



Board of Director's Report

I am privileged to share with you the results achieved by the Bank during the first nine months ending 30 September 2008.

The Bank achieved an operating profit of OMR 3.358 million for the first nine months of 2008, with an operating profit of OMR 1.795 million for the third quarter ended 30th September'08, which is 167% higher than the corresponding period last year.

The net loss for the nine months of 2008 stood at OMR 0.656 million which is lower than the net loss of OMR 0.981 million at the end of six month ending June'08. The Bank has achieved a net profit of OMR 0.325 million in the third quarter 2008 as compared to a net loss of OMR 0.346 million for the corresponding period last year. The increase in operating profit and net profit has been achieved due to strong contributions made by all segments of our business.

The Bank is continuing to expand its balance sheet in 2008 which has grown by 73% during the year. Customer loans and advances reached OMR 562.424 million a growth of 85% during the year. Customer deposits increased to OMR 496.055 million as at 30 September 2008, which has grown by 104% during the year. The Bank was able to attract savings deposits of OMR 61.374 million at the end of the third quarter of 2008 a growth of 135% during the year. These significant increases reflect the positive response the bank received from its customers and the trust of the community in the bank. The bank's customer base has increased to more than 31,500 customers at the end of September 2008. The Bank's market share as at August 2008 stood at, 6.6% for private sector lending and 6.6 % for private sector deposits based on the consolidated balance sheet published by the Central Bank of Oman in August'08.

The Bank's outreach to customers gained momentum with the opening of the Barka and Shinas branches during the third quarter of 2008. The Bank is now able to serve its customers with eleven branches and six off site ATM's across the country. Within a short span of 18 months the bank has successfully launched a wide range of retail products with multiple service delivery channels i.e. Branches, ATMs, Call Center, Internet Banking and SMS Banking. In order to provide wider access to the customers, the Bank has enabled the ATM access through Omanswitch. Customers of the Bank are accessing their accounts through more than 500 ATMs located across the country free of charge.



The customer segmentation strategy of the Wholesale Banking Group continues to provide exceptional value to Omani corporates. This focussed approach enabled the Wholesale Banking Group to increase market share, number of relations, volumes and fee-based incomes. “Convenience” and “Knowledge” have been made the cornerstones of the Wholesale Banking Group’s value proposition to customers. The bank has started a corporate desk at its branches at Salalah and Sohar to ensure that the corporate customers in these two fast growing regions of the Sultanate get superior banking convenience. “Knowledge” is created and shared with our corporate clients through the setting up of a full-fledged project finance unit. This unit provides finance to companies in Oman, seeking to set up new industries, or acquiring companies abroad. The Unit is also focused in bringing the international banks to partner with Omani banks in providing cost-effective financing solutions to the corporate customers.

During this quarter, the bank continued with its objective of recruiting fresh Omani graduates and promoting young Omani graduates already with the bank. The staff strength of the Bank has grown to 371. The omanisation ratio reached 86% at the end of third quarter.

The bank continued to support community initiatives such as distribution of Ramadan essentials, participation for the Eid Market exhibition at the Sultan Qaboos University and Salalah Khareef festival during third quarter of 2008. The bank sponsored Sultanate’s junior team for a tennis camp in France and Senior Men’s team for a training camp in Portugal.

We pay our tribute to His Majesty Sultan Qaboos bin Said for guiding and governing the country with knowledge and wisdom. We would like to thank the administration for creating an environment conducive for enterprise. In all our endeavors, we continue to receive the guidance and cooperation of the Central Bank of Oman and the Capital Market Authority. We record our appreciation to them.

Hilal Hamood Al Mamary,
Chairman
Dated : 20th October’2008



BANK SOHAR SAOG

UNAUDITED FINANCIAL STATEMENTS

For the period ended 30 September 2008

Registered office and principal place of business:

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



UNAUDITED BALANCE SHEET

As at 30 September 2008

		<i>30 September</i>	<i>31 December</i>
		<i>2008</i>	<i>2007</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>
ASSETS			
Cash and balances with Central Bank	<i>B1</i>	62,056	20,427
Due from Banks and other money market placements	<i>B2</i>	62,430	36,914
Loans and advances (net)	<i>B3</i>	553,980	298,936
Available-for-sale investments	<i>B4</i>	32,098	55,000
Equipment & fixtures	<i>B5</i>	13,426	4,637
Other assets	<i>B6</i>	4,492	4,428
		728,482	420,342
LIABILITIES			
Due to Banks and other money market deposits	<i>B7</i>	23,252	28,614
Certificates of deposit	<i>B8</i>	92,100	91,100
Customers' deposits	<i>B9</i>	496,055	242,822
Deferred income	<i>B10</i>	7,000	-
Other liabilities	<i>B11</i>	12,825	8,532
		631,232	371,068
SHAREHOLDERS' EQUITY			
Share capital	<i>B12</i>	100,000	50,000
Legal reserve	<i>B13</i>	1,760	1,760
Cumulative fair value reserve	<i>B14</i>	(1,368)	-
Accumulated losses		(2,486)	-
Profit/(Loss) for the period		(656)	(2,486)
		97,250	49,274
		728,482	420,342
Net assets per share (in baizas)	<i>B15</i>	97.250	49.274
CONTINGENT LIABILITIES			
COMMITMENTS	<i>B16</i>	53,503	26,928
	<i>B16</i>	106,055	54,212

The financial statements were approved and authorized for issue by the Board of Directors on 20th October 2008 and signed on their behalf by:

Chairman

Deputy Chairman



UNAUDITED INCOME STATEMENT

Period ended 30 September 2008

		<i>3 months from 1 July 2008 to 30 September 2008 RO'000</i>	<i>3 months from 1 July 2007 to 30 September 2007 RO'000</i>	<i>9 months up to 30 September 2008 RO'000</i>
	<i>Notes</i>			
Interest income	<i>C1</i>	8,705	3,331	22,346
Interest expense	<i>C2</i>	(5,462)	(1,976)	(15,232)
Net interest income		3,243	1,355	7,114
Other operating income	<i>C3</i>	1,662	1,077	4,526
OPERATING INCOME		4,905	2,432	11,640
OPERATING EXPENSES				
Staff costs		(1,673)	(848)	(4,447)
Other operating expenses	<i>C4</i>	(1,138)	(817)	(3,151)
Depreciation	<i>B5</i>	(299)	(94)	(684)
		(3,110)	(1,759)	(8,282)
OPERATING PROFIT		1,795	673	3,358
Net Pre-incorporation expense		-	-	-
Net pre-operating expense		-	(5)	-
Impairment allowance on portfolio basis	<i>B3</i>	(1,410)	(1,014)	(3,768)
Specific Provision on loans	<i>B3</i>	(60)	-	(246)
PROFIT/(LOSS) FROM OPERATIONS AFTER PROVISIONS		325	(346)	(656)
NET PROFIT/(LOSS) FOR THE PERIOD		325	(346)	(656)
Basic profit/(loss) per share for the period - in baizas	<i>C6</i>	0.325	(0.346)	(0.656)
Profit/(Loss) per share for the period (annualised) - in baizas	<i>C6</i>	1.293	(1.373)	(0.876)



UNAUDITED STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 2008

	<i>Share capital (Note B12)</i>	<i>Legal reserve (Note B13)</i>	<i>Cumulative fair value reserve (Note B14)</i>	<i>Accumulated losses</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Issue of shares	50,000	-	-	-	50,000
Net loss for the period	-	-	-	(2,526)	(2,526)
Legal reserve collected for issue expenses	-	2,000	-	-	2,000
Issue expenses	-	(242)	-	-	(242)
Balance as at 30 September 2007	50,000	1,758	-	(2,526)	49,232
Balance as at 1 October 2007	50,000	1,758	-	(2,526)	49,232
Net loss for the period	-	-	-	40	40
Issue expenses	-	2	-	-	2
Balance as at 31 December 2007	50,000	1,760	-	(2,486)	49,274
	<i>Share capital (Note B12)</i>	<i>Legal reserve (Note B13)</i>	<i>Cumulative fair value reserve (Note B14)</i>	<i>Accumulated losses</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance as at 1 January 2008	50,000	1,760	-	(2,486)	49,274
Final call on issued shares	50,000	-	-	-	50,000
Cumulative Fair Value Reserve	-	-	(1,368)	-	(1,368)
Net loss for the period	-	-	-	(656)	(656)
Balance as at 30 September 2008	100,000	1,760	(1,368)	(3,142)	97,250



UNAUDITED CASH FLOW STATEMENT

Period ended 30 September 2008

	<i>30 September 2008 RO'000</i>	<i>9 April 2007 to 30 September 2007 RO'000</i>
OPERATING ACTIVITIES		
Net loss for the period	(656)	(2,526)
<i>Adjustments for:</i>		-
Depreciation	684	154
Impairment allowance on portfolio basis	3,768	2,718
Specific provision on loans	246	-
Reserve interest on loans	27	-
Profit on sale of equipments	(1)	-
Interest on investment	(614)	(481)
Operating profit before changes in operating assets and liabilities	3,454	(135)
Loans and advances (gross)	(259,085)	(166,557)
Due from banks	(11,550)	(47,418)
Other assets	(64)	(1,956)
Customers' deposits	253,233	188,639
Issue of Certificate of Deposits	1,000	20,000
Due to Banks and other money market deposits	(5,150)	14,800
Other liabilities	4,293	5,186
Net cash from operating activities	(13,869)	12,559
INVESTING ACTIVITIES		
Purchase of investments	4,800	(57,448)
Proceeds from sale of equipments	19	-
Change in fair value of investments	(1,368)	-
Purchase of equipments & fixtures	(2,490)	(3,597)
Interest received on Certificates of deposit and Treasury Bills	614	481
Net cash used in investing activities	1,575	(60,564)
FINANCING ACTIVITIES		
Final call on issued shares	50,000	50,000
Legal reserve	-	1,758
Share issue expenses collected (net)	-	-
Net cash from financing activities	50,000	51,758
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,706	3,753
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	99,027	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	136,733	3,753
REPRESENTING:		
Cash and balances with Central Banks	62,056	3,753
Due from Banks and other money market placements	50,880	-
Available-for-sale investments	31,898	-
Due to Banks and other money market deposits	(8,102)	-
Translation differences	1	-
	136,733	3,753



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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 371 employees as of 30 September 2008.

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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.

In preparing these financial statements, the Bank has adopted IFRS 7 Financial Instruments: Disclosures. The adoption of IFRS 7 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank.

The financial statements were approved by the Board of Directors on **20th October 2008**.

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 currencies 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 consists of the provision for impairment of loans and advances.



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

A3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank.

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

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.

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



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, are to be present in the Bank's portfolio of financial assets based on industry data.



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

A3 SIGNIFICANT ACCOUNTING POLICIES *(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 *Financial Assets and Liabilities (continued)*

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.



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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 counter party 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

Under IAS 39 (revised) 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 Equipment and Fixtures

Items of equipment and fixtures are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that are directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of 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 2008

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, 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 **Pre-incorporation expense**

The expenses incurred, net of interest income, prior to incorporation of the Bank up to 3rd March 2007, has been classified as pre-incorporation expenses and has been written off in the income statement.

A3.7 **Pre-operating expense**

The expenses incurred, net of interest income, after incorporation of the Bank on 4th March 2007 upto commencement of business on 9th April 2007, has been classified as pre-operating expenses and has been written off in the income statement.

A3.8 **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.

A3.9 **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 2008

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.10 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.

A3.11 Employee benefits

A3.11.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.

A3.11.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.

A3.12 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.

A3.13 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.

A3.14 Comparative figures

The disclosure of comparative figures are in accordance with IAS 34. The Bank commenced operations on 9th April 2007. The balance sheets as of the end of the current interim period ending 30 September 2008 and a comparative balance sheet as of the end of the immediately preceding fiscal year ending 31 December 2007 have been presented.

The comparative income statements for the third quarter of 2008 along with comparative data for the third quarter of 2007 have been presented. No comparative has been provided for the nine months of 2008 due to non-availability of comparative data for nine months of 2007 as the Bank commenced its operations only on 9 April 2007.

The cash flow statement cumulatively for the current financial year to date 30 September 2008, with a comparative statement for the comparable year-to-date data from 9 April 2007 to 30 September 2007 have been presented.

The statement showing changes in equity cumulatively for the current financial year to date 30 September 2008, with a comparative statement for the comparable year-to-date period from 9 April 2007 to 30 September 2007 have been presented. In addition to this changes in equity for the intervening period between 1 October 2007 to 31 December 2007 has also been presented.



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

B1 CASH AND BALANCES WITH CENTRAL BANK

	<i>30 September</i> <i>2008</i> <i>RO'000</i>	<i>31 December</i> <i>2007</i> <i>RO'000</i>
Cash	3,248	1,296
Insurance deposit with Central Bank of Oman	5	5
Capital deposit with Central Bank of Oman	420	50
Unrestricted balances with Central Banks	58,383	19,076
	<u>62,056</u>	<u>20,427</u>

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

	<i>30 September</i> <i>2008</i> <i>RO'000</i>	<i>31 December</i> <i>2007</i> <i>RO'000</i>
<i>Local Currency:</i>		
Due from other Banks	33,000	16,475
	<u>33,000</u>	<u>16,475</u>
<i>Foreign Currency:</i>		
Due from other Banks	27,336	9,867
Nostro balances abroad	2,094	10,572
	<u>29,430</u>	<u>20,439</u>
Total	<u>62,430</u>	<u>36,914</u>

B3 LOANS AND ADVANCES

	<i>30 September</i> <i>2008</i> <i>RO'000</i>	<i>31 December</i> <i>2007</i> <i>RO'000</i>
Corporate loans	306,206	166,439
Personal loans	256,218	136,900
Gross loans and advances	<u>562,424</u>	<u>303,339</u>
Impairment allowance on portfolio basis	(8,171)	(4,403)
Specific provision on loans	(246)	-
Reserve interest	(27)	-
Net loans and advances	<u>553,980</u>	<u>298,936</u>

Personal loans include RO 10,958,772 provided to staff on concessional terms.



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

B3 LOANS AND ADVANCES (continued)

Loans and advances comprise:

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Loans	518,618	273,562
Overdrafts	29,608	26,819
Loan against trust receipts	11,847	2,562
Bills discounted	2,351	396
	<hr/>	<hr/>
Gross loans and advances	562,424	303,339
Impairment allowance on portfolio basis	(8,171)	(4,403)
Specific provisions	(246)	-
Reserve Interest	(27)	-
	<hr/>	<hr/>
Net loans and advances	<u>553,980</u>	<u>298,936</u>

The movement in the impairment allowance is as analysed below:

Loan Loss Provision	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Impairment allowance on portfolio basis		
Balance at beginning of period	4,403	-
Provided during the period	3,768	4,403
	<hr/>	<hr/>
Balance at end of period	<u>8,171</u>	<u>4,403</u>
Specific Provision		
Balance at beginning of period	-	-
Provided during the period	246	-
	<hr/>	<hr/>
Balance at end of period	<u>246</u>	<u>-</u>
Reserve Interest		
Balance at beginning of period	-	-
Reserved during the year	27	-
	<hr/>	<hr/>
Balance at end of the period	<u>27</u>	<u>-</u>

Impairment allowance is established to meet the credit risks inherent within the loans and advances on portfolio basis. As at 30 September 2008, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 771,667 (31 December 2007: Nil).

B4 AVAILABLE-FOR-SALE INVESTMENTS

	<i>Carrying/ Fair value 30 September 2008 RO'000</i>	<i>Cost 30 September 2008 RO'000</i>	<i>Carrying/ Fair value 31 December 2007 RO'000</i>	<i>Cost 31 December 2007 RO'000</i>
Unquoted investments				
Certificate of Deposit - OMR	5,000	5,000	55,000	55,000
Treasury bills - SAR	22,279	22,279	-	-
Other investments	4,819	6,187	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of period	<u>32,098</u>	<u>33,466</u>	<u>55,000</u>	<u>55,000</u>



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

B4 AVAILABLE-FOR-SALE INVESTMENTS (continued)

Treasury bills and Certificates of Deposit were earlier shown as held to maturity and valued at amortised cost. During the previous period 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.

B5 EQUIPMENT AND FIXTURES

	<i>Freehold Land</i>	<i>Production Software RO 000</i>	<i>Furniture & fixtures RO 000</i>	<i>Office Equipments RO 000</i>	<i>Motor Vehicles RO 000</i>	<i>Capital Work in progress RO 000</i>	<i>Total RO 000</i>
At cost:							
Opening Balance as on 1 Jan 2008	-	2,502	336	858	145	1,137	4,978
Additions *	7,000	542	540	1,119	171	118	9,490
Disposals	-	-	-	(12)	(6)	-	(18)
Transfers	-	1	-	813	-	(814)	-
Carrying Value at Cost	7,000	3,045	876	2,778	310	441	14,450
Accumulated Reserve for Depreciation:							
Opening Balance as on 1 st Jan 2008	-	(210)	(61)	(48)	(22)	-	(341)
Depreciation	-	(303)	(132)	(192)	(57)	-	(684)
Release on disposals	-	-	-	-	1	-	1
Reserve for Depreciation	-	(513)	(193)	(240)	(78)	-	(1,024)
Net carrying value at 30 September 2008	7,000	2,532	683	2,538	232	441	13,426
Net carrying value at 31 December 2007	-	2,292	275	810	123	1,137	4,637

*Bank Sohar has received three plots of land as grant from the Sultanate of Oman, one in Sohar and two in the Muscat region. The Bank approached two valuers for valuation and has taken the average of the two valuations. The valuation was conducted on an estimated market value basis assuming a willing buyer; a 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 been recorded as deferred income and disclosed as a separate liability.

B6 OTHER ASSETS

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Interest receivable	2,639	2,225
Prepayments and deposits	801	540
Acceptances	592	1,417
Share calls-in-arrears	-	-
Others	460	246
	4,492	4,428



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
<i>Local Currency:</i>		
Money market borrowings	11,700	28,600
	<u>11,700</u>	<u>28,600</u>
<i>Foreign Currency:</i>		
Money market borrowings	11,550	-
Nostro credit balances	2	14
	<u>11,552</u>	<u>14</u>
Total	<u><u>23,252</u></u>	<u><u>28,614</u></u>

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, which expired on 31 December 2007. The CD was denominated in Rial Omani with a maturity ranging from 2-5 years and with a fixed rate of interest. A fresh approval was received from Central bank of Oman to raise CDs up to RO 200 million during the year 2008. The CDs are to be denominated in Rial Omani and US Dollars. The approval is valid up to 31 December 2008.

B9 CUSTOMERS' DEPOSITS

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Current accounts	22,882	12,027
Current call accounts	49,787	21,930
Savings accounts	61,374	26,094
Term deposits	361,630	182,611
Margin accounts	382	160
	<u>496,055</u>	<u>242,822</u>
	<u><u>496,055</u></u>	<u><u>242,822</u></u>
	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
<i>Retail customers:</i>		
Current deposits	3,535	2,157
Saving deposits	61,374	26,094
<i>Corporate customers:</i>		
Term deposits	361,630	182,611
Current deposits	19,347	9,870
Call deposits	49,787	21,930
Others	382	160
	<u>496,055</u>	<u>242,822</u>
	<u><u>496,055</u></u>	<u><u>242,822</u></u>



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

B10 DEFERRED INCOME

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Deferred income on Land from Government Grants	7,000	-
	<u>7,000</u>	<u>-</u>

The disclosure of an amount equivalent to the value of land, received as grant from the Sultanate of Oman, as a separate non-current liability is in line with IAS 1.

B11 OTHER LIABILITIES

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Interest payable	8,668	3,164
Staff entitlements*	263	548
Acceptances	592	1,417
Accounts Payable in suspense	9	13
Other accruals and provisions	3,293	3,390
	<u>12,825</u>	<u>8,532</u>

* Staff entitlements include RO 35,994 in respect of employee terminal benefits charged to the income statement. RO 2,640 was paid towards employee terminal benefits during the period.

B12 SHARE CAPITAL

The authorised share capital of the Bank is 1,000,000,000 shares of RO 0.100 each. The issued and paid up 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 30 September'2008, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members.

	<i>Number of shares</i>	<i>% Holding</i>
Al Ghadeer Al Arabiyah LLC	160,000,000	16.00%
Royal Court of Affairs	145,690,340	14.57%



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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. No appropriation has been made during the period as the Bank has not made a net profit. The legal reserve includes issue expenses of RO 0.020 per share which were collected from the shareholders of the Bank net of issue expenses. The movement in the reserve has been disclosed in the statement of changes in equity.

B14 FAIR VALUE RESERVE

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

B15 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 30 September 2008 attributable to ordinary shareholders of RO 97,250,000 and on 1,000,000,000 ordinary shares, being the number of shares outstanding as at 30 September 2008 (RO 49,274,000 as at 31 December 2007).

B16 CONTINGENT LIABILITIES AND COMMITMENTS

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.

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Guarantees	37,936	11,991
Documentary letters of credit	15,567	14,937
	53,503	26,928

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.

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
Capital commitments	488	216
Credit related commitments	105,567	53,996
	106,055	54,212



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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:

	<i>30 September 2008 RO'000</i>	<i>31 December 2007 RO'000</i>
A) Loans and Advances		
Opening Balance	6,709	-
Loans issued during the period	3,244	14,484
Loans repayment during the period	(3,377)	(7,775)
	<u>6,576</u>	<u>6,709</u>
Closing balances for the period	<u>6,576</u>	<u>6,709</u>
B) Deposits		
Opening Balance	16,387	-
Deposits received during the period	154,675	64,457
Deposits repaid during the period	(151,367)	(48,070)
	<u>19,695</u>	<u>16,387</u>
Closing balances for the period	<u>19,695</u>	<u>16,387</u>
C) Income Statement		
Interest income	331	101
Interest expense	(1,162)	(313)
	<u>53</u>	<u>62</u>
D) Senior Management compensation		
Salaries and other short term benefits	1,009	1,052
	<u>1,009</u>	<u>1,052</u>
E) Directors sitting fees		
	53	62
	<u>53</u>	<u>62</u>

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.

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:



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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. 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.

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. Positive and negative fair values on derivatives do not differ significantly from each other and hence are not disclosed in the financial statements.

As at 30 September 2008

	<i>Notional amount</i> <i>RO'000</i>	<i>Notional amounts by term to maturity</i>		
		<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>
		<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Forward foreign exchange purchase contracts	24,349	17,055	7,294	-
Forward foreign exchange sales contracts	47,618	17,216	7,302	23,100

As at 31 December 2007

	<i>Notional amount</i> <i>RO'000</i>	<i>Notional amounts by term to maturity</i>		
		<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>
		<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Forward foreign exchange purchase contracts	10,292	2,116	8,176	-
Forward foreign exchange sales contracts	33,328	2,116	8,112	23,100



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

C1 INTEREST INCOME

	<i>3 months from 1 July 08 to 30 September 08</i>	<i>3 months from 1 July 07 to 30 September 07</i>	<i>9 months Up to 30 September 08</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Due from Banks	347	422	1,133
Loans and advances to customers	8,142	2,557	20,599
Investment securities	216	352	614
	<u>8,705</u>	<u>3,331</u>	<u>22,346</u>

C2 INTEREST EXPENSE

	<i>3 months from 1 July 08 to 30 September 08</i>	<i>3 months from 1 July 07 to 30 September 07</i>	<i>9 months Up to 30 September 08</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Deposits from Banks	751	195	1,889
Deposits from customers	4,711	1,781	13,343
	<u>5,462</u>	<u>1,976</u>	<u>15,232</u>

C3 OTHER OPERATING INCOME

	<i>3 months from 1 July 08 to 30 September 08</i>	<i>3 months from 1 July 07 to 30 September 07</i>	<i>9 months Up to 30 September 08</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Net gain from foreign exchange dealings	19	18	75
Fees and commission	1,639	1,059	4,358
Dividend Income	-	-	1
Gains from financial investments through equity	-	-	-
Realised gains on financial investments through income statement	4	-	92
	<u>1,662</u>	<u>1,077</u>	<u>4,526</u>



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

C4 OTHER OPERATING EXPENSES

	<i>3 months from 1 July 08 to 30 September 08</i>	<i>3 months from 1 July 07 to 30 September 07</i>	<i>9 months Up to 30 September 08</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	255	63	718
Operating and administration costs	872	752	2,380
Directors sitting fees	11	2	53
	<u>1,138</u>	<u>817</u>	<u>3,151</u>

C5 TAXATION

The Bank is liable to income tax at 12% of taxable income in excess of RO 30,000. The Bank is not liable to tax due to losses incurred during the nine months ended 30 September 2008.

C6 BASIC LOSS PER SHARE

Loss per share is calculated by dividing the net loss for the period by the weighted average number of shares outstanding during the period.

	<i>3 months from 1 July 08 to 30 September 08</i>	<i>3 months from 1 July 07 to 30 September 07</i>	<i>9 months Up to 30 September 08</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Profit (loss) for the period	325	(346)	(656)
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands) **	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Profit (loss) per share for the period (in baizas)	<u>0.325</u>	<u>(0.346)</u>	<u>(0.656)</u>
Profit (loss) per share for the period (annualised - in baizas)	<u>1.293</u>	<u>(1.373)</u>	<u>(0.876)</u>

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 2007 has been restated to that of 2008 taking into effect the split and for comparability.



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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 2008:

	<i>Carrying amount</i>	<i>Gross Nominal Outflow</i>	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>Over 1 year</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<i>Non-derivative liabilities</i>					
Due to Banks	23,252	24,258	8,535	15,723	-
Certificates of deposits	92,100	101,666	2,687	7,349	91,630
Customers' deposits	496,055	513,781	272,941	169,557	71,283
Deferred income	7,000	7,000	-	-	7,000
Other Liabilities	12,825	12,825	12,825	-	-
Total	631,232	659,530	296,988	192,629	169,913

As at 31 December 2007:

	<i>Carrying amount</i>	<i>Gross Nominal Outflow</i>	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>Over 1 year</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<i>Non-derivative liabilities</i>					
Due to Banks	28,614	29,469	8,354	19,548	1,567
Certificates of deposits	91,100	102,868	579	4,408	97,881
Customers' deposits	242,822	251,883	111,869	108,091	31,923
Other Liabilities	8,532	8,532	8,532	-	-
Total	371,068	392,752	129,334	132,047	131,371



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

D2 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 30 September 2008 was as follows:

	<i>On demand within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>Over 1 year RO'000</i>	<i>Non interest sensitive RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	-	-	-	62,056	62,056
Due from Banks and other money market placements	50,880	11,550	-	-	62,430
Loans and advances	166,008	31,591	364,054	498	562,151
Investments	31,898	-	200	-	32,098
Equipment & Fixtures	-	-	-	13,426	13,426
Other assets	-	-	-	4,492	4,492
Total assets	248,786	43,141	364,254	80,472	736,653
Due to Banks and other money market deposits	8,102	15,150	-	-	23,252
Certificates of deposits	-	5,000	87,100	-	92,100
Customers' deposits	128,752	171,118	62,061	134,124	496,055
Deferred Income	-	-	-	7,000	7,000
Other liabilities	-	-	-	12,825	12,825
Impairment allowance on portfolio basis	-	-	-	8,171	8,171
Shareholders' equity	-	-	-	97,250	97,250
Total liabilities and shareholders' equity	136,854	191,268	149,161	259,370	736,653
Total interest rate sensitivity gap	111,932	(148,127)	215,093	(178,898)	-
Cumulative interest rate sensitivity gap	111,932	(36,195)	178,898	-	-

As at 31 December 2007

	<i>On demand within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>Over 1 year RO'000</i>	<i>Non interest sensitive RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	-	-	-	20,427	20,427
Due from Banks and other money market placements	36,914	-	-	-	36,914
Loans and advances	163,291	140,048	-	-	303,339
Investments	50,000	5,000	-	-	55,000
Equipment & Fixtures	-	-	-	4,637	4,637
Other assets	-	-	-	4,428	4,428
Total assets	250,205	145,048	-	29,492	424,745
Due to Banks and other money market deposits	8,314	18,800	1,500	-	28,614
Certificates of deposits	-	-	91,100	-	91,100
Customers' deposits	38,444	114,055	30,272	60,051	242,822
Other liabilities	-	-	-	8,532	8,532
Impairment allowance on portfolio basis	-	-	-	4,403	4,403
Shareholders' equity	-	-	-	49,274	49,274
Total liabilities and shareholders' equity	46,758	132,855	122,872	122,260	424,745
Total interest rate sensitivity gap	203,447	12,193	(122,872)	(92,768)	-
Cumulative interest rate sensitivity gap	203,447	215,640	92,768	-	-



UNAUDITED NOTES TO FINANCIAL STATEMENTS

At 30 September 2008

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 positions by currency. 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 2008			31 December 2007		
	Assets RO'000	Liabilities RO'000	Net Assets RO'000	Assets RO'000	Liabilities RO'000	Net Assets RO'000
US Dollar	101,868	83,070	18,798	74,574	75,919	(1,345)
Saudi Rial	18,420	-	18,420	7,011	-	7,011
EUR	985	999	(14)	493	400	93
UAE Dirhams	1,358	103	1,255	6,549	50	6,499
Japanese Yen	2,549	2,549	-	2,421	2,417	4
Pound Sterling	332	341	(9)	28	10	18
Indian Rupee	-	5	(5)	7	-	7
Others	92	-	92	73	-	73

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.

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 2008 RO'000	31 December 2007 RO'000
Tier I capital		
Ordinary share capital	100,000	50,000
Legal reserve	1,760	1,760
Fair value reserves	-	-
Accumulated losses	(3,142)	(2,486)
Total	98,618	49,274
Tier 2 capital		
Impairment allowance on portfolio basis	6,803	4,403
Total	6,803	4,403
Total regulatory capital	105,421	53,677
Risk-weighted assets		
Retail Bank, corporate Bank and market risk	685,131	357,408
Operational risk	25,081	15,630
Total risk-weighted assets	710,212	373,038
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.84%	14.39%
Total tier I capital expressed as a percentage of total risk-weighted assets	13.89%	13.21%

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