***	***Over 1 year***
	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Non-derivative liabilities					
Due to banks and other money market deposits	90,234	91,630	83,554	1,662	6,414
Certificates of deposits	90,100	96,829	144	59,076	37,609
Customers' deposits	547,913	568,121	341,362	139,313	87,446
Deferred income	7,000	7,000	-	-	7,000
Other liabilities	11,177	11,177	11,177	-	-
Total	746,424	774,757	436,237	200,051	138,469

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

The Bank prepares a liquidity gap report to monitor the Banks short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This Statement of short term liquidity is to be reported to the ALCO every month and onward reported to Credit & Risk Committee.

D2 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 30 September 2009 was as follows:

	On demand within 3 months RO'000	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Bank	-	-	-	**28,247**	**28,247**
Due from Banks and other money market placements	**3,611**	-	-	-	**3,611**
Loans and advances	**263,080**	**67,927**	**436,286**	**1,128**	**768,421**
Available-for-sale investments	**81,895**	-	-	**18,002**	**99,897**
Property and equipment	-	-	-	**13,544**	**13,544**
Other assets	-	-	-	**8,444**	**8,444**
Total assets	**348,586**	**67,927**	**436,286**	**69,365**	**922,164**
Due to Banks and other money market deposits	**34,725**	**6,000**	-	-	**40,725**
Certificates of deposit	**42,100**	**26,000**	**24,038**	-	**92,138**
Customers' deposits	**180,537**	**86,047**	**189,997**	**192,857**	**649,438**
Deferred Income	-	-	-	**7,000**	**7,000**
Other liabilities	-	-	-	**19,508**	**19,508**
Impairment allowance on portfolio basis	-	-	-	**11,209**	**11,209**
Shareholders' equity	-	-	-	**102,146**	**102,146**
Total liabilities and shareholders' equity	**257,362**	**118,047**	**214,035**	**332,720**	**922,164**
Total interest rate sensitivity gap	**91,224**	**(50,120)**	**222,251**	**(263,335)**	**-**
Cumulative interest rate sensitivity gap	**91,224**	**41,104**	**263,355**	**-**	**-**

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 Exposure to interest rate risk – non trading portfolios *(continued)*

As at 31 December 2008	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Bank	-	-	-	93,912	93,912
Due from Banks and other money market placements	69,216	-	-	-	69,216
Loans and advances	168,505	33,062	441,762	498	643,827
Available-for-sale investments	8,935	-	16,853	-	25,788
Property, equipment and fixtures	-	-	-	13,730	13,730
Other assets	-	-	-	6,000	6,000
Total assets	246,656	33,062	458,615	114,140	852,473
Due to Banks and other money market deposits	82,634	7,600	-	-	90,234
Certificates of deposits	-	58,100	32,000	-	90,100
Customers' deposits	207,980	131,902	78,083	129,948	547,913
Deferred income	-	-	-	7,000	7,000
Other liabilities	-	-	-	11,177	11,177
Impairment allowance on portfolio basis	-	-	-	9,562	9,562
Shareholders' equity	-	-	-	96,487	96,487
Total liabilities and shareholders' equity	290,614	197,602	110,083	254,174	852,473
Total interest rate sensitivity gap	(43,958)	(164,540)	348,532	(140,034)	-
Cumulative interest rate sensitivity gap	(43,958)	(208,498)	140,034	-	-

D3 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	30 September 2009			*31 December 2008*		
	Assets RO'000	***Liabilities RO'000***	***Net Assets RO'000***	*Assets RO'000*	*Liabilities RO'000*	*Net Assets RO'000*
US Dollar	**133,806**	**147,185**	**(13,379)**	163,533	186,160	(22,627)
Saudi Rial	**16,219**	**-**	**16,219**	12,356	-	12,356
EUR	**19,073**	**19,171**	**(98)**	3,242	3,233	9
UAE Dirhams	**4,705**	**102**	**4,603**	4,617	115	4,502
Qatari Rial	**96**	**-**	**96**	586	-	586
Kuwaiti Dinar	**-**	**-**	**-**	21	-	21
Japanese Yen	**3**	**-**	**3**	-	-	-
Pound Sterling	**627**	**644**	**(17)**	8,769	8,772	(3)
Indian Rupee	**9**	**-**	**9**	10	-	10
Others	**108**	**-**	**108**	78	-	78

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

UNAUDITED NOTES TO FINANCIAL STATEMENTS
At 30 September 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D4 CAPITAL MANAGEMENT

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	30 September 2009 RO'000	*31 December 2008 RO'000*
Tier I capital		
Ordinary share capital	**100,000**	100,000
Legal reserve	**1,731**	1,731
Accumulated losses	**(310)**	(4,750)
Deferred tax asset	**-**	(373)
Fair value losses	**(68)**	(494)
Total	**101,353**	96,114
Tier 2 capital		
Impairment allowance on portfolio basis	**10,868**	9,562
Fair value gains	**579**	-
Total	**11,447**	9,562
Total regulatory capital	**112,800**	105,676
Risk-weighted assets		
Retail Bank, corporate Bank and market risk	**819,953**	736,761
Operational risk	**49,506**	33,242
Total risk-weighted assets	**869,459**	770,003
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**12.97%**	13.72%
Total tier I capital expressed as a percentage of total risk-weighted assets	**11.66%**	12.48%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman.